



Society of Actuaries in Ireland

IIPM & SAI joint webinar: Risk Management and Retirement Benefit Targeting

Friday, 13th October 2023

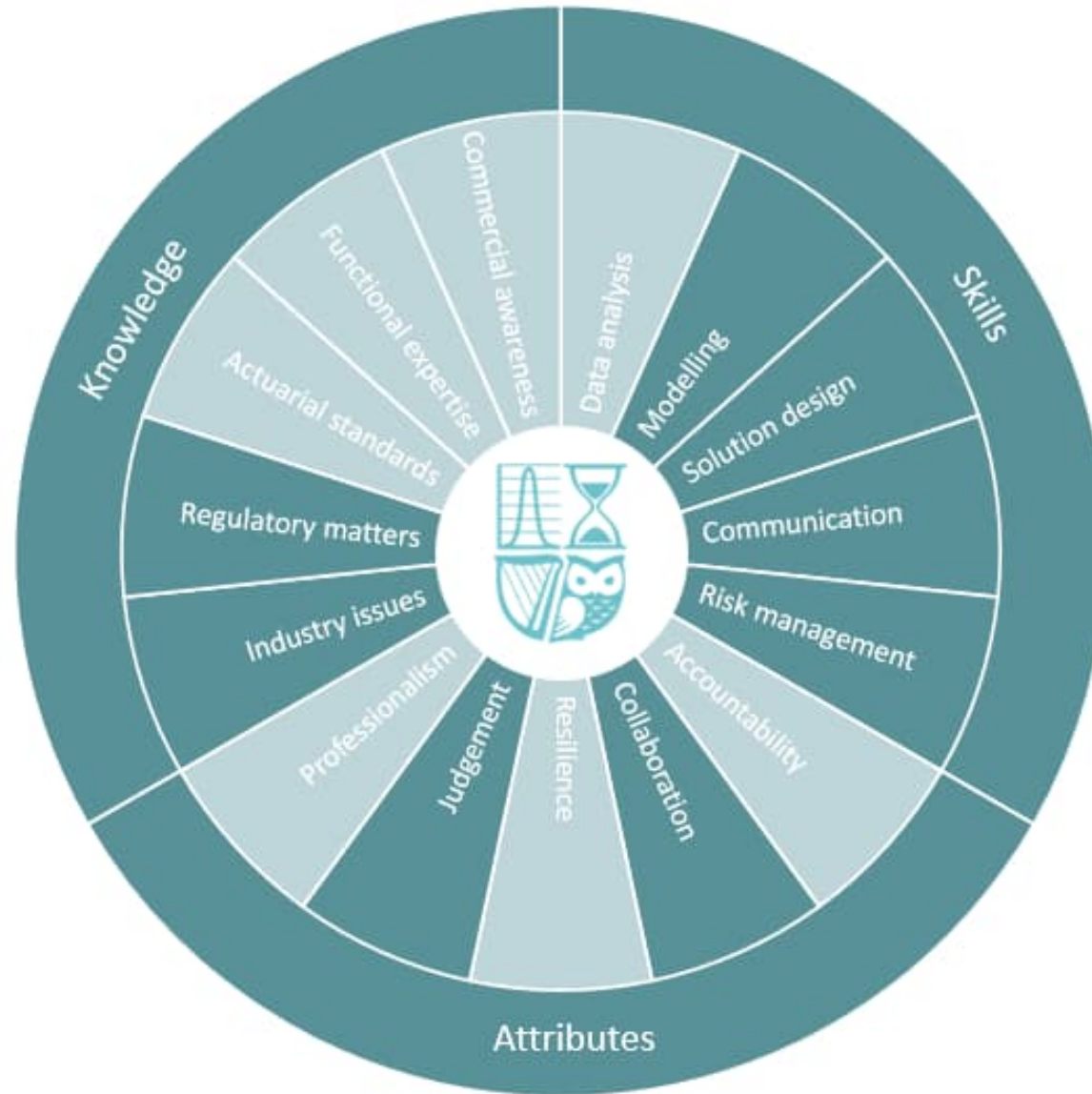


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Competency Framework Wheel





Society of Actuaries in Ireland

Pension Risk Management Function
& Own Risk Assessment (ORA)
Richard Clossick

13 October 2023



The Risk Management Journey

Implementing IORP II

Embedding IORP II

Living with IORP II

Past

Present

Future

2022

April 2024

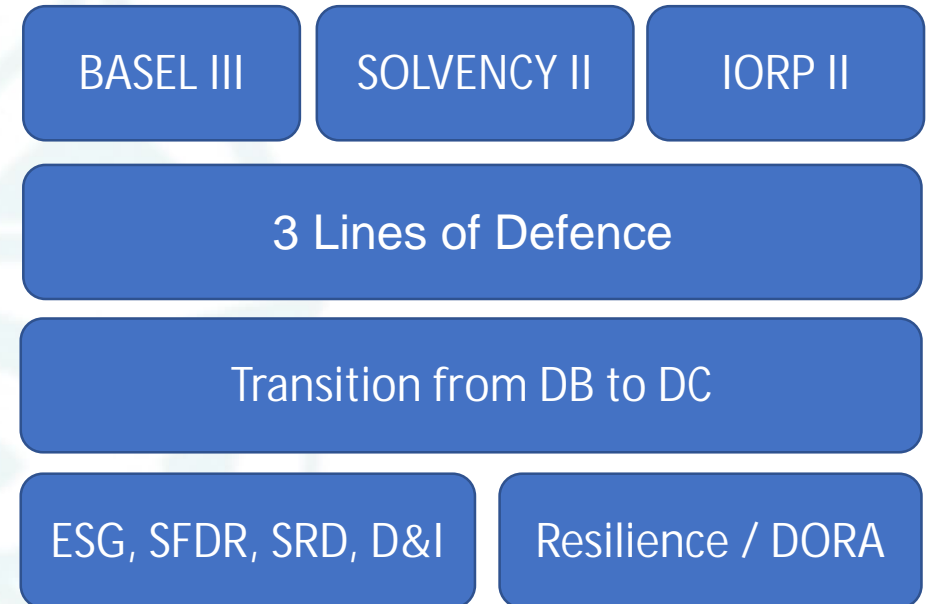


The Wider Context

Common Themes

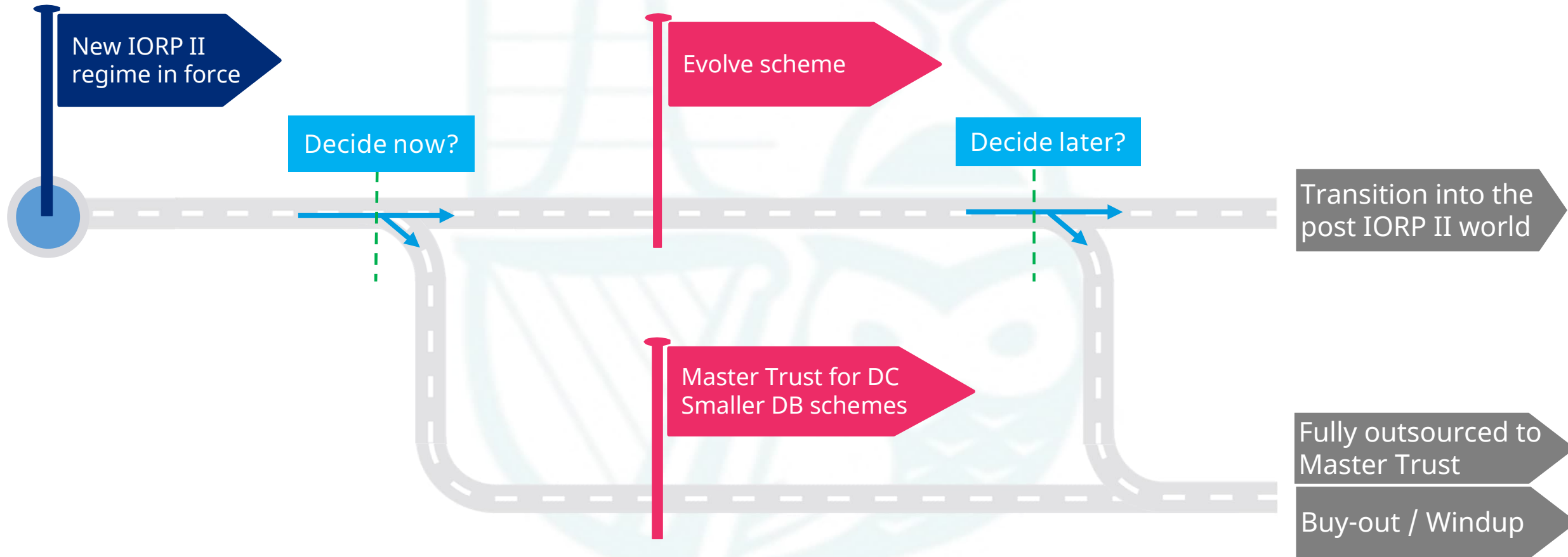
- Stronger governance & risk management
- Stability and resilience of financial system & financial institutions
- Forward looking risk based supervision
- Minimum harmonisation
