Managing pension risks – the reality

There is room for improvement in the ways trustees manage pension risks, particularly in areas such as managing non-traditional risks (e.g. cyber and data protection), documenting risk strategies, establishing good value for members and simply finding more time to consider pension risks in a holistic manner

In conjunction with *Pensions Age*, national audit, tax and advisory firm Crowe Clark Whitehill surveyed 145 pension schemes, to understand their views on pension risk management practices relating to occupational trust based defined benefit (DB) and defined contribution (DC) pension arrangements. Here, we set out the key findings of our research.

Not enough time is being spent by trustees in managing their pension risks

Despite significant political, economic, and social change in recent months, 28 per cent of respondents said that their pension scheme had not reviewed its risk register in the previous six months and 8 per cent had not reviewed it in the past 12 months. A further 10 per cent of respondents made no changes to their risk strategy/register following a review.

Typically, pension scheme trustees are comfortable managing financial and regulatory risks, but are less comfortable in dealing with non-traditional risks. Our survey highlighted the following risk areas are in need of better management:

- fraud, cyber and data protection (both DB and DC)
- changing advisers (both DB and DC)
- communications quality (DC, in particular)

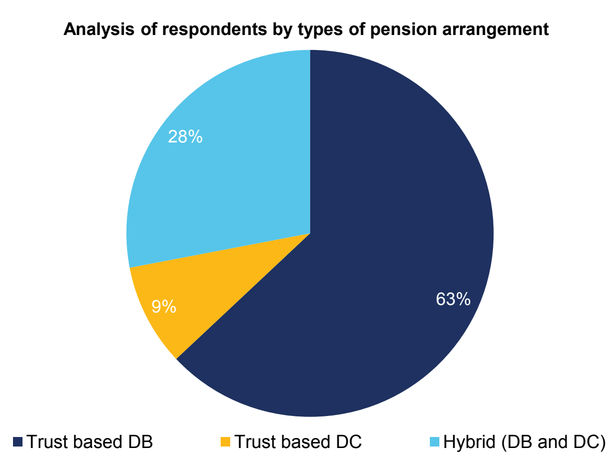
Top 10 pension risks concerning trustees

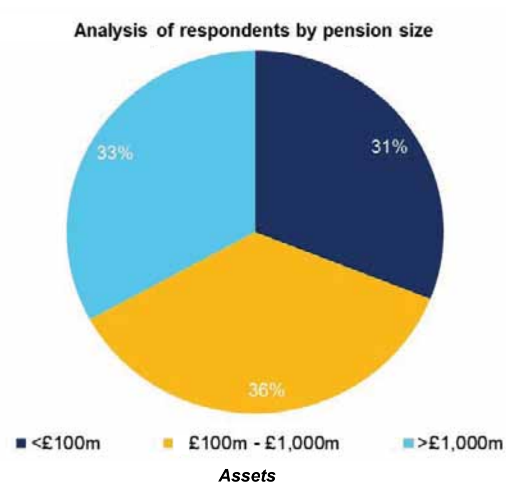
As shown in the tables opposite, overall, trustees of DB schemes focus primarily on managing financial risks, whereas trustees of DC schemes see the greatest risks being those potentially resulting in members not being treated fairly or making the wrong decisions.

Our findings further show that managing the risks associated with IT/cyber/data protection is at the forefront of trustees' minds, for both DB and DC schemes.

More education (and sharing of information) is required

There are a number of different risk definitions in play at any one time (eg 'gross' vs 'net' risks, financial vs reputation, traditional vs non-traditional, DB vs DC). It is therefore critical when making risk decisions that trustees fully understand all the risks affecting their scheme and are aware of any steps already being taken to mitigate these. Our survey suggests that this is not always the case – more work is needed to educate trustees on risk management best practices and for risk management decisions and actions to be shared more broadly amongst trustees.





Top 10 pension risks facing Defined Benefit schemes

Position	Risks	Importance score
1	Funding volatility	2.88
2	Employer covenant	2.68
3	Inappropriate investment strategy	2.09
4	Investment under-performance	2.00
5	IT/cyber/data protection	0.90
6	Trustee capabilities/governance	0.78
7	Meeting regulatory/compliance requirements	0.61
8	Administration	0.61
9	Sponsor/Trustee relationship	0.52
10	Quality of risk management	0.52

Top 10 pension risks facing Defined Contribution schemes

Position	Risks	Importance score
1	Delivering 'value for members'	2.69
2	Design of default fund	1.98
3	Poor communications	1.82
4	IT/cyber/data protection	1.51
5	Member administration & record - keeping	1.33
6	Investment performance monitoring	1.33
7	Meeting regulatory/compliance requirements	1.04
8	Fraud/scams	0.82
9	Trustee capabilities/governance	0.75
10	Receiving contributions on time	0.49

Smaller schemes are doing less when it comes to risk management – is this acceptable?
Typically, smaller schemes have fewer resources available and therefore tend to outsource pension services. Our results indicate that they spend considerably less time reviewing their risks and rely heavily on their external consultants for support. We appreciate resources for smaller pension arrangements may be limited, but the end outcome of a poorly managed scheme is the same irrespective of the size of the scheme i.e. members may lose a proportion of their pension. Good risk management practices should therefore take place (and at the same level) for all schemes irrespective of size.

About Crowe Clark Whitehill LLP
Crowe Clark Whitehill is a national audit, tax and advisory firm. We are the UK member of Crowe Horwath International, the eighth largest global professional services network with 200 independent member firms operating from offices around the world.
At Crowe, we have a specialist team to support trustees (and sponsors) to:
- confirm their risk philosophy (including the identification and prioritisation of key risks)
- develop, review and monitor controls which focus on these key risks
- highlight potential issues early to stakeholders
- identify specific solutions which mitigate risks.

Our participants represented a broad range of different types of UK pension schemes, both in terms of size and by type of arrangement.

Trustees need to review their control mechanisms more frequently
Our survey shows that trustees focus most of their risk management time on identifying, scoring risks and introducing control mechanisms. The role of trustees should not stop there. Trustees need to reassure themselves that their risk management programme is working by regularly reviewing and monitoring risk mitigation solutions (including control mechanisms) and assessing success relative to their risk objectives.

For more detailed analysis or to find out how Crowe are helping pensions schemes manage their risks effectively, please contact Eddie Hodgart on 0207 842 7116.

Written by Eddie Hodgart, risk and assurance director, Crowe Clark Whitehill, 0207 842 7116 eddie.hodgart@crowecw.co.uk

In association with Crowe Clark Whitehill