Managing Pension Risk

Evelyn Ryder

An increasing focus on pension risk


Pension funds face a shortfall of billions

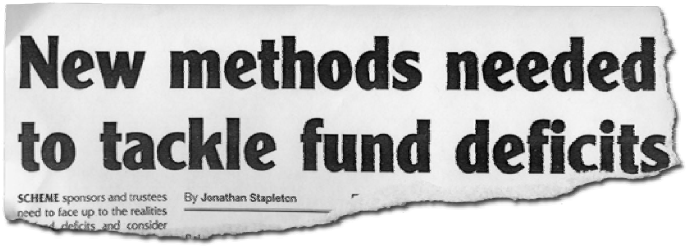
Regulator focuses on longevity projections

Companies to cover increased liabilities

By Norma Cohen

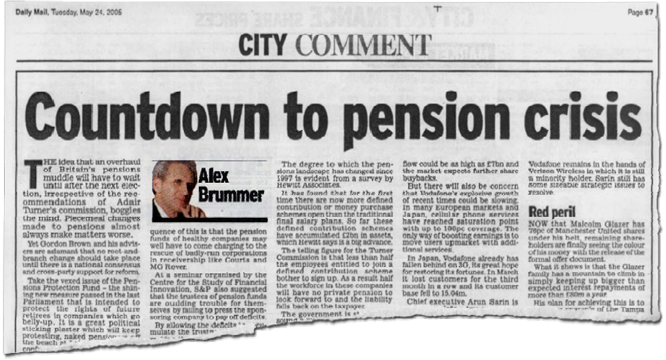
There has been increasing focus from:

- Investors, analysts and corporate management
- Scheme members
- The Pensions Board
- Numerous examples over recent years of poor risk management


