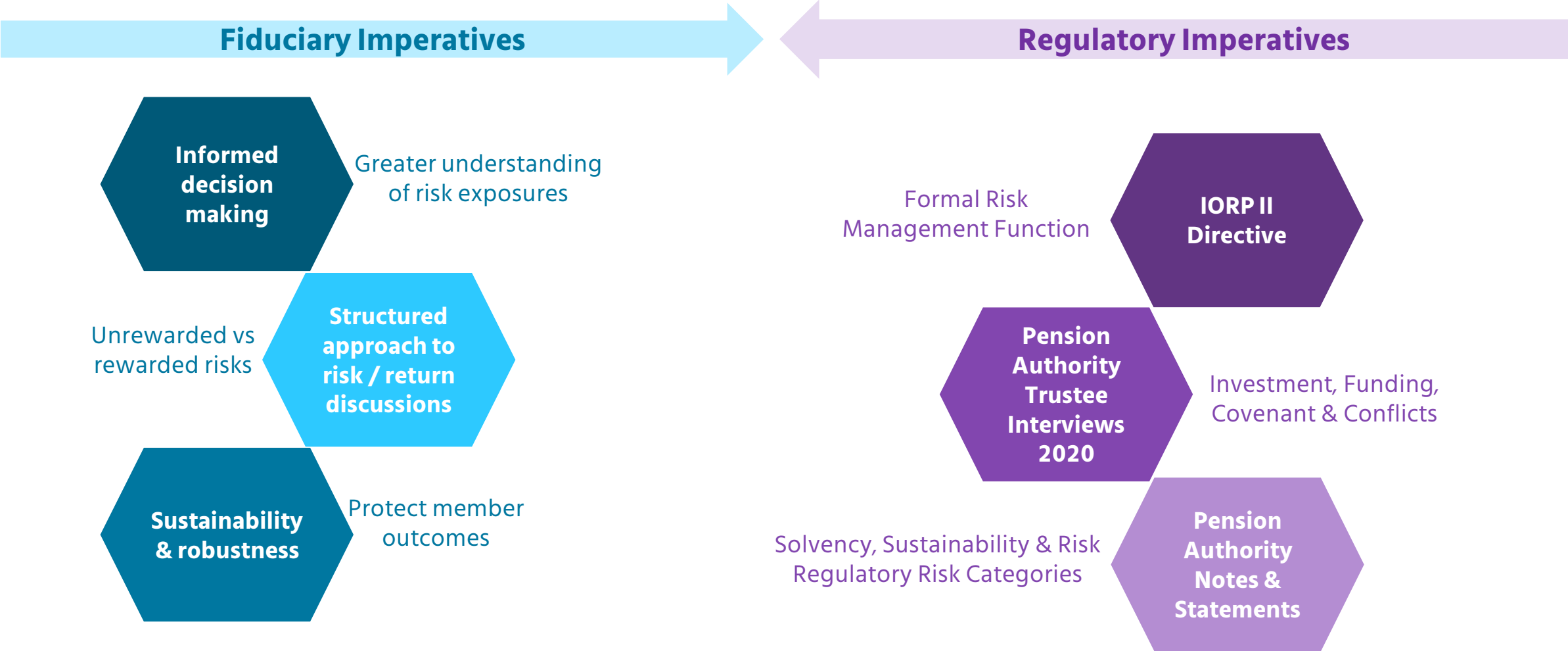




Evolving Pension Risk Management

Richard Clossick
Pension Risk Management Leader – Mercer

Key drivers of Risk Management requirements



The Key Questions Facing Trustees:

- How can trustees fulfil their evolving fiduciary duty to effectively manage risk?
- What does a proportionate risk management system/function look like?
- What knowledge and experience will trustees need to manage risk effectively?
- How can I comply with new formal risk management requirements?
- How should a scheme best allocate its resources to manage risk?
- What should I be doing now to manage risks?



What has traditionally been the focus of Pension Scheme Risk Management ?

Funding level
volatility?

Value at Risk?

