



Institute
and Faculty
of Actuaries

Pension risk – a corporate perspective

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Agenda

How do you view pension risk management?

Setting a risk framework

Pensions and the End Game

Ask a pensions actuary...

ETV/PIE

Asset allocation

DB to DC

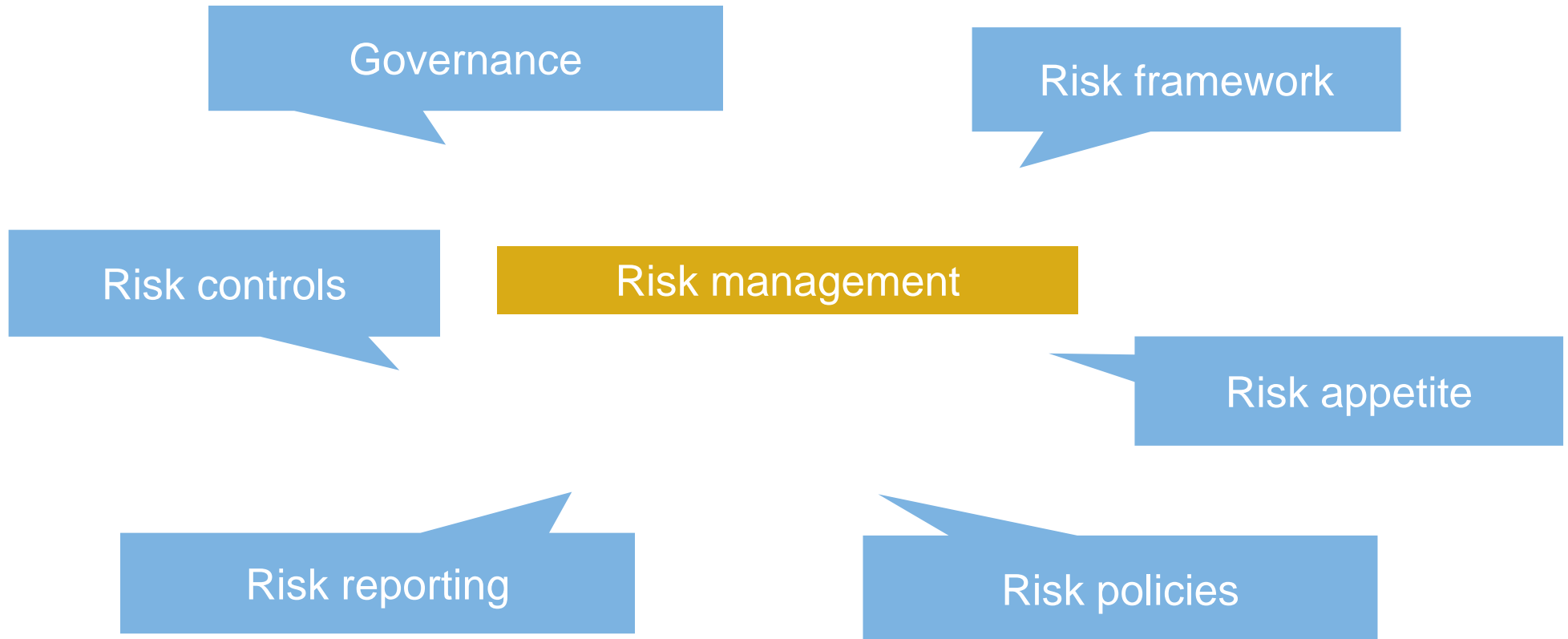
Risk management

Derivatives

Longevity swap

Buy-out/buy-in

Ask a financial sponsor...



What is a Risk Framework?

- Overall risk definition
- Risk exposures
- Principles and minimum standards
- Roles and responsibilities
- Internal control system

What is a Risk Framework?

- Overall risk definition

Pension Risk is both the risk of the change in the accounting position and the risk of an unplanned increase in funding required by Santander UK's defined benefit pension schemes, either because of a loss of net asset value or because of changes in legislation or regulatory action.

Santander UK Annual Report 2013

Pension risk is the risk that contributions from Group companies and members fail to generate sufficient funds to meet the cost of accruing benefits for the future service of active members, and the risk that the performance of assets held in pension funds is insufficient to cover existing pension liabilities.

HSBC Bank plc Annual Report 2013

What is a Risk Framework?

- Risk exposures

Market risk

Demographic risk

Regulatory risk

Operational risk

Strategic risk

What is a Risk Framework?

