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SUMMARY OF THE PAPER ON RISK MAPPING FOR SOCIAL SECURITY PENSION SYSTEMS

Private pension funds are entrusted with safeguarding the financial security of many individuals in retirement and play a crucial role in society. Mandatory social security pension schemes, designed to provide a safety net for the working population, can benefit from an additional layer of sophistication in their risk management systems.

In this paper, we have formulated a proposal for a generalised Risk Management Framework for social security systems in order to address identified gaps in social security risk management. First we have interpreted the general principles of ERM, applicable to pensions as financial institutions, and then identified the intrinsic features of social security pension schemes that differentiate them.

Our aim is to provide social security actuaries with a coherent and adaptable method to manage the risks that pension systems inherently entail.

While all enterprises and institutions have governance and organisational structures, what sets pension systems apart is their individual mission and approach to fulfilling it. Based on the common characteristics, we have defined a new approach for the main risk categories for all organisations as governance and organizational structures, own business, and operations of these organisations. The general ERM approach has served as the starting point for finding the similarities and differences between pensions and other financial institutions: their processes and methods are similar, but the objectives differ.

Pension funds as financial institutions trade in risk and money, collecting contributions, and paying out pension benefits. The event space of a pension system can be described by a multi-state model of the active career and retirement. In a three-pillar pension system the pillars are usually defined by their adequacy objectives and risk appetite of the targeted socio-economic group, so a multi-pillar system can be regarded as an old-age risk management tool. By including affordability and robustness in the definition, we have arrived at the core concept of the COSO risk framework with risk appetite/tolerance and financial performance/target coordinates. This strategic integration not only enhances our understanding but also facilitates the systematic development of a Risk Management Framework tailored to social security pension systems.

Actuarial knowledge and expertise is essential in designing, implementing, and operating the risk management framework of social security pension schemes. Establishing a Risk Management Function and a regular Own Risk Assessment reporting framework would be beneficial for Social Security Administrators. Actuaries play a fundamental role in this, as regular actuarial reviews of the financial health of social systems are critical measures in risk monitoring and risk mitigation and can contribute positively to the adoption of a holistic approach to risk management that will ultimately result in improved management and outcomes for social security systems.

It is recognised that risk management in pensions is fundamentally a detailed and challenging topic where further research is necessary.