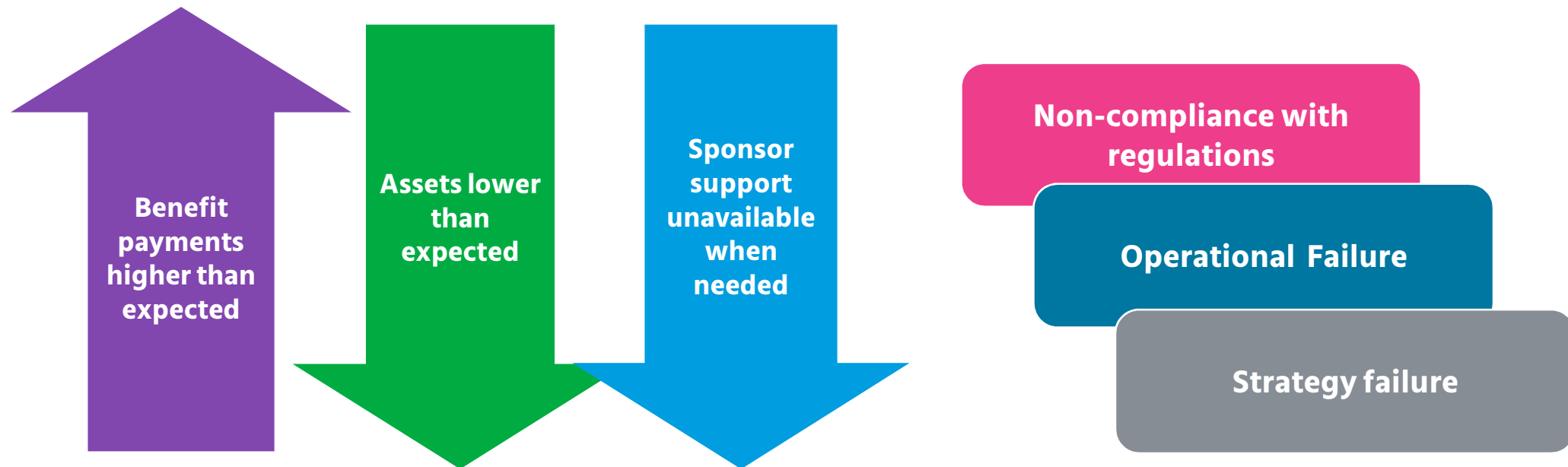
Fail the funding
standard?

*“As a trustee, what keeps you awake at night?”
– Pension Authority Interview Question*

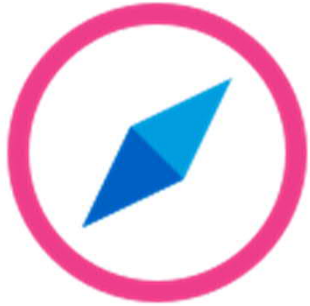
What do we mean by “Risk”?

A risk is a potential event, that impacts the ability to achieve an objective

*Events that impact sustainability of benefit payments, security of assets
or the ability of the scheme to continue as a going concern*



What do we mean by Risk Management?



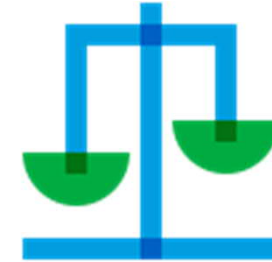
Risk management is a **systematic approach to managing the risks** faced by a pension scheme.



A pension scheme is a **financial institution**.

It's purpose is to take & pool investment & demographic risks.

Eliminating all risks is not sustainable or affordable.



Instead risk management aims to ensure schemes

take the **right risks**

at a **sustainable level**

and in a **structured manner**

with **appropriate governance**

What does IORP II require?

Key Principles:

- Forward looking prudential regulation
- **“effective risk management system”**
- “well-integrated into the organisational structure and in the **decision-making processes** of the IORP”
- A designated **risk management function**
- **Own Risk Assessment** process every three years

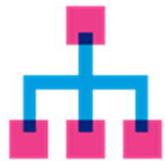
Must include the following risks

- Underwriting and reserving
- Asset liability management
- Investment, in particular derivatives, securitisations and similar commitments
- Liquidity and concentration risk management
- Operational risk management
- Insurance and other risk mitigation techniques
- ESG risks relating to the investment portfolio and its management

What does IORP II require?

