Pension Risk
Barbara Sanders
SFUFA Pension Forum– September 25, 2014
• “Pensions are not adequate”
• How much do you have? Not enough…
• 3 questions:
  – When did you realize you were going to have a problem?
  – Were you aware that this could happen?
  – If so, what did you do to protect yourself from this event?
• Our plan has risk
• “Pensions are not adequate”
• How much do you have? Not enough…
• 3 questions:
  – When did you realize you were going to have a problem?
  – Were you aware that this could happen?
  – If so, what did you do to protect yourself from this event?
• Our plan DC plans have risk
• “Pensions are not adequate”
• How much do you have? Not enough…
• 3 questions:
  – When did you realize you were going to have a problem?
  – Were you aware that this could happen?
  – If so, what did you do to protect yourself from this event?
• Our plan DC Pension plans have risk
Risk is everywhere
• Approaches to risk:
  – Avoid it
  – Mitigate/control it
  – Transfer it
  – Accept it
Managing investment risk

- Diversify asset portfolio

Offset risks against each other to gain stability
• Form annuity pool with other retired members
  – Buy a lifetime income stream from the pool in exchange for your savings pot at age 65
  – If conditions are right, pool can provide stable income to all retirees

• How?
  – Offset risks against each other to gain stability!
  – Offsets are *between* members

• Conditions:
  – Big pool, no anti-selection, correct pricing
Managing investment risk

- Collective risk buffers

Offset risks from different years/periods against each other to gain stability

Managing investment risk
• Collective risk buffers

Offset risks from different years/periods against each other to gain stability

Managing investment risk
• Offloading risk to a third party:
  – Insurer?
  – Employer?
Pension risk spectrum

Accept it
- SFU Academic Pension Plan

Manage it
- UBC Faculty Plan
- BC College Pension Plan

Transfer it
- Traditional DB Plan
• Where would you like to be on this spectrum?
• Are there risks you might like to pool with other members?
• Are you willing to give up some or all of the upside to gain protection from the downside?
• How does your age, health, career status, family situation, etc. affect your views?
• Might they change in the future?