- Level playing field across financial institutions
- Encourage cross border activity

Wider Trends





How have Schemes & Employers Responded to IORP II?

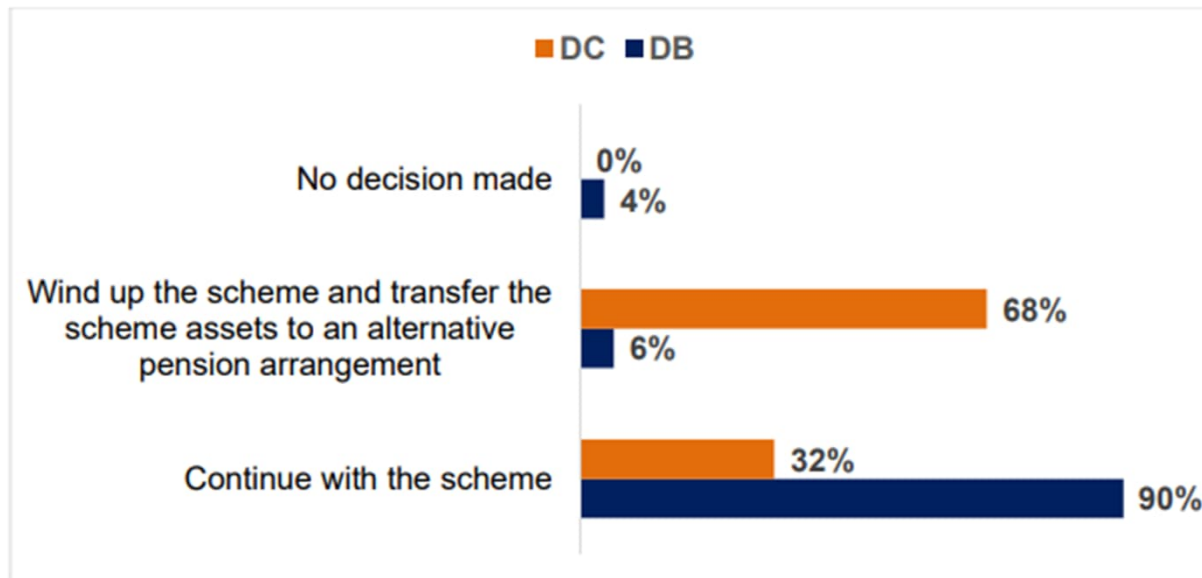




How have Schemes & Employers Responded to IORP II?

Pensions Authority Risk Management Survey

4. What decision has been made regarding the future of the scheme?



Many DC Schemes opting for an alternative

- Easier pathway for DC Schemes
- Survey noted this was weighted towards smaller Schemes
- Starting from a very large number of DC Schemes

Majority of DB Schemes plan to continue



The Risk Management Journey

Implementing IORP II



Agree Policies
& Governance Structures

2022



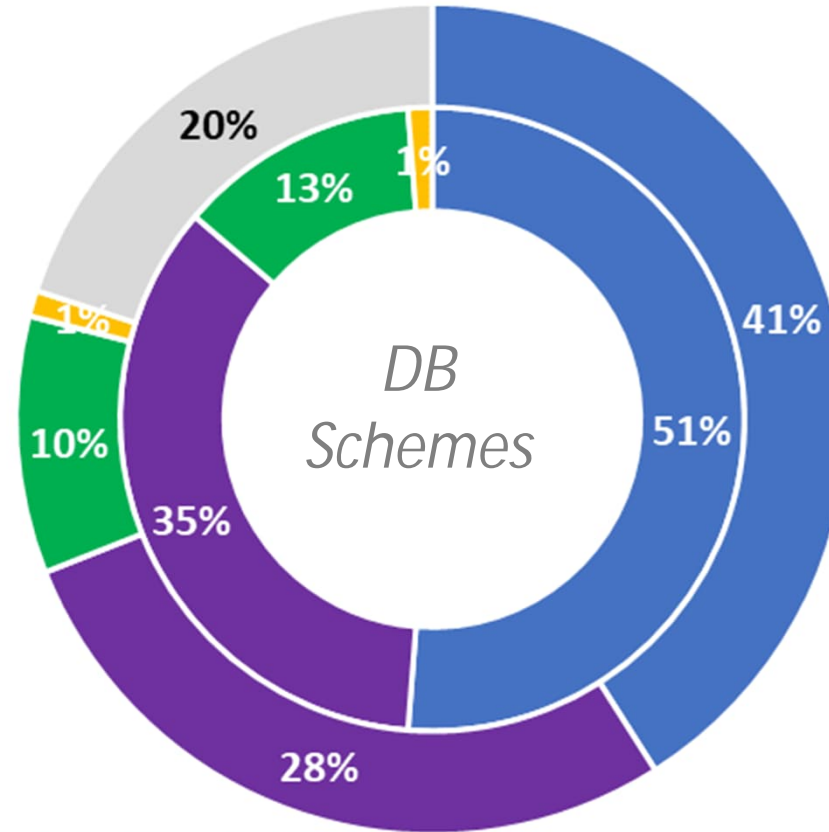
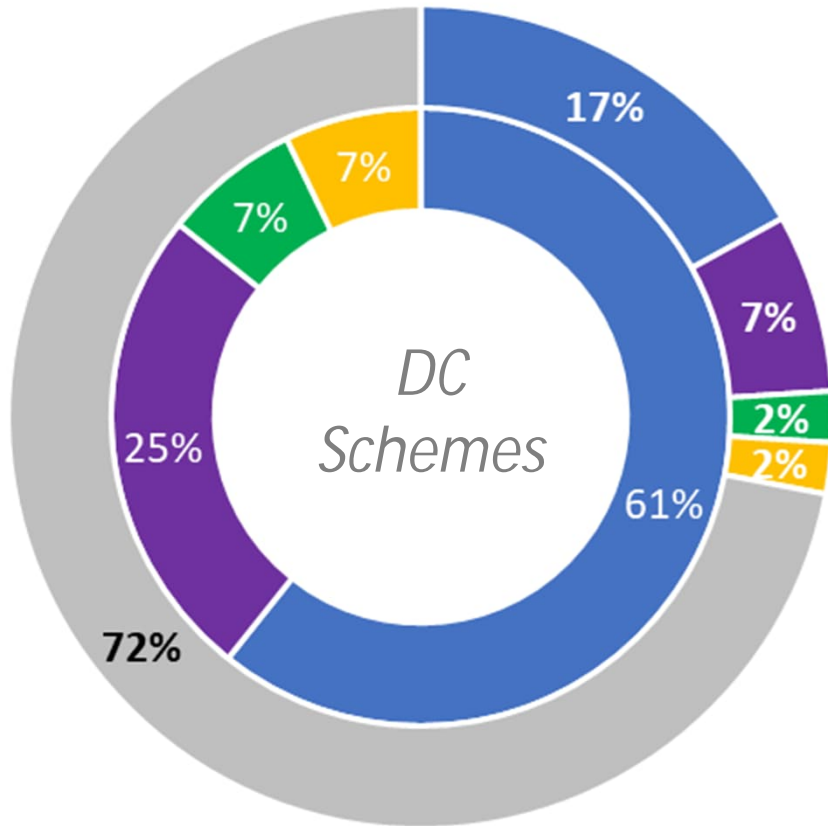
Appoint Key
Function Holders



