An tÚdarás Pinsean
The Pensions Authority

Defined benefit schemes

Review of 2015 statistics

Introduction

Trustees of defined benefit (DB) schemes subject to the funding standard as set out in the Pensions Act are required to submit an Annual Actuarial Data Return (AADR) to the Pensions Authority. The Authority feels it is appropriate to publish an annual summary of the data so as to increase the general understanding of this important pensions sector.

Data received

This report is based on 699 AADR returns which have been submitted to the Authority by 31 March 2016.

The effective date of each AADR is the end date of the relevant scheme year. As different schemes have different scheme year end dates, this means there is no single return date for the data. The effective dates are spread over the 2014 and 2015 calendar years. The average return date was January 2015. For simplicity, the data in this report is referred to as the 2015 data. No adjustments have been made to the data to allow for the different reporting dates, e.g., total assets reported have not been adjusted to estimate what might have been the asset value at a particular date.

The schemes were classified as:

- 'current' – active scheme members are continuing to accrue benefits
- 'frozen' – no benefits are being accrued but benefit entitlements already built up continue to be paid. In some cases, contributions (usually by the employer) may be made.
- 'in wind-up' – a decision has been taken to wind-up the scheme, but this process has not been completed, and some liabilities and assets remain.

The scheme status data reported in the latest AADR data is as follows:

	2015	**2014**
Status current	503	551
Status frozen	163	152
Continuing schemes	**666**	703
Schemes in wind-up	33	41
Total number of AADRs received	**699**	744

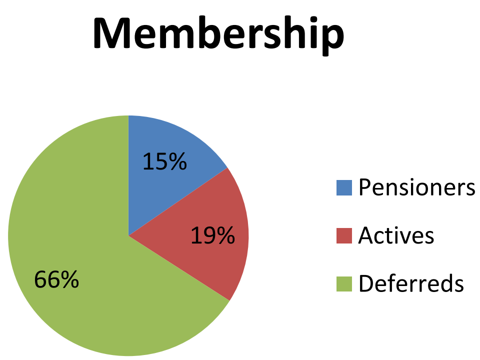
This report concentrates on the 666 continuing schemes (current or frozen schemes).

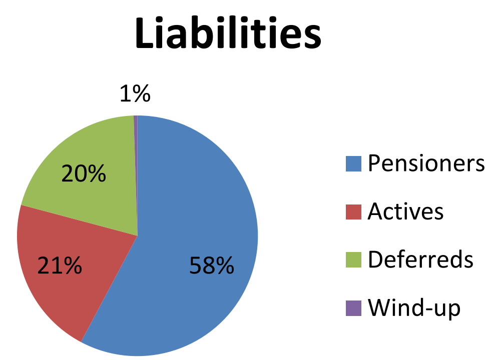
Membership and liabilities under the funding standard

This table shows the membership and liability breakdown for the 666 current or frozen schemes. Note that for frozen schemes, all non-pensioners have been classified as deferred members, even where some may still be in service with the sponsoring employer.

	Membership	**Liability value**
Pensioners	100,585	€33.8 bn.
Actives	121,995	€12.5 bn.
Deferreds	430,518	€11.9 bn.
Wind-up cost estimates		€0.3 bn.
Total		**€58.5 bn.**

The following charts contrast the membership breakdown with the liability breakdown:





Although pensioners account for 15% of the membership numbers, pensions in payment make up 58% of the overall liabilities in comparison to 55% in 2014.

Analysis of assets and liabilities allowing for funding standard status

According to their AADR submission, 30% (2014: 41%) of current and frozen schemes were reported as not meeting the funding standard (203 schemes of 666). Note that some schemes' funding status may have changed since they completed their most recent AADR.

	Number	Total liabilities (including wind-up cost)	Total assets	Surplus/ (Deficit)
Schemes meeting the funding standard	463	€35.5 bn.	€41.1 bn.	€5.6 bn.
Schemes not meeting the funding standard	203	€23.0 bn.	€19.3 bn.	(€3.7 bn.)
Totals 2015	**666**	**€58.5 bn.**	**€60.4 bn.**	**€1.9 bn.**
Totals 2014	703	€51.9 bn.	€51.0 bn.	(€0.9bn.)