New methods needed to tackle fund deficits

By Jonathan Stapleton

IBEC warns of threat to defined-benefit pensions

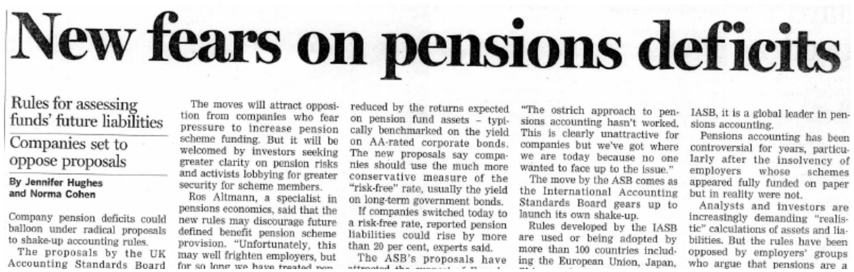

Daily Mail, Tuesday, May 24, 2005

CITY COMMENT

Countdown to pension crisis

Alex Brummer

Red peril

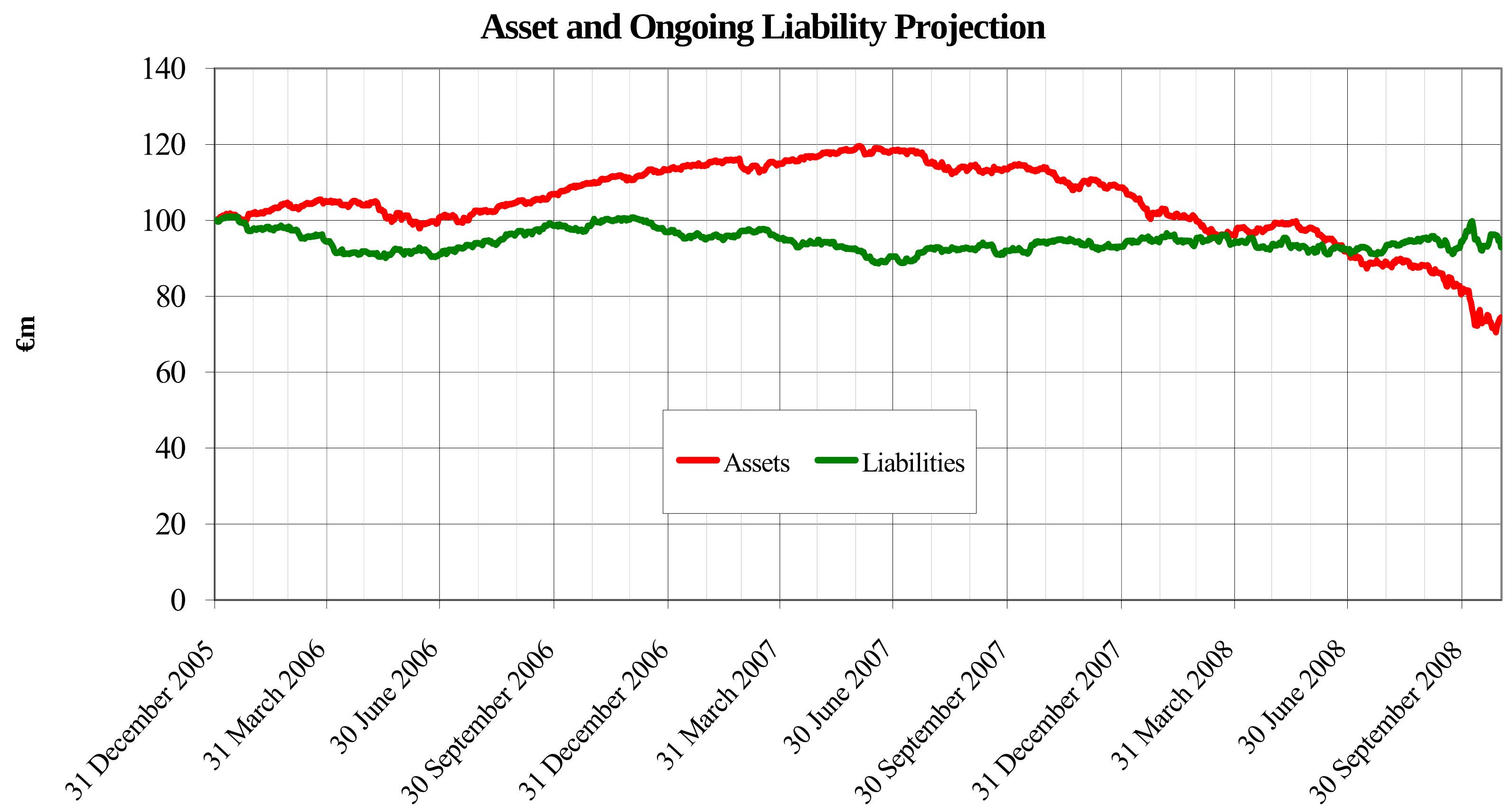

New fears on pensions deficits

Rules for assessing funds' future liabilities

Companies set to oppose proposals

By Jennifer Hughes and Norma Cohen

Recent movements in your funding position



Note: The above graph is approximate, and becomes more approximate as the projection period lengthens. It reflects approximate stock market movements and interest rate changes (assuming these occur uniformly along the length of the yield curve), but not client-specific factors, such as material changes in membership numbers or profile or changes in benefit scales. It is designed to give a broad picture of the direction of funding changes since the last actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.

What factors influence your attitude to pension risk?

- Contribution Volatility
- Member Reaction to change in benefit
- Accounting Volatility
  - P&L
  - Balance Sheet
  - Rating Agency Perception

How do Trustees/Sponsor define Pension Risk?

- Overall Risk Budget
- In isolation
- Peer Group Comparison
- Don’t know?