The Risk Management Journey

Which of the following best describes the risk management KFH?

- Actuary
- Other Professional
- Accountant
- Trustee
- No Response



*Source: Pension Authority Scheme Survey 2023 Findings Report (conducted July 2023)

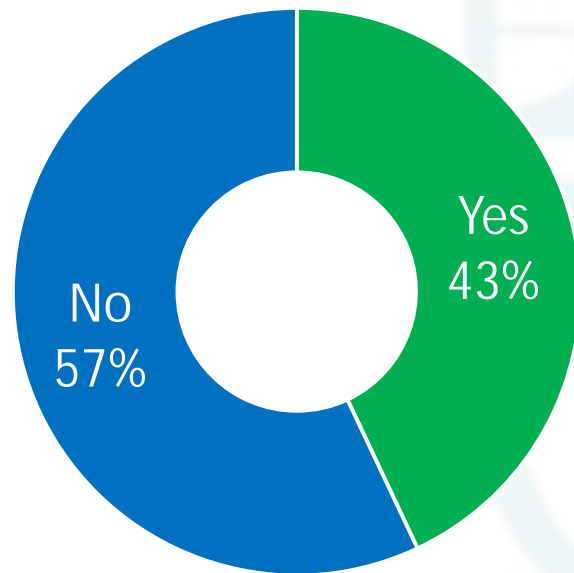
Inner circle has removed "no-response" % and re-calculated % share



The Risk Management Journey

Has the Authority's DB financial risk measure been prepared and considered by the trustees?

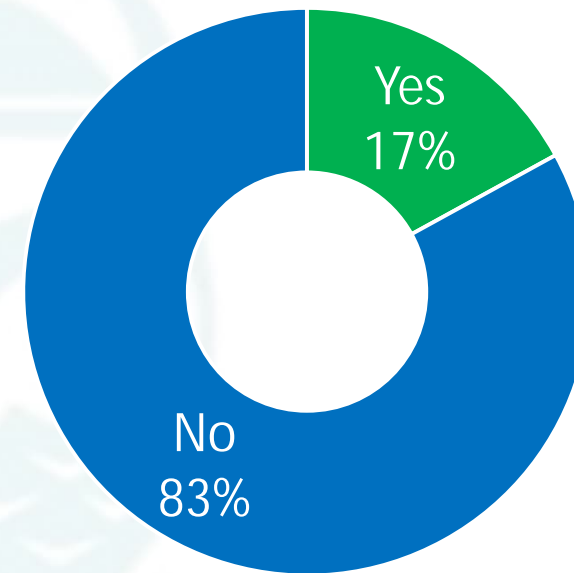
Question only asked to DB Trustees



23% No-response

Has the ORA been approved by the trustee board?

Chart reflects DB Trustee responses





The Risk Management Journey

Implementing IORP II



Agree Policies



Appoint Key Function Holders

2022

Embedding IORP II



Internal Audit & First Critical Reviews



Integrated new policies into practice & process



Reporting & Monitoring: Performance metrics, KRIs, SLAs



First Own Risk Assessment (ORA)

April 2024



An Own Risk Assessment (“ORA”) is...

- A deep dive on the Fund’s risk management system
- It represents the Trustees’ own views on the risks to which the Scheme is exposed and how well these are currently mitigated by the existing controls
- Carried out every three years (first ORA by April 2024)

The Authority also reminds trustees that the ORA is one of their most important responsibilities and they must dedicate sufficient time and attention to ensuring it is fit for purpose.*



An Own Risk Assessment (“ORA”) is...

The trustees are also responsible for drawing conclusions from the ORA and agreeing on how to address those conclusions.*

The ORA must provide an objective assessment of risk and not merely a rationalisation of the scheme’s current position.*

What is an ORA?

- ORA is the Trustees’ own views (supported by Risk KFH and with input from different scheme functions)
- Critical assessment of current risk exposures and controls
- Evidence based

What is it not?

- Report which is delivered to the Trustees
- A paraphrasing or aggregation of existing risk management documentation



