Pension Risk Management Working Group

Terms of reference

Background

The AAE believes the actuarial community is and should be an important part of good risk management in Pensions. To help this purpose the AAE wants to be a more visible stakeholder in the political environment within the EU when it comes to risk management and good governance in providers or sources of retirement benefits, including IORPs[1] . Considering the current demographic picture and related sustainable trends for the population in Europe, the wellbeing of citizens after retirement is a very important task. To ensure sufficient amounts of pension benefits and any associated life cover offered in conjunction with these benefits, pension schemes need reliable governance and tools for managing relevant risks such as those relating to investment strategy, impact of low interest rates, inflation, uncertain longevity trends, the different risk tolerances of different members and other stakeholders, etc. Furthermore, the AAE wants to ensure that there is easy access to relevant actuarial risk management knowledge and networking within the EU actuarial community.

Objectives

The objectives in a non-prioritised order of this working group are to:

1. Promote actuarial skillsets so that relevant stakeholders (for instance EU political and regulatory bodies) can see that the AAE is a necessary and valuable asset for the broader public good when it comes to Risk Management of pension providers, including IORPs.
2. Promote relevant actuarial and risk management techniques that impact on the sustainability of pension funds or public / social security schemes including long-term risk assessment from the perspective of members and beneficiaries
3. Ensure relevant educational initiatives on actuarial pension risk management topics are available for the AAE community.
4. Establish a good community and network of professionals working within actuarial Risk Management for pensions.
5. Assist / advise relevant European stakeholders in good practise on investment strategies under the prudent person framework within IORP II with the aim of ensuring an adequate and consistent long-term performance of different types of pension plans.
6. Assist, where appropriate, in responding to modifications in regulatory / reporting / disclosure requirements – e.g., proposals from the European Commission and the European Supervisory Authorities. This to include active involvement in supervisory work relating to current EIOPA IORP stress-test analyses, the forthcoming IORP II review process and the proposal for a regulation on digital operational resilience for the financial sector.

[1] Institutions for Occupational Retirement Provision

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7. Organise at least once a year a webinar, roundtable or conference that is targeted to facilitate the exchange of information and wider discussion of topics relevant to the Working Group with AAE stakeholders (such as, but not limited to, European Commission, Members of European Parliament, European Supervisory Authorities, National Supervisory Authorities and the actuarial community working in or planning to work in the pension fund risk management field).

The WG will at first primarily focus on objectives within IORP Risk Management. IORPs are not so much under a risk based regulatory solvency framework and are therefore not as used to the same focus on risk management as insurance and pension providers under the Solvency II framework. In time the WG will broaden its scope to be more generally focused.

Governance

- The Pension Risk Management WG (PRM WG) reports to the Risk Management Committee and the Pensions Committee of the AAE and does not have a fixed term of operation.
- The WG is responsible for prioritising deliverables and ensuring continuous alignment with the board.
- The Chairperson of the Risk Management Committee is the first point of contact for the PRM WG as well as with the Board.
- At outset, the Chairperson of the working group is Martin Melchior with the Vice Chairpersons of the working group being the Chairpersons of the Risk Management and Pensions Committees.
- Membership is open to representatives of Member Associations of the AAE and is not restricted to one representative per member association. Interested individuals may also participate in the work of the working group, even if not formally representing a Member Association.

The Terms of reference were approved by the AAE Board of Directors on xxx [Hopefully either Sept or October 2022 Board Meeting].

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