

Disconnect between trustees and pension scheme sponsors' risk management priorities could pose threat to defined benefit pension schemes

- **Pension scheme sponsors and trustees are collectively taking a broad, yet not necessarily integrated, view of pension risk management**
- **Trustees rate investment related risk most important while scheme sponsors focus on liability and business related risk factors**

London, 10 May 2010 – According to a new report from MetLife Assurance Limited (“MetLife Assurance”), a divergence between the approach taken by pension trustees and scheme sponsors to risk could be hindering efforts by schemes to develop and implement holistic risk management solutions.

MetLife Assurance’s UK Pension Risk Behaviour Index, released today, warns that a disjointed “divide and conquer” approach can end up costing a defined benefit pension scheme money, waste trustee and management time and cause potential harm to the scheme sponsor’s reputation. The study of 89 trustees and scheme sponsors analysed how trustees and sponsors viewed 18 investment, liability and business risks that affected their pension schemes, and assessed how well they believed they were managing those risks.

Dan DeKeizer, Chief Executive Officer, MetLife Assurance Limited commented, “Without an understanding of how all of the various pension risks impact the scheme as a whole, trustees and sponsors should not believe that they are adequately managing the risks their schemes face. Unless strong risk management strategies are implemented, both pension scheme sponsors and trustees could run the risk of failing in their number one task of protecting member benefits.”

“A truly holistic view of risk management on the part of both trustees and scheme sponsors requires both sides to fully assess and prioritise all risks, even those for which they are not primarily responsible. Our inaugural study should encourage scheme sponsors and trustees to communicate regularly about a full range of issues that affect their schemes,

especially as they face increasing risks ranging from the quality of member data to scheme governance and the employer covenant.”

Trustees and Scheme Sponsors Have Very Different Risk Priorities

Whilst trustees and scheme sponsors are collectively looking at a comprehensive set of pension risk factors, the study found that they are individually most likely to focus on the factors that they are primarily responsible for managing. Accordingly, trustees ascribe more importance to investment related risks, whilst scheme sponsors are more focused on liability and business related risk factors.

Beyond Measurement of Technical Provisions/Liabilities (which both trustees and scheme sponsors ranked second in importance), trustees’ top five risk factors, by importance, are Investment Management Style, Asset Diversification, Asset and Liability Mismatch and Investment Risk Profiling. This suggests that trustees take very seriously their responsibility for setting and managing the scheme’s investment strategy. In contrast, scheme sponsors are less focused on investment risk and, instead, are focused on liability and business risks, including Longevity Risk, Employer Covenant, Scheme Governance and Inflation Risk.

MOST IMPORTANT RISK FACTORS FOR TRUSTEES BY PERCENTAGE AND RANKING

Item Name	Selection Rate	Ranking
Investment Management Style	29%	1
Asset Diversification	28%	2
Asset and Liability Mismatch	28%	2
Measurement of Technical Provisions/Liabilities	28%	2
Investment Risk Profiling	27%	5

MOST IMPORTANT RISK FACTORS FOR SPONSORS BY PERCENTAGE AND RANKING

Item Name	Selection Rate	Ranking
Longevity Risk	31%	1
Measurement of Technical Provisions/Liabilities	30%	2
Employer Covenant	29%	3
Scheme Governance	29%	4
Inflation Risk	27%	5

Overall Self-Reported Success is High – and Even Higher for Trustees

Given increased pension scheme regulation, and the significant amount of attention being paid to pension risk management, both scheme sponsors and trustees are very confident in their ability to successfully manage risks facing their schemes. Nearly eight in 10 (79%) of all the sponsors' and trustees' ratings of how successfully they manage each of the 18 risk factors were either 4's or 5's, on a scale where 1 equals strongly disagree that the risk is managed successfully and 5 is strongly agree that the risk is managed successfully. Just 9% of all the success ratings were either a 1 or a 2.

While scheme sponsors and trustees alike are confident in their ability to successfully manage risk, trustees are more likely than scheme sponsors to self-report high success in managing risks. This propensity for trustees to self report higher success could be due to the fact that they are regularly thinking about pension risk management, while scheme sponsors may feel that they address pension risk only occasionally and during times of financial stress.

A Solid Index Value But Room for Improvement

The study is comprised of two parts: an index (which measures the extent to which scheme sponsors and trustees are managing the risks they believe are most important) and an analysis (which examines patterns and inter-relationships between risk attitudes and behaviours). The index calibrates the importance that the sponsors and trustees ascribed to managing each risk, their perceived success at implementing comprehensive practices to manage each risk and the consistency between the two. The calculations are fairly complex, but in essence require an average success rating to be calculated for each respondent, which is used to produce an equal-weighted industry average success rating across all respondents. This industry average success rating is then converted into a final index value.

Based on the analysis of 89 respondents, the inaugural value of the UK PRBI is 78 out of 100. The UK PRBI among trustees is 82, and for scheme sponsors is 75. These values indicate that there is room to improve the processes by which trustees and scheme sponsors assess the risks that are most critical to their scheme. While it is unrealistic to expect to achieve an index value of 100, a target of 87 would not be unreasonable.

MetLife Assurance designed and fielded this study to encourage dialogue around pension risk related issues between scheme sponsors and trustees, help scheme sponsors and trustees develop a new framework for understanding risks, and explore solutions for mitigating risk exposure.

“At a time when trustees and scheme sponsors need to be more vigilant than ever in identifying the short and longer term risks associated with their DB scheme, this inaugural study serves as a benchmark against which future risk management attitudes and perceptions can be measured. We hope it becomes a useful tool for scheme sponsors and trustees as they explore risk management strategies with one goal in mind – protecting member benefits,” **commented Emma Watkins, Head of Relationship Management, MetLife Assurance.**

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Notes to editors:

The findings are part of the first MetLife Assurance Limited *UK Pension Risk Behaviour Index*¹ ('UKPRBI'), which surveyed 89 respondents (47 scheme sponsors and 42 trustees). Interviews were conducted between December 2009 and February 2010 by telephone with a web-assisted option.

For further information please contact:

Citigate Dewe Rogerson
Alistair Kellie / Jo Skinner
020 7282 2850 / 1092

MetLife Assurance Limited
Toni Griffin
001 727 862 7006

About MetLife Assurance Limited:

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Registered Number: 6054422, Registered Office: 15 Bedford Street, London WC2E 9HE

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