Components of the Risk Management System

**Risk Management
System:**



*Overarching
System*

**Risk Management
Function:**



*Operational
Team*

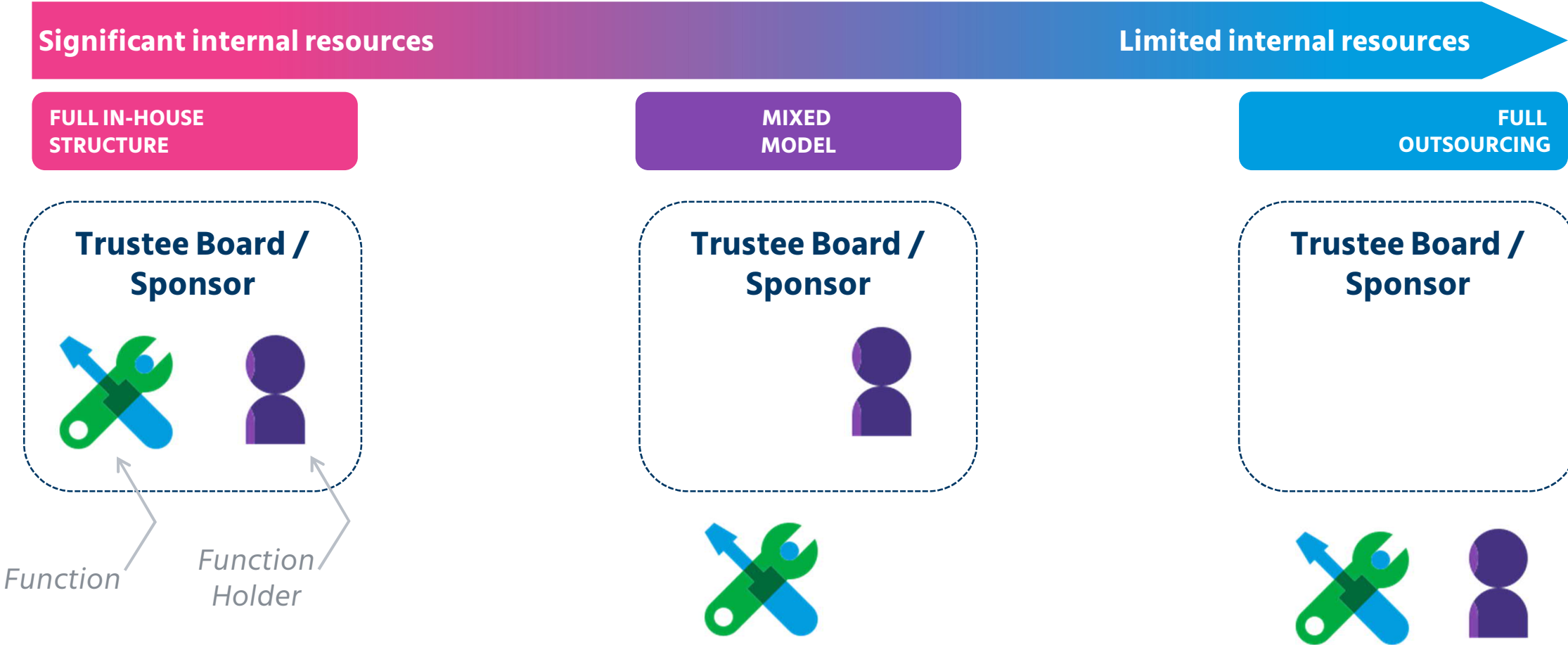
**Risk Management Key
Function Holder ("KFH"):**



*Responsible
Individual*

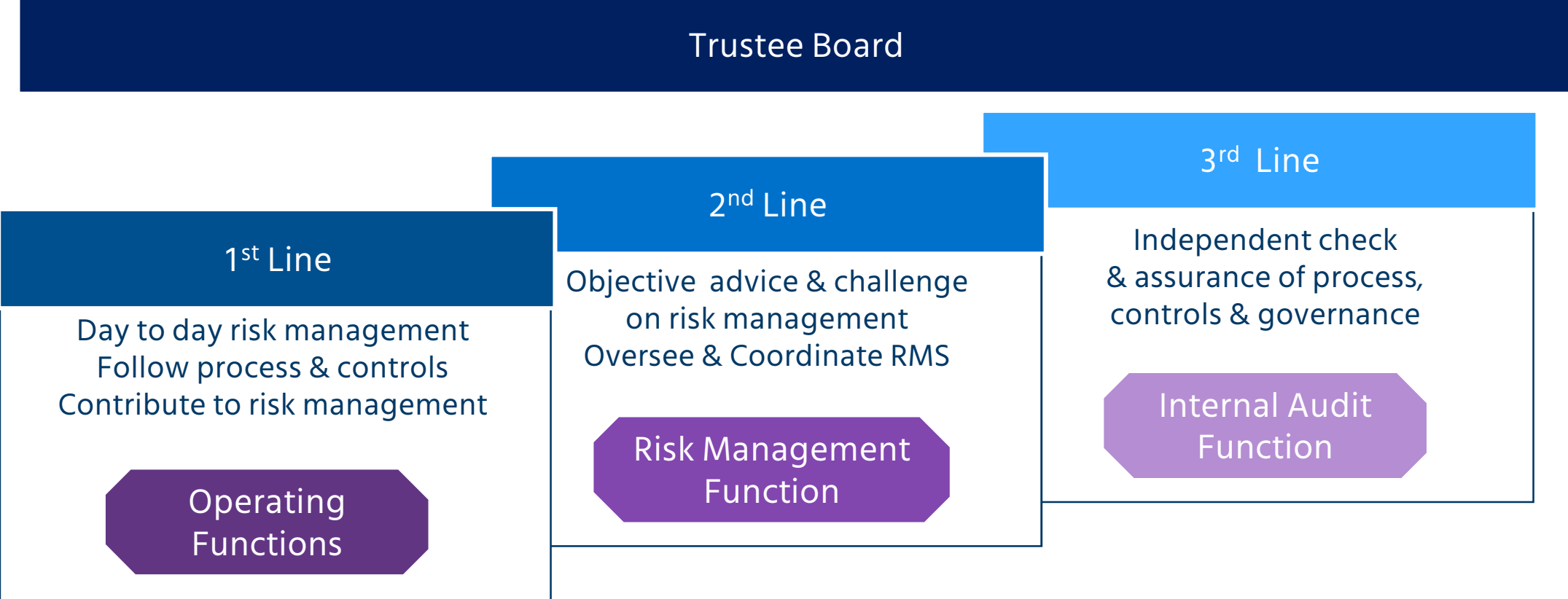
Risk Management Function

Choosing a proportional & appropriate operating model



Where does Risk Management fit within the Scheme?