Own Risk Assessment: Process Overview

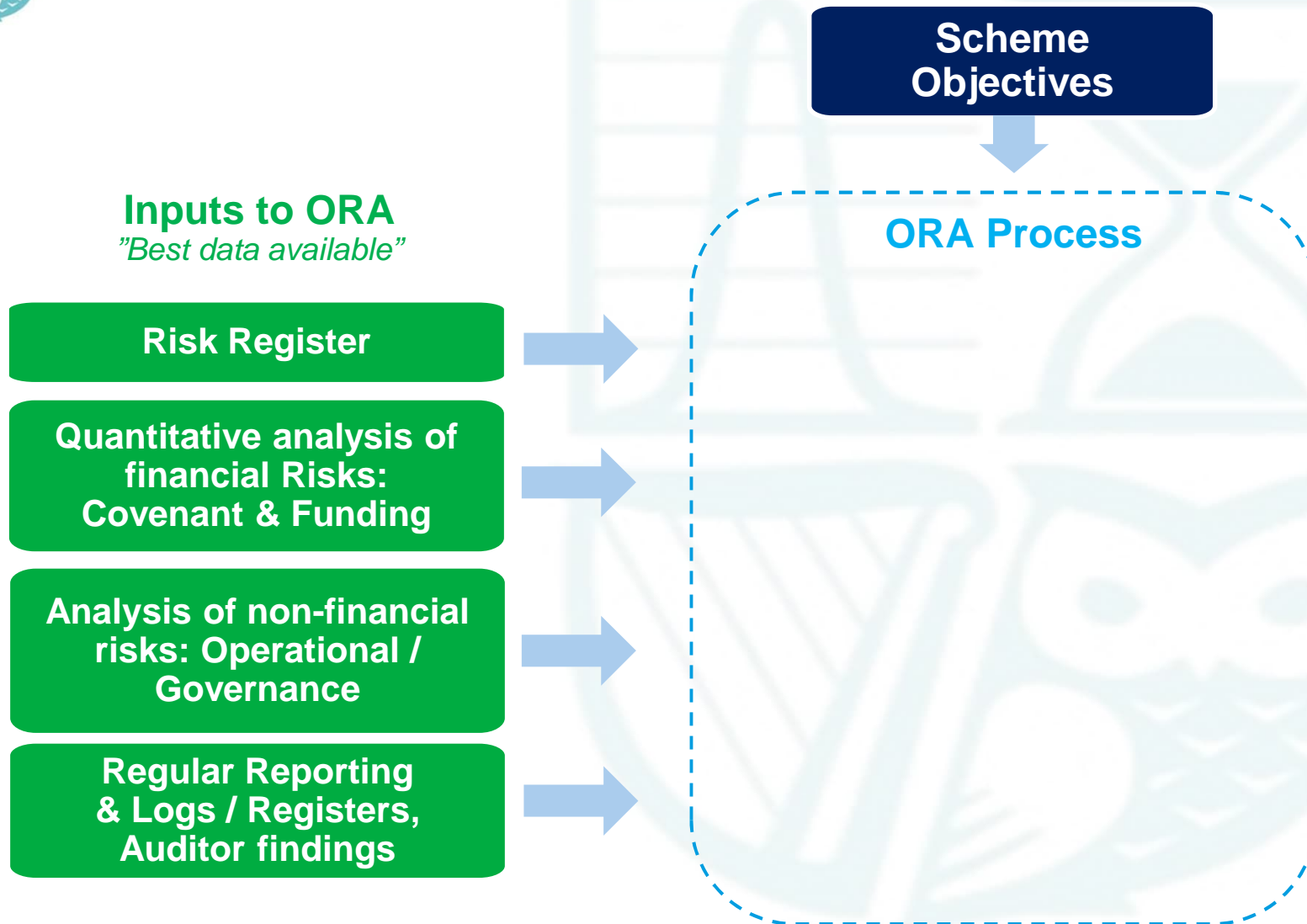
**Scheme
Objectives**



ORA Process

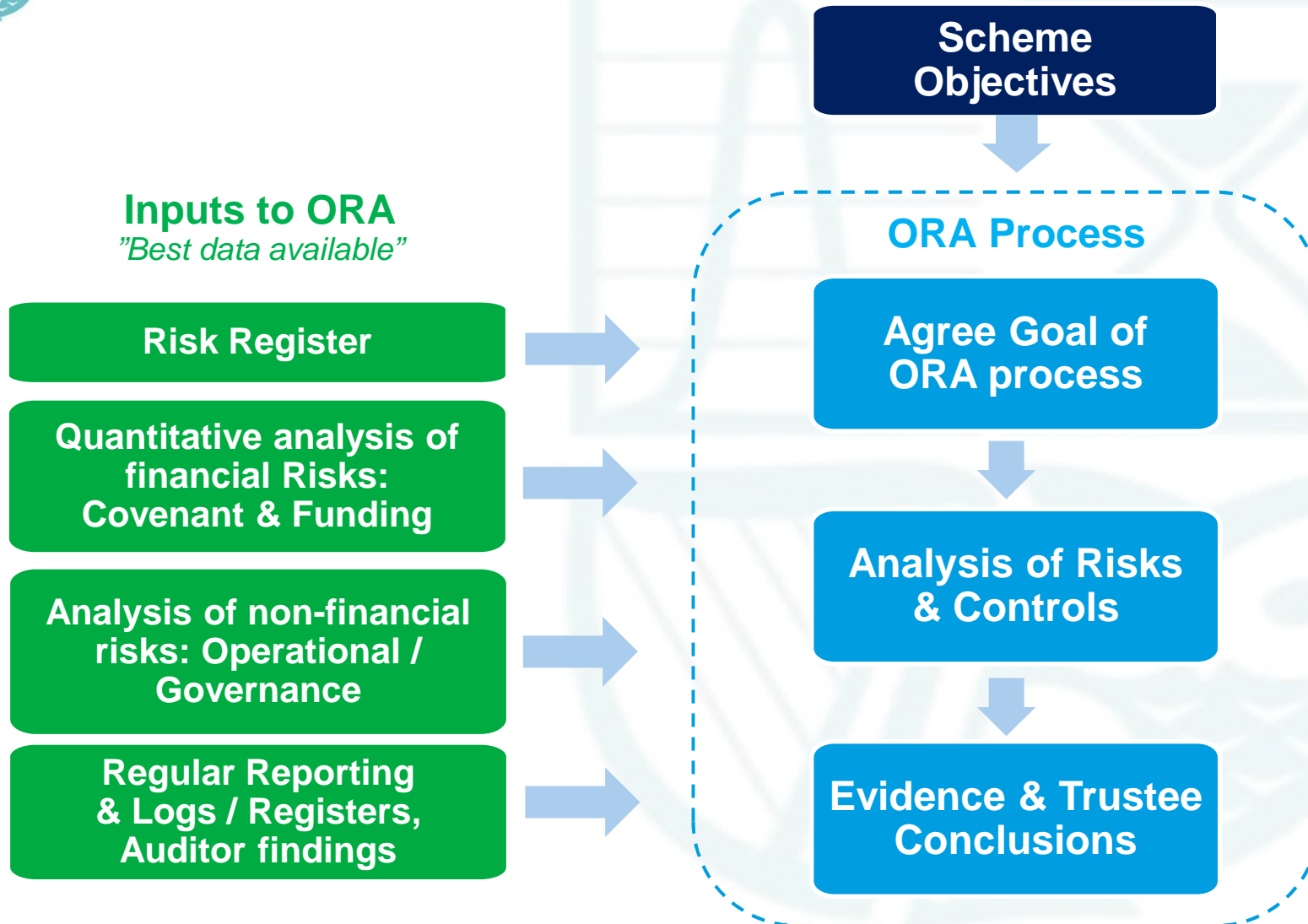


Own Risk Assessment: Process Overview



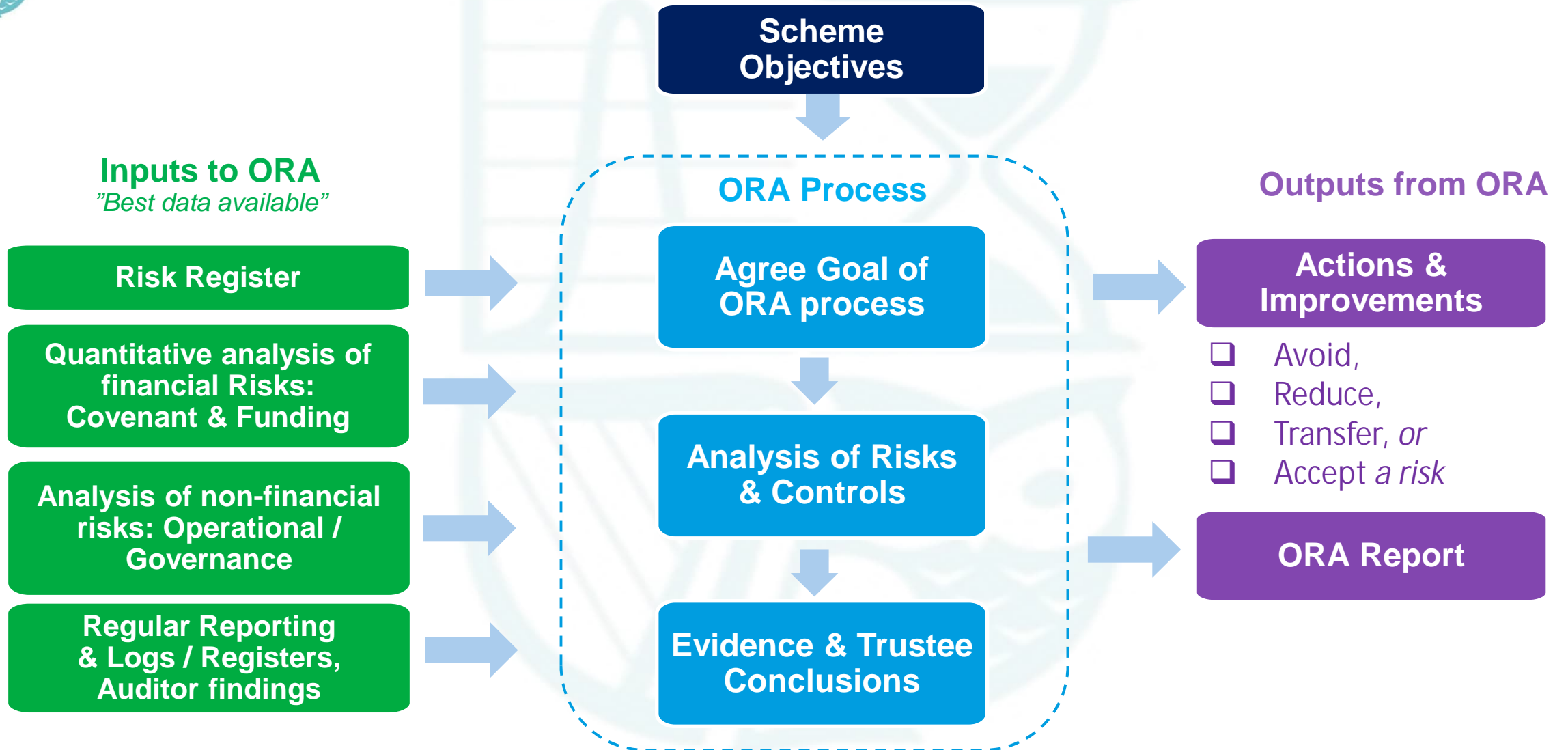


Own Risk Assessment: Process Overview





Own Risk Assessment: Process Overview





DB & DC: Documenting & Reporting

The ORA should be documented in a comprehensive written report and include:

- a detailed account of how the scheme's risks were **identified, measured, and evaluated**,
- what **additional mitigations (if any)** the trustees have decided to implement to bring any current or emerging material risks adequately under control,
- how the ORA findings will be, or have been, **integrated into the risk management system** of the scheme, and
- the planned date of the next ORA.

The report should be supported by **evidence** where available that underpins the findings and decisions by the trustees.

Where evidence is unavailable, trustees should document in the report how and why findings have been adopted and how and why decisions have been made as a result of the ORA.



DB: Funding and Solvency

ORA Guidance

- Trustees of DB Schemes will need to address funding and solvency requirements, including the implications of issues such as
 - **scheme maturity** and
 - **financial sustainability,**
 - and the strength of the employer **covenant.**
- For defined benefit schemes, trustees may use a variety of approaches to evaluate financial risks, including the Authority's defined benefit financial risk measure.

Code of Practice

- the current funding position of the scheme and the factors that have led the scheme to this position,
- a quantitative evaluation of the solvency, financial risk, and sustainability position of the scheme,
- the trustees' evidence-based view of the strength of the employer covenant, and
- the risks identified by periodic review of the funding of the scheme described in Chapter 5 (*Solvency, sustainability, financial risks, sponsor support*)

**Source: Code of Practice for Trustees*



DB: Focus on Sponsor Covenant

- The ORA for a DB scheme must include the trustees' **evidence-based view of the strength of the employer covenant**.
- This evidence will comprise of **qualitative and, where available, quantitative data**.
- Even where **incomplete information** is available, trustees must use their judgement to arrive at a view of the employer covenant.

The employer's current ability to pay may change in the future for a variety of reasons, which may include:

- changes in ownership, shareholdings, or corporate structure of the employer,