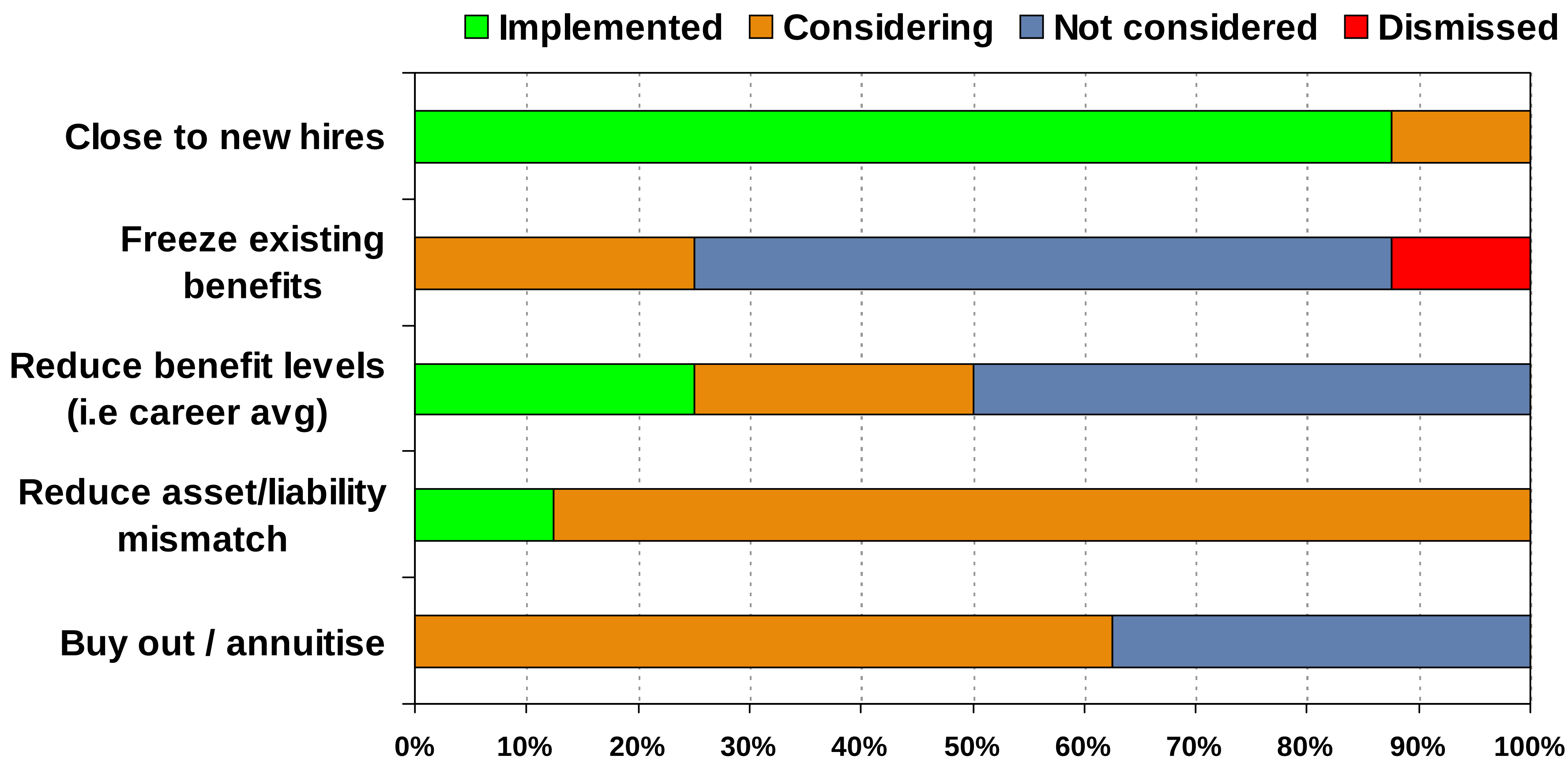
How does one measure Pension Risk?

- Asset Liability Modelling Exercise
- Deterministic Shock
- Value at Risk Locally
- Value at Risk Globally for Multi-national

Main Risk Measures?