Three lines of defence model



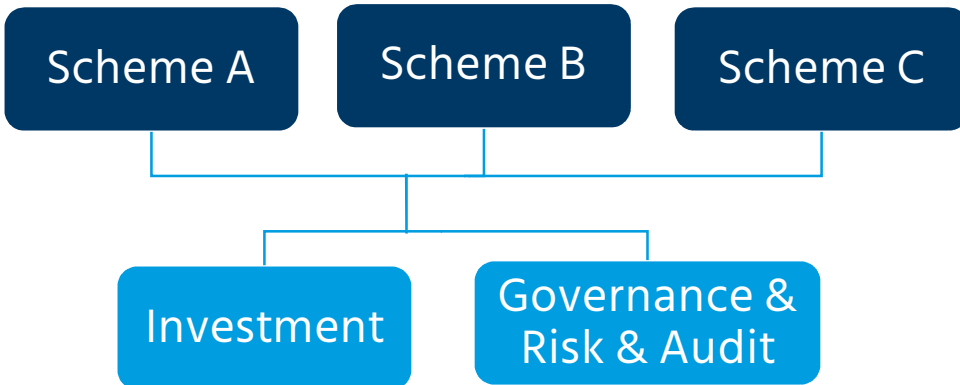
How can trustees structure themselves efficiently?

Trustee Sub-Committee Structure Options

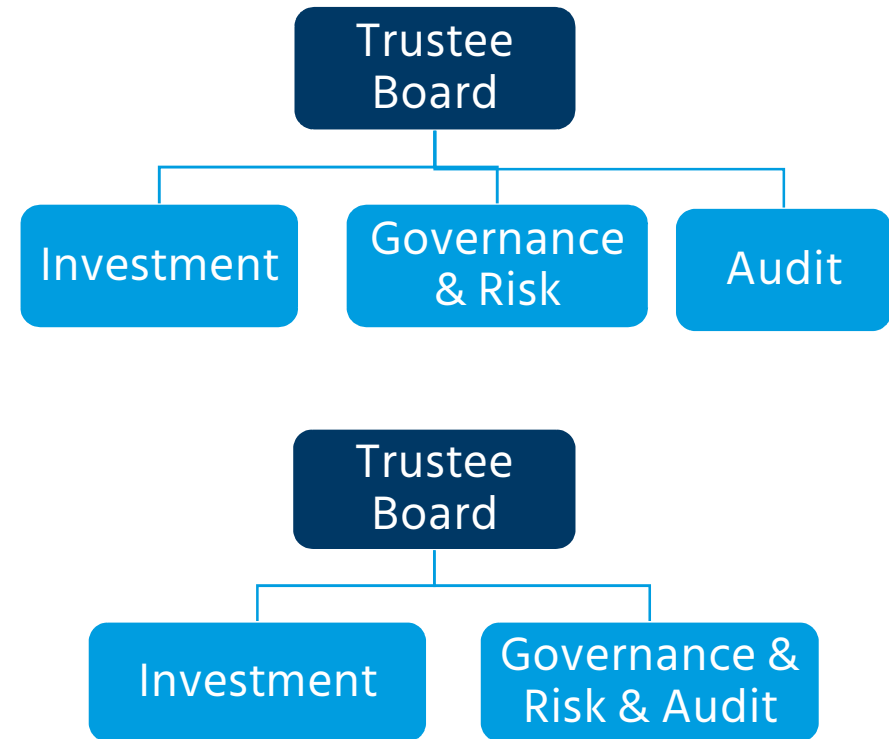
Retain all work at Full Board Level

Trustee Board

- Or - Pool Expertise across Sponsor's Schemes with joint sub-committees



- Or - Delegate to Sub-Committees (various combinations possible)



The Key Questions Facing Trustees:

- How can trustees fulfil their evolving fiduciary duty to effectively manage risk?
- What does a proportionate risk management system/function look like?
- What knowledge and experience will trustees need to manage risk effectively?
- How can I comply with new formal risk management requirements?
- How should a scheme best allocate its resources to manage risk?
- What should I be doing now to manage risks?



iapf 
representing pension savers