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Pensions Risk Management Working Group

Quantitative Risk Management for Pensions

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Martin Melchior, Karel Goossens, Maitane Mancebo,
Richard Clossick, Susanna Adelhardt, Holger Hebben

Agenda

- Recap and status on QRM project
- Please ask questions and give input 🙏

Recap from Edinburgh: Setting the scene: Pensions Landscape



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IORP Structure	Characteristics	Funding / solvency*
Separate legal entity		
No sponsor	Separate legal entity, fully owned by its members.	Fully funded at all times
Single-employer	Separate legal entity, backed by sponsor	Funding backed by sponsor and member contributions
Multi-employer	Separate legal entity, with membership from multiple employers	Ring-fenced funding requirements for each sponsor
Cross-border	Separate legal entity operating across different jurisdictions	Fully funded at all times
Insurance-linked	Separate legal entity, operates under an insurance company's balance sheet	Solvency II like rules
Liabilities on sponsor balance sheet (no separate legal entity)		
Book reserve	Liabilities booked on company's own balance sheet	No IORP specific solvency rules

Scheme types

DB: Traditional DB schemes with guarantees

DC: DC schemes with no guarantees. All risk with the members and beneficiaries.

Hybrid: DB or DC scheme with different levels of guarantees or conditional guarantees

SIZE OF THE IORP SECTOR

1 419

IORPs

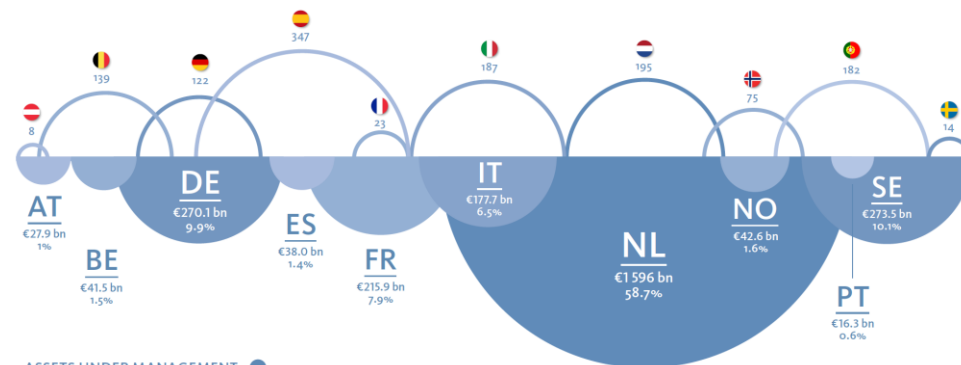
71.6 m

members and beneficiaries

€2 720 bn

in assets

NUMBER OF IORPS ○



ASSETS UNDER MANAGEMENT ●

Recap from Edinburgh: Framework for QRM in pensions

Why:

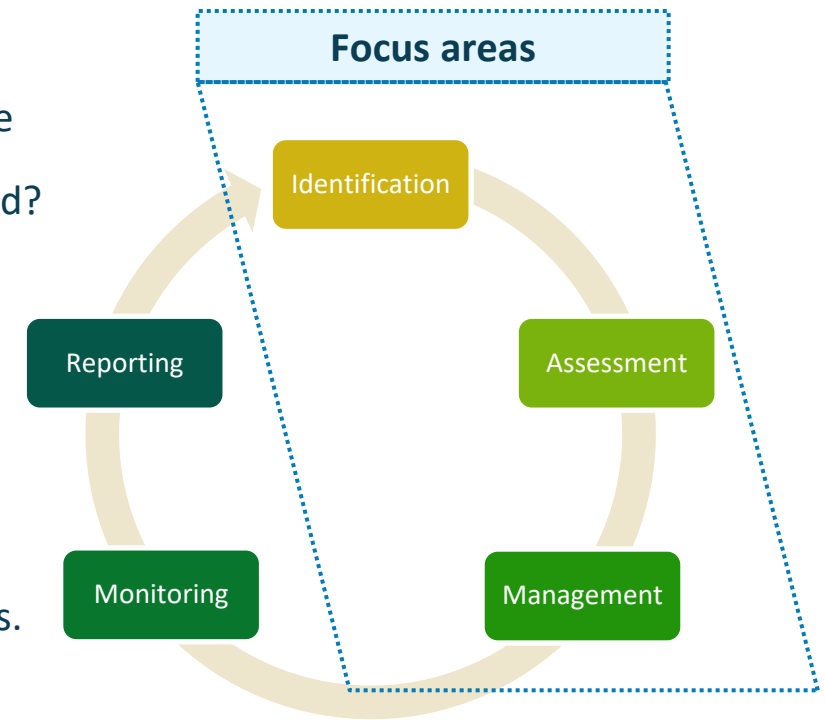
- IORP II not a risk-based framework, so not much help from the directive and not much (modern) literature on QRM tailored for Pensions.
- Increased focus on risk management both in the industry and from regulators. But is everyone inventing the wheel at the same time?

What: Work-in-progress goals

1. Gap analysis: Identify what we already have in current legislation and modern literature
2. Get inspiration from other industries (Insurance, banks etc.) – what is good? what is bad?
3. Discussion paper on QRM Framework for Pensions

Our first headlines of “Framework for QRM in pensions”

- **Risk Identification:** Clearly defining risks relevant to pension schemes.
- **Risk Categories:** Addressing financial, demographic, operational, and ESG risks.
- **Nature of Risk:** Differentiating between guaranteed benefits and other funded promises.
- **Risk Takers:** Understanding the perspectives of IORPs, sponsors, and members.
- **Risk Indicators & Risk Appetite:** Defining risk appetite and tolerance levels, including consideration of key metrics such as solvency ratios, replacement ratios, and value at risk.



QRM Framework - Project outcome example



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	Risk Identification		Risk categories		Nature of risk		Risk Takers		Risk Indicators	
	DB	DC	DB	DC	DB	DC	DB	DC	DB	DC
No sponsor										
Single employer	- Deliver a predetermined retirement benefit, often indexed	- Non-guaranteed benefits, adequacy risk	- Investment/Market risk - Biometric risk - Inflation risk - Counterparty risk - Operational risk - Communication risk - ESG/Climate risk	- Adequacy risk - Covenant risk	- Communication risk - Operational risk	- Investment/Market risk - Biometric risk - Adequacy risk - Inflation risk - Counterparty risk	- Sponsor	- Member - Provider	- Funding ratio - Solvency ratio - Cashflow profile	- Replacement ratio - Volatility - VaR - Asset class concentration - Annuity conversion rates
Multi-employer										
Cross-border										
Insurance linked										
Book reserve										

Work-in-progress (single employer example)

Status



EIOPA-BoS-19-246

10 July 2019

**Principles and Technical Specifications
for the Common Framework**

**Annex 1 to Opinion on the practical
implementation of the common
framework for risk assessment and
transparency for IORPs**



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Continue work on
QRM table

Bridge to/from EIOPA
QRM framework (and
other relevant
literature)

Discussion paper?



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Silversquare North
Boulevard Roi Albert II 4
1000 Brussels, Belgium
www.actuary.eu

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