- Equity Investment Risk
- Inflation Risk
- Interest Rate Risk
- Longevity Risk
- Liquidity Risk
- Covenant Risk
- Operational Risk

Actions taken to deal with pension risk in Irish Schemes

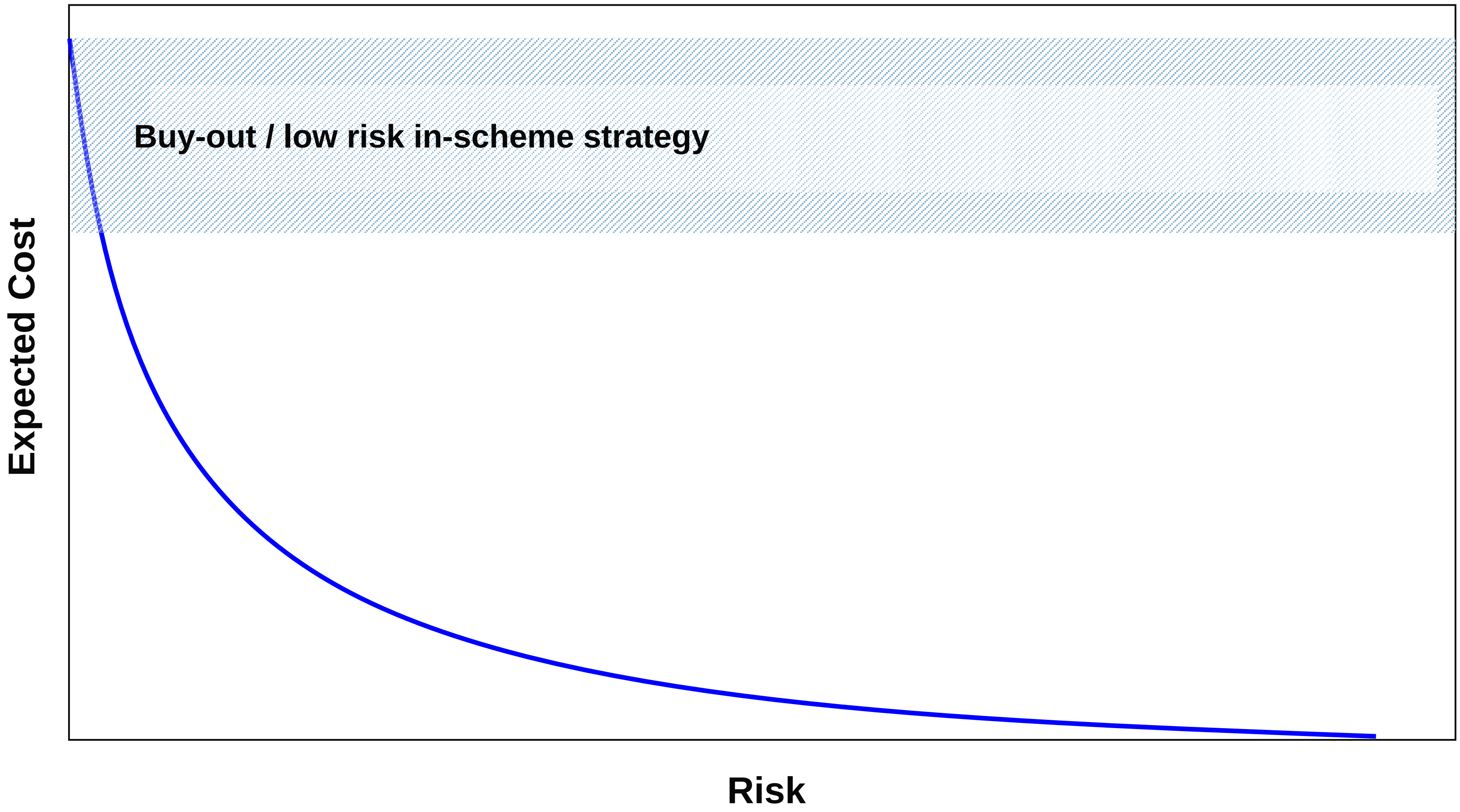


Liability Management Techniques

Opportunity for Actuarial Profession to show innovation and ability to manage Risk