- significant falls in the employer's share price or the credit rating of employer issued bonds where available,
- a reduction in the value of any contingent asset made available by the employer to the scheme, and
- any other factors that may indicate a weakened financial position of the employer.



DC: Default + Other Investment Options

- Trustees of DC schemes must assess the **risks to member outcomes arising from the scheme's investment.**
- This assessment should be comprehensive and include a review of all member investment options and not be limited to a review of the default investment strategy.



DB & DC: Clarification Around “Significant Change ORA”

Accelerated / out of cycle ORA

- Must be carried out within **three months** of the Change
- The ORA update may be **limited to the assessment of the risks impacted** by the change.
- A ‘significant change’ ORA does not satisfy the requirement to carry out a full ORA, which must continue to be completed at least once every three years.

Examples of Sources of Significant Change:

Internal

- Change to Scheme Rules, Procedures, Governance
- Changes to investment policy
- Changes to employer covenant

External

- Shocks: (financial markets, international public health events, significant geo-political shocks)
- Change legislation / regulation
- Service Provider Changes
- Major service issues



Own Risk Assessment: Potential Benefits

1. Trustees own views
2. Holistic, cross-disciplined understanding of risks
3. Action focused



The Risk Management Journey





What does Integrating Risk Management mean in Practice?



That risk-management system shall be effective and well-integrated into the organisational structure and in the decision-making processes of the IORP

– IORP II Directive, Article 25: Risk Management



- Can you integrate risk management system without the Risk KFH?
- What type of decisions / project and what level of materiality
- At what stage in the process should the Risk KFH be involved?



Concluding Thought

“Its overall purpose is to ensure members’ benefits are well protected and that the scheme delivers good member outcomes.”*

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Society of Actuaries in Ireland

Retirement Benefit Targeting
Tom Matthews

13th October 2023



Overview

- What do people need in retirement
- Funding this
- Financial priorities at different stages of life and challenges this poses to pension adequacy
- Options for improving customer outcomes



What do people need in retirement?

- Not a one-size fits all
- Two factors:

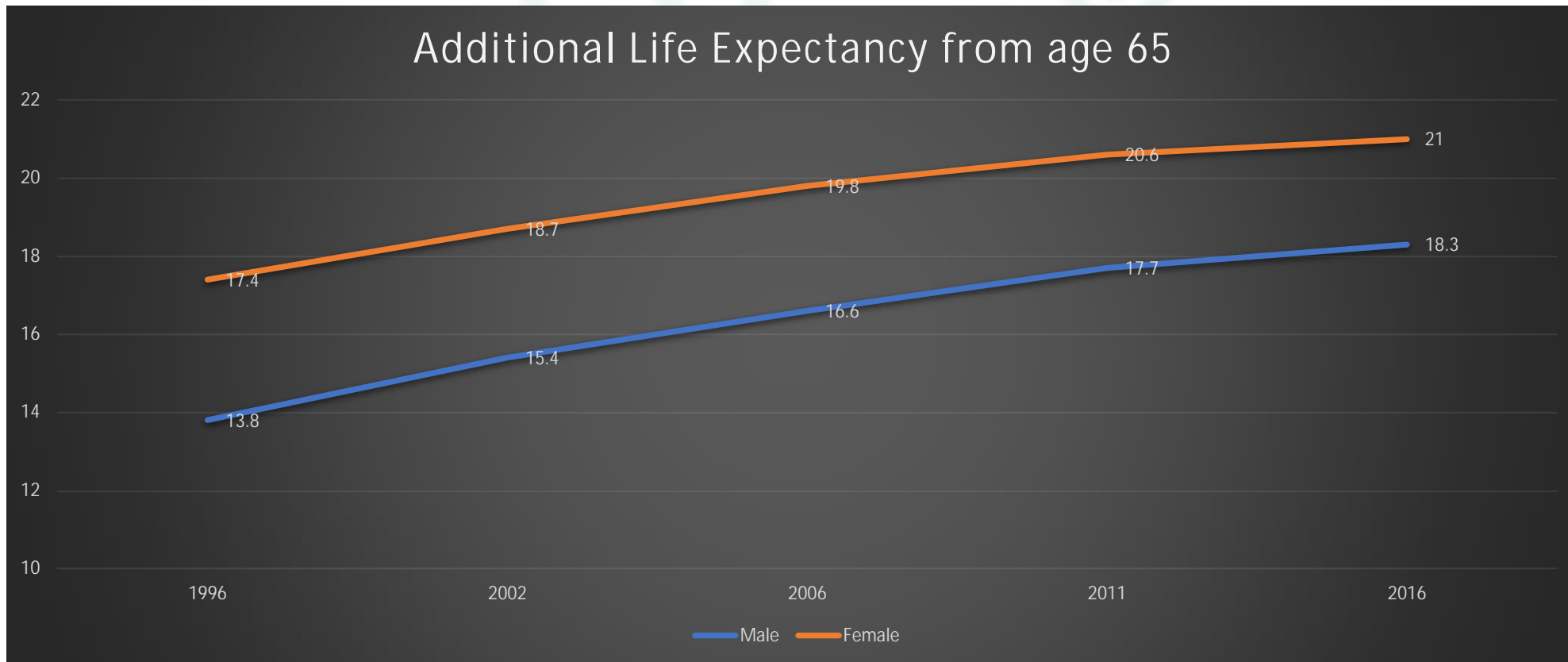
What level of income is required?