Underfunded schemes

Of the 203 underfunded schemes, the majority have embarked on funding proposals with the objective that the scheme will comply with the funding standard by an agreed date.

However, at the end of December 2015, there were nine schemes where no funding proposal is in place and the Authority has begun the process of deciding whether to use its powers under the Pensions Act to direct trustees to reduce benefits or to put the scheme into windup.

Largest schemes

The total assets and liabilities of the 50 largest schemes are respectively €42.6 bn. and €42.1 bn. This represents approximately 70% of the total liabilities for all active and frozen DB schemes.

Of these largest schemes, 25 were reported to meet the funding standard, i.e., 50% of these schemes. This compares to 69.5% of all active and frozen schemes, i.e., larger schemes are more likely be in deficit. Also, the average funding level of all schemes meeting the standard is 115%, whereas for the largest schemes in surplus, their average funding level is 101%. It is noteworthy that these schemes have proportionately larger than average pensioner liabilities.

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Assets

The AADR provides data on the asset allocation of the scheme funds. Aggregating the euro amounts for all schemes in the data, excluding schemes in wind-up, gives the following:

Asset class	**Percentage holding 2015**	**Percentage holding 2014**
Equities	35.8%	41.7%
EU sovereign bonds	34.4%	31.3%
Other bonds	7.4%	6.9%
Property	4.4%	4.2%
Cash	2.3%	3.1%
Net current assets	0.2%	0.1%
With profit insurance policies	0.1%	0.1%
Other*	15.4%	12.6%
Total	**100.0%**	**100.0%**

*The AADR allows the actuary to include a description for assets included under the classification “Other”. The most commonly included descriptions were “Absolute Return Funds”, “Alternative Assets”, “Hedge Funds”, “Commodities”, “Derivatives”, “GARs” and “Annuities”.

Classifying the 2015 holdings into broad categories gives 44.4% in the “financial” category and 55.6% in the “real” asset classes. This increase in financial assets compared to the 2014 figure of 41.5% roughly corresponds to the increase in pensioner liabilities.

Comment

The long established trend of decreasing numbers of ongoing DB schemes and active members has continued in 2015. The number of deferred members and pensioners has increased. Despite this, the importance of the DB sector in the pensions landscape remains high, given total assets (and liabilities) of €60bn.

Pensioners represent 58% of total liabilities compared to 55% in 2014. This is partly due to falling bond yields, but also reflects the ageing of the DB membership as almost all schemes are now closed to new entrants.

There was disappointingly little evidence of significant derisking of DB assets over the year. Classifying the 2015 holdings into broad categories gives 44.4% in the “financial” category and 55.6% in the “real” asset classes. While welcome, this increase in financial assets, compared to the 2014 figure of 41.5%, corresponds to the increase in pensioner liabilities, so overall the level of investment risk being accepted by schemes is unchanged.

The number of schemes meeting the funding standard position continues to improve - just under 70% (in comparison to 58% in 2014). This trend dates back to 2009, the time of the financial crisis. This reflects asset growth and significant contributions by employers and members.

Again, while this increase in funding standard compliance is a welcome development, especially in combination with the fact that almost all of the underfunded 30% of schemes are now operating under a funding proposal, overall the funding of the DB sector remains in a very fragile state. Given the typical asset-liability profile of schemes, many schemes that meet the funding standard are vulnerable to significant market changes, whether by losses in equities or falls in interest rates. It must be understood that the standard is a minimum legal obligation only and meeting it will not ensure that benefits will always be met. The Authority continues to be concerned at the lack of evidence of proper risk measurement and management within DB schemes

The PA has started an engagement process with DB trustees regarding the financial management of their schemes, in line with the Authority’s published financial management guidelines.