- Principles and minimum standards

Culture

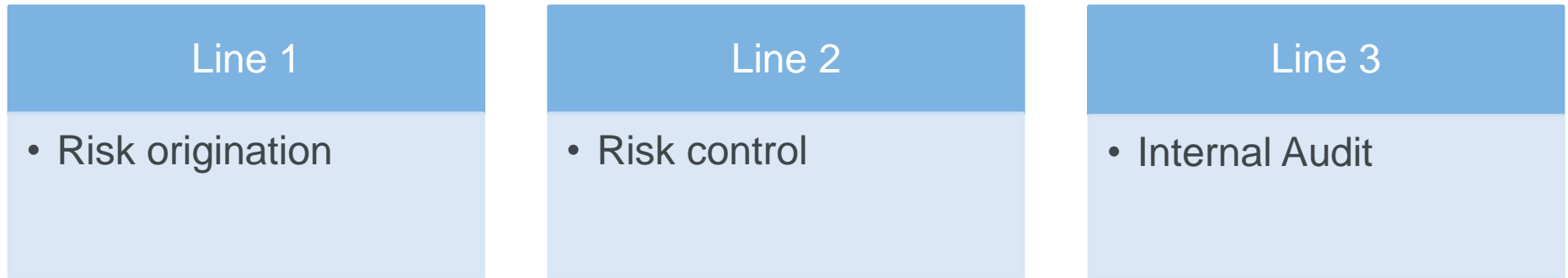
Accountability

Governance

Risk process

What is a Risk Framework?

- Roles and responsibilities



What is a Risk Framework?

- Internal control system

Risk Framework

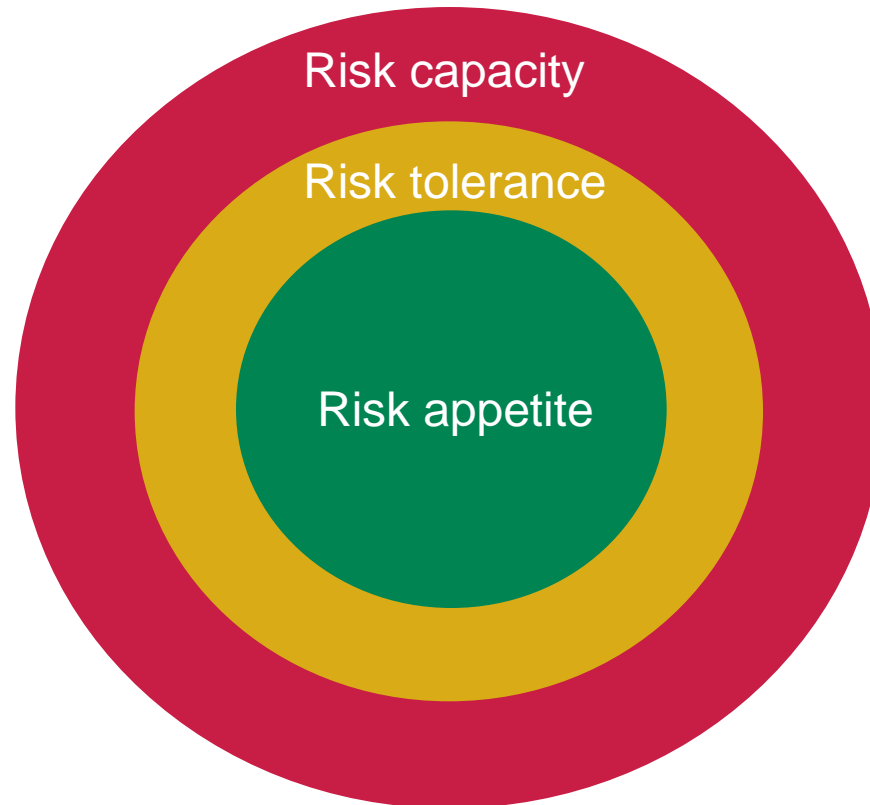
Risk Appetite

Policies and procedures

Delegated authorities

Attestations

What is Risk Appetite?



Risk metrics

What to measure

- Balance Sheet
- P&L
- Cash
- Capital

- Funding level
- Funding deficit
- Asset allocation
- Returns against benchmark

How to measure

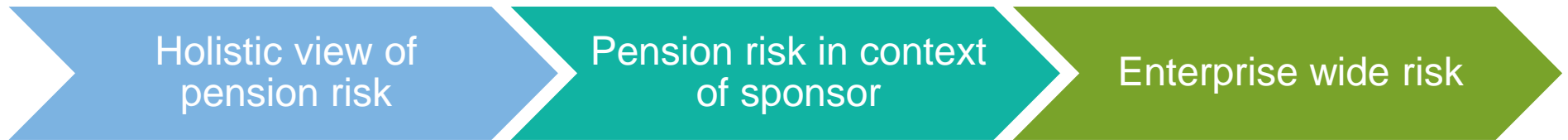
- Spot value
- Value at Risk
- Stress test
- Reverse stress test
- Historic scenarios

- Frequency
- Time period

Pensions and the End Game



Pensions and the End Game for actuaries?



TPR – Integrated Risk Management

2013 funding statement

- Covenant, investment and funding

2014 code of practice

- Covenant, investment and funding
- Set appropriate risk appetite
- Appropriate management actions and contingency plans
- Framework to assess, monitor and control

Is this fully integrated?

FRC guidance on risk reporting

Applies to boards of UK quoted companies

- Accounting periods beginning on or after 1 October 2014

Considerations

- Principal risks and uncertainties
- Robustness – stress tests, scenario analysis and reverse stress tests
- Long-term viability (beyond 12 months)
- Risk embedded into culture and reward systems

Focus is now beyond financial services



Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.