How long is it needed for?



How long is income needed for???

- We know mortality is improving – but by how much?

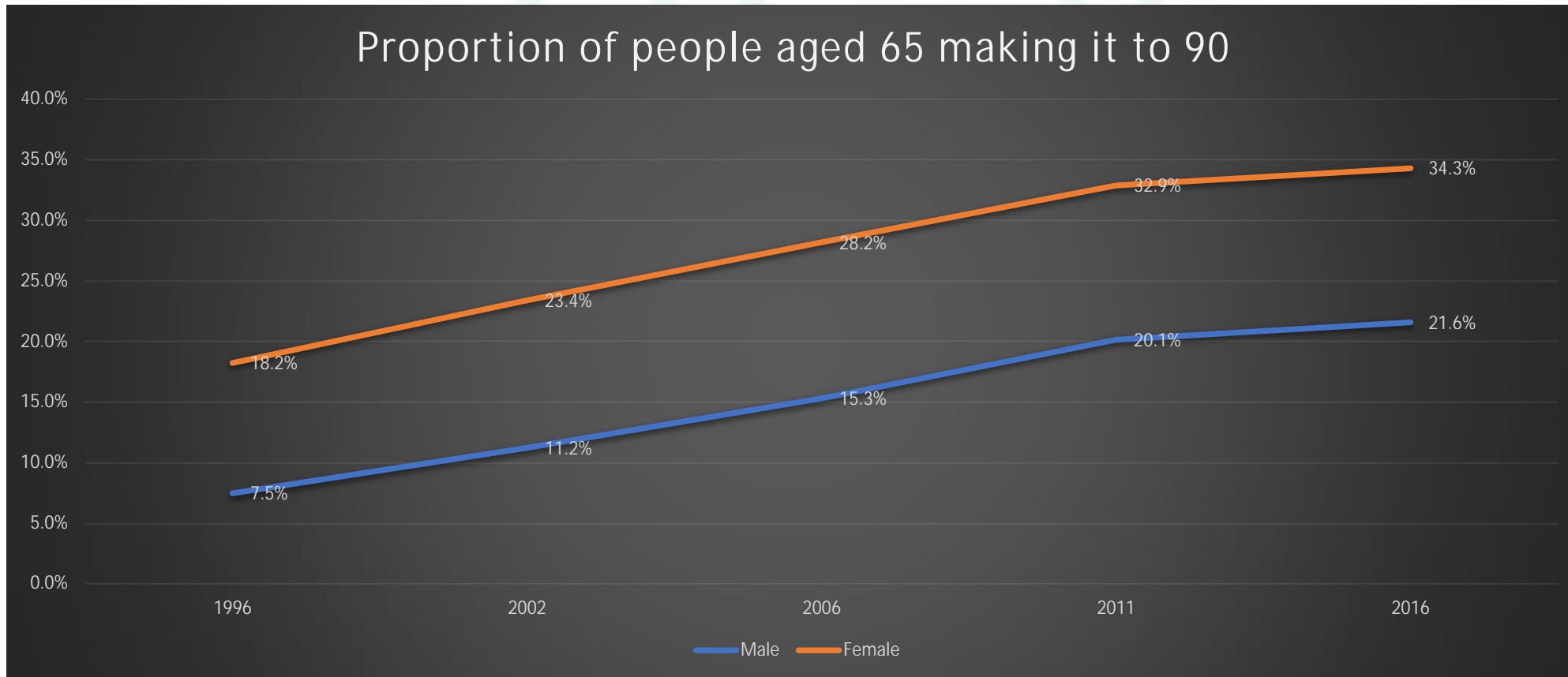


Figures based on ILT data



How long is income needed for???

- We know mortality is improving – but by how much?



Figures based on ILT data

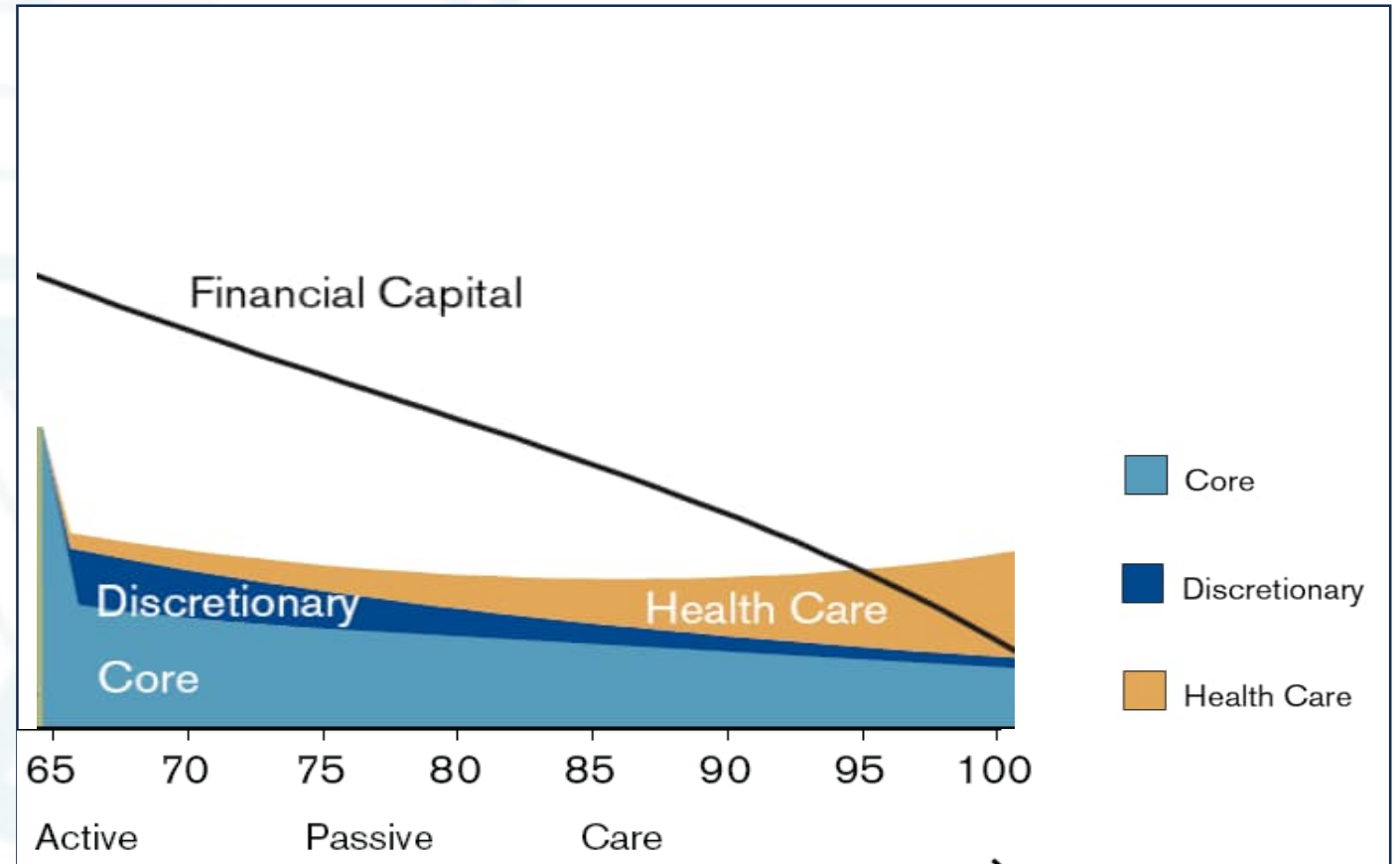


What level of income is needed

- How do we think of the retirement needs discussion?



