Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

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Core Unit 4
Financing and Investing for Retirement Provision

Assignment 2

(Part 2 – Risk Management)
Recommended Time: 1 hour

1. If interest rates fall, what happens to the value of a defined benefit scheme liability? If there are two such liabilities with durations of 10 and 20 years respectively, which is most impacted by the change in interest rates and why?

5 marks

2. Why is equity-type risk typically considered to be a rewarded risk and how can this risk be mitigated?

5 marks

3. What is the purpose of Liability Driven Investment (LDI) and what role can swaps play in its implementation?

10 marks

4. Why is longevity a risk in pension finance? How can it be mitigated:

(a) in defined contribution pension schemes; and
(b) in defined benefit pension schemes?

10 marks

5. How is employer covenant defined by the Pensions Regulator and why is it a risk for a defined benefit scheme? List four key considerations relevant to assessing employer covenant and briefly comment on each.

10 marks

6. What is meant by contingent assets and how can they be used for the purposes of:

(a) setting the technical provisions and the length of the recovery period in defined benefit scheme funding; and
(b) determining investment strategy?

10 marks