- Normal Retirement Age
- Pension Increases
- Future Accrual
- Buy Out Options
- Enhanced Transfer Value
- Early Retirement
- Commutation
- Good housekeeping

The price of certainty

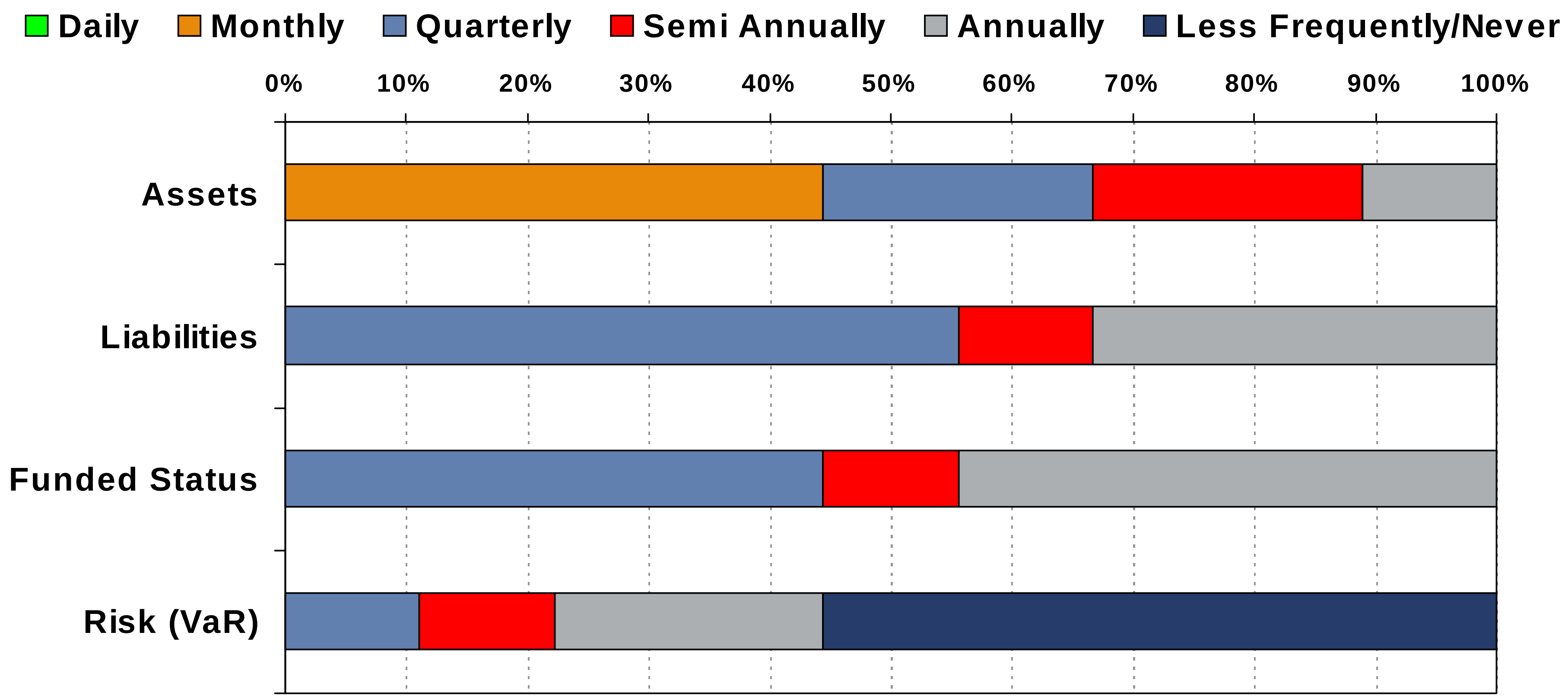


Asset Management Techniques

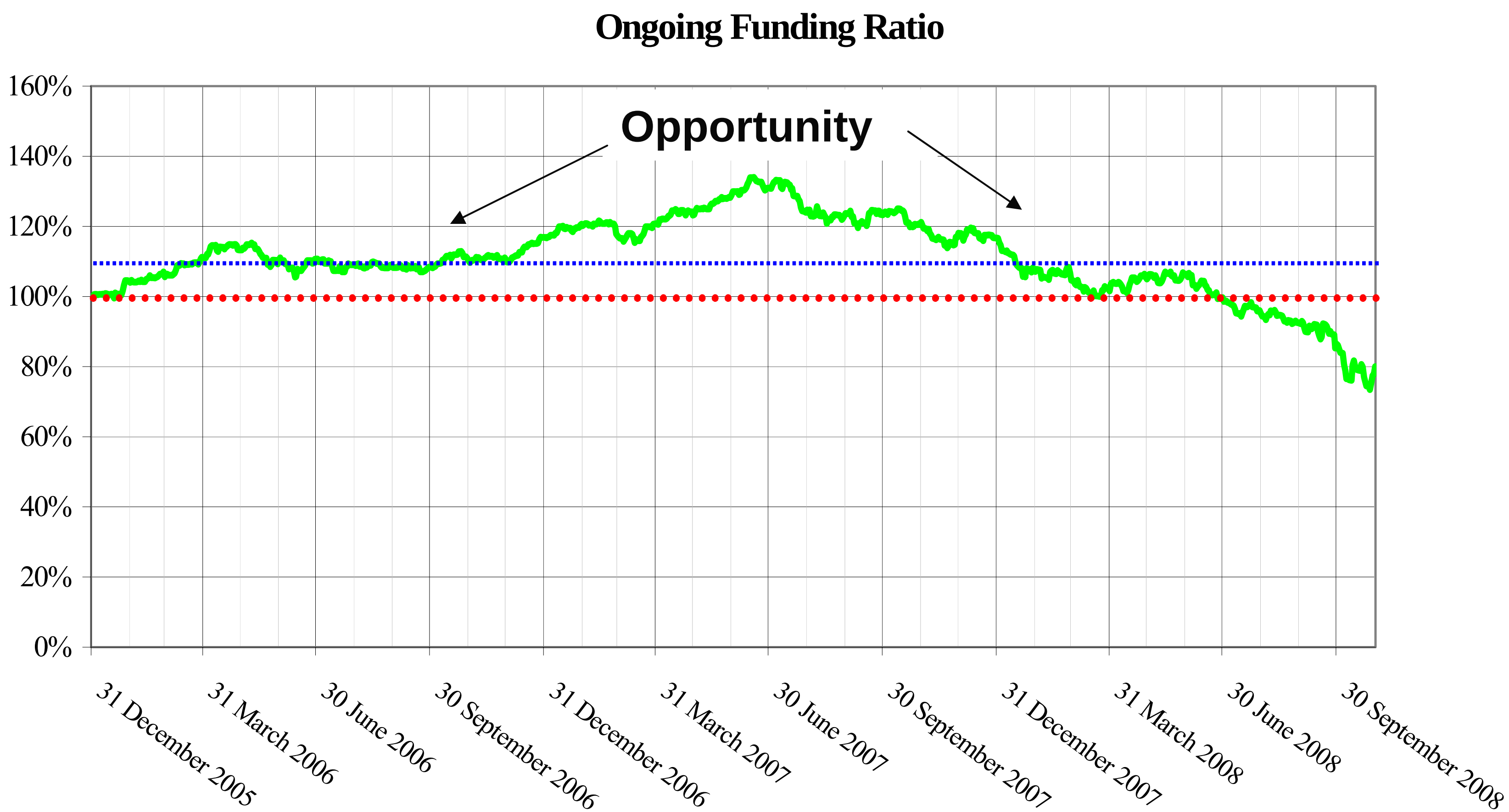
Opportunity for Actuarial Profession to show innovation and ability to manage Risk

- Concentration
  - Equity
  - Irish Equity
  - Irish Property
- Uncorrelated Assets
- Matching Assets
- Liquidity/Cashflow management
- Contingent Assets

Frequency of Tracking/Monitoring/Managing Irish Schemes



Create and Recognise Opportunities to Reduce Risk



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