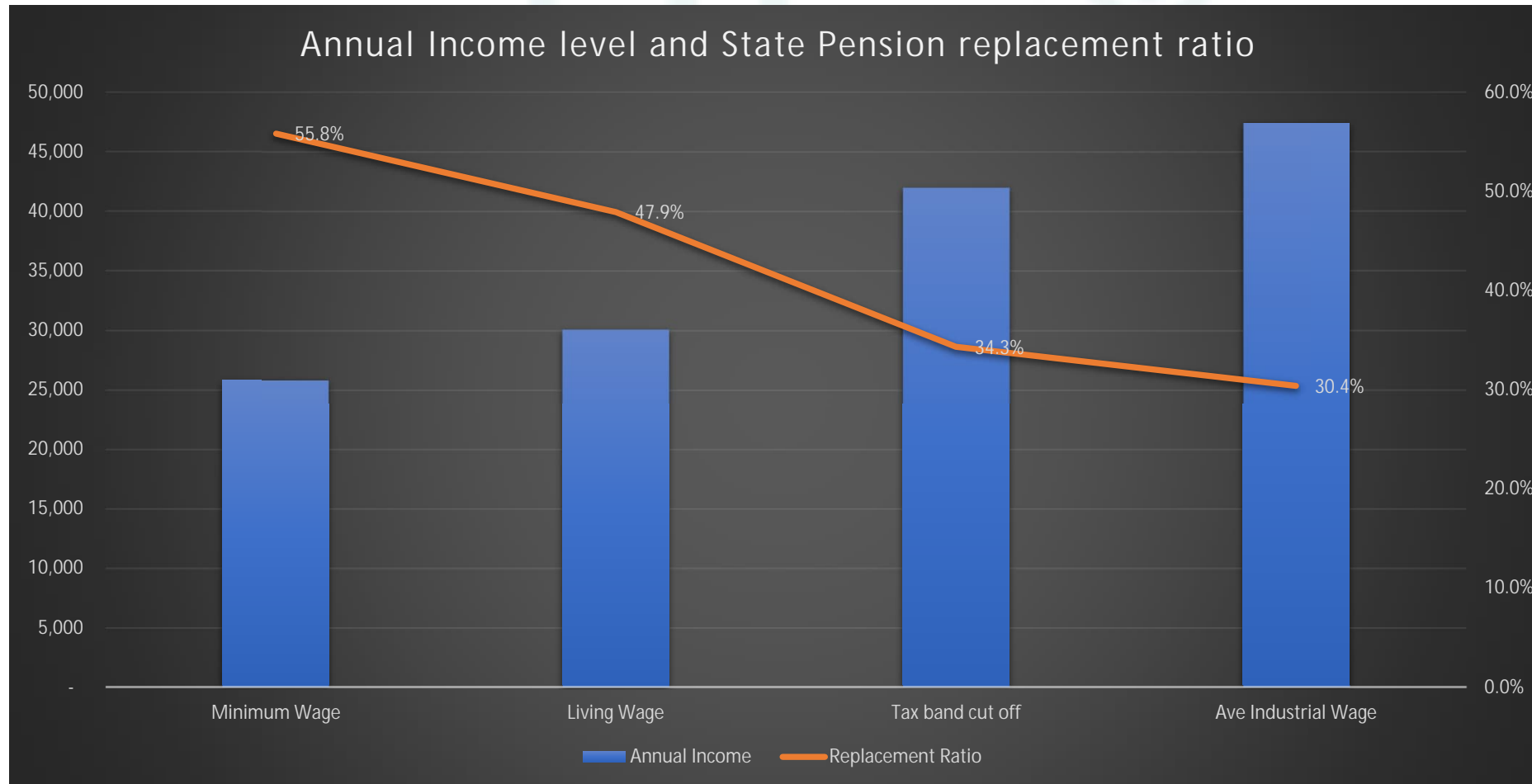
or





What do people need in retirement?

- Replacement ratios for the State Pension





What do people need in retirement?

- General target is $2/3^{\text{rds}}$ of final salary
 - Retirement fund required to get to this

Income Target	Min Wage	Living Wage	40% tax rate	Ave. Ind Wage
Fund required	€ 55,958	€ 112,898	€ 271,636	€ 344,106

- Typical focus through working life:
 - Clear mortgage
 - Get children to financial independence
 - Save for the future
- Particularly focus should be on people renting through retirement



Funding retirement

- Options for funding retirement

What we know about?

- Post-retirement vehicle
- Retirement Lump Sum

What we don't know about???



Funding retirement

- Options for funding retirement

What we know about?

- Post-retirement vehicle
- Retirement Lump Sum

What we don't know about???

- Rental income from investment properties
- Disposal of investment assets (shares, property, etc.)
- Dividends
- Sale of a business
- Accumulated deposits
- Downsize property
- Rent-a-room
- Ongoing income from any part-time work



Funding retirement

- Options for funding retirement

What we know about?

- Post-retirement vehicle
- Retirement Lump Sum

What we don't know about???

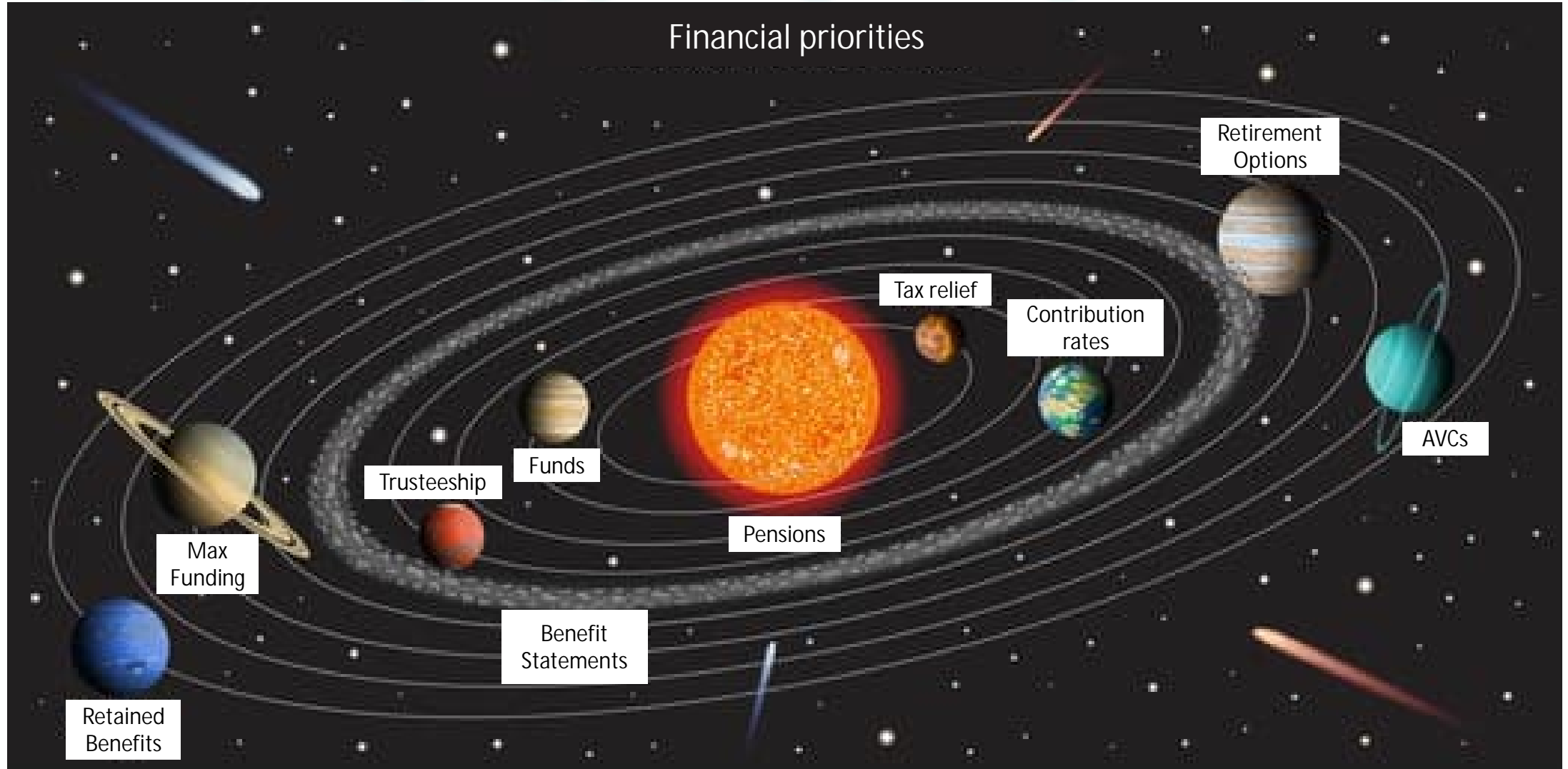
- Rental income from investment properties
- Value of assets disposed of (e.g. shares, property, etc.)
- Dividends
- Accumulated deposits
- Ongoing income from any part-time work

What else don't we know about???

- The financial situation of anyone else in your household
- Ongoing income
- See list left

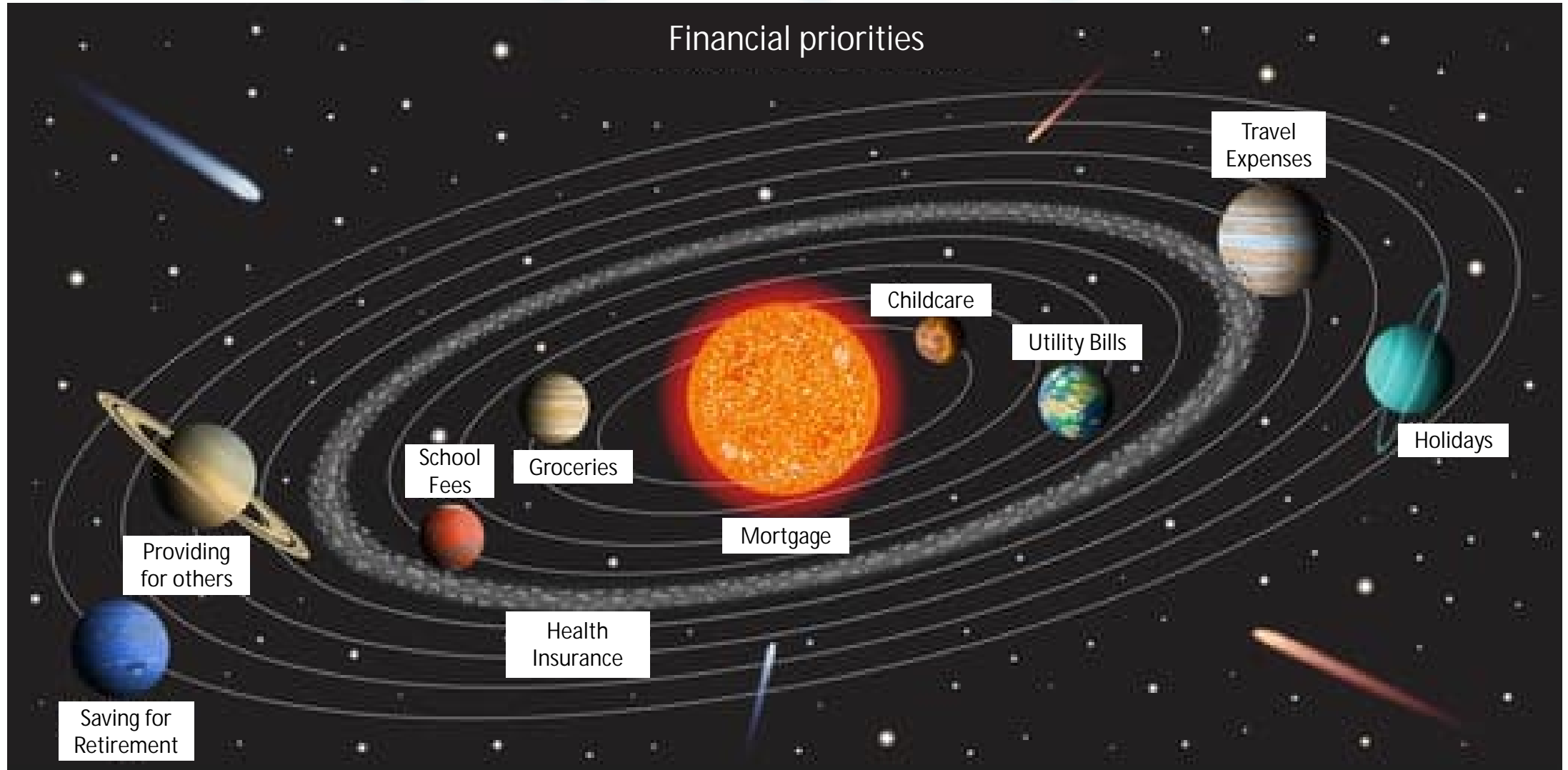


How our industry approaches peoples' finances





How they approach their finances





Trends challenging adequacy of income in retirement

- Many of the trends both inside and outside pensions challenge adequacy of income in retirement
- Continued reduction in DB pensions and increase in DC
- Increased age at which children reach financial independence
- Size and term of mortgage
- Contribution levels on DC schemes (and auto-enrolment) may inadvertently lead some members into a false sense of security



Potential options for improving customer outcomes

Context

- Based on the breadth of assets and options available for retirees to provide for their retirement other than pension provision, what seems inadequate DC provision may not mean retirement will be uncomfortable
- When we understand the mindset of members/customers we are better positioned to facilitate and encourage improved provision
- The launch of auto-enrolment will improve awareness of pension provision in general, which can be used as a positive for members/customers



Potential options for improving customer outcomes

Key driver of improved customer outcomes will be improved customer engagement

1. Improve awareness and accessibility of the offering in general
2. Make the topic more relatable – if people understand finances in today's terms, then provide tools to facilitate this
3. Use behavioural economics to give members achievable targets, with positive affirmation when they achieve those things
4. Delivery greater flexibility to enable greater integration with their day-to-day or month-to-month finances



Q&A

Use the Q&A function to ask a question