
Defined Benefit schemes

Review of 2019 statistics

Introduction and commentary

Trustees of defined benefit (DB) schemes subject to the funding standard provisions of the Pensions Act, 1990 (the Act) are required to submit an Annual Actuarial Data Return (AADR) to the Pensions Authority within 9 months of the scheme year end. Each year the Pensions Authority (the Authority) publishes a summary of the data to help increase the general understanding of this important pensions sector.

The DB asset and liability data reported herein show very little change from the 2018 figures reported by the Authority last year. The Authority is therefore just as concerned as in previous years about the amount of investment risk inherent in defined benefit schemes. This risk is not borne equally by all scheme members: it is mostly concentrated on members who have not yet retired. Because so many DB schemes have closed to new members, this group is getting smaller over time, and as a result the risks are becoming more and more concentrated.

When the IORP II Directive¹ has been transposed into Irish law, the Authority will subject all schemes to a periodic supervisory review. As part of this, the Authority will undertake an assessment of the risks faced by the pension scheme and the ability of scheme trustees to assess and manage those risks. It will not be enough for trustees to explain their current approach to risk management: they will be expected to demonstrate that they have undertaken an objective and informed process, including consideration of alternatives and an assessment of the effect of potential risks on different classes of members.

¹ EU directive 2016/2341 on the activities and supervision of institutions for occupational retirement provision (IORPs).

AADR data received

A total of 582 schemes were subject to the funding standard provisions of the Act as at 31 March 2020. The table below shows the breakdown of these schemes into three categories:

- 'current' - active scheme members are continuing to accrue benefits,
- 'frozen' - scheme provides benefits only for members whose service has terminated; or continuing service in employment does not entitle members to long service benefits and no new members are admitted², and
- '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.

Schemes subject to the funding standard

	2019	2018
Status current	376	388
Status frozen	194	194
Continuing schemes	570	582
Schemes in wind-up	12	16
Total schemes subject to funding standard	582	598

This report focuses only on the continuing schemes (current and frozen schemes). It is based on an analysis of 567 AADR returns³ submitted to the Authority by 31 March 2020.

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 2018 and 2019 calendar years. The average return date was February 2019. For simplicity, the data in this report is referred

² Where a DB scheme is closed to new members and closed to the future accrual of pensionable service but a final salary link remains in calculating pension benefits, the scheme would not be considered to be 'frozen' but would be categorised as 'current'; however, if the final salary link has been broken, the scheme would be categorised as 'frozen'.

³ The AADRs of two new schemes were not yet due for submission before 31 March 2020. These schemes are therefore excluded from the analysis. The analysis also excludes one large scheme subject to the funding standard under which members build up retirement funds exclusively on a DC basis.

to as the 2019 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.

Membership and funding standard liabilities

The table below shows the membership breakdown of the continuing schemes as well as a breakdown of the funding standard liabilities provided for in section 44(1) of the Act. 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.

2019 data

	Membership	Funding Standard Liabilities
Pensioners	101,063	€34.4 bn.
Actives	73,146	€11.0 bn.
Deferreds	141,615	€12.3 bn.
Wind-up cost estimates		€0.3 bn.
Total Funding Standard Liabilities		€58.0 bn.

The 2019 membership figures and corresponding liabilities have been adjusted to exclude one large scheme which is subject to the funding standard but whose members build up benefits exclusively on a defined contribution basis. The table overleaf shows the 2018 data adjusted in this way for comparison⁴.

⁴ Note that for frozen schemes, all non-pensioners liabilities have been classified as deferred member liabilities.



Adjusted 2018 data

	Membership	Funding Standard Liabilities
Pensioners	98,458	€34.0 bn.
Actives	77,356	€11.5 bn.
Deferreds	144,088	€12.2 bn.
Wind-up cost estimates		€0.3 bn.
Total Funding Standard Liabilities		€58.0 bn.

Although pensioners now account for 32% of the membership total, pensions in payment make up 59% of the aggregate funding standard liabilities. The number of pensioners increased by 3% since last year, while there was a reduction of 3% in the total number of active and deferred members.

Analysis of assets and liabilities allowing for funding standard status

14% (2018: 15%) of continuing schemes did not satisfy the funding standard (FS) provided for in section 44(1) of the Act at the effective date of their most recent AADR (81 schemes of 567). Note that some schemes' funding status may have changed since they completed their most recent AADR.



	Number of schemes	Total FS liabilities (incl. wind-up cost)	Total assets	Surplus/ (Deficit)
Schemes meeting the funding standard	486	€45.3 bn.	€54.0 bn.	€8.7 bn.
Schemes not meeting the funding standard	81	€12.7 bn.	€11.3 bn.	(€1.4 bn).
Totals 2019	567	€58.0 bn.	€65.3 bn.	€7.3 bn.
Totals 2018	581	€58.0 bn.	€65.2 bn.	€7.2 bn.

Funding standard reserve

The funding standard reserve (FSR) provided for in section 44(2) of the Act sets out the additional resources that schemes must hold, broadly described as 10% of 'unmatched' FS liabilities plus the net effect of a 0.5% fall in interest rates.

24% of continuing schemes did not hold sufficient additional resources to satisfy the FSR at the effective date of their most recent AADR (138 of 567 schemes). Of the 486 continuing schemes that satisfied the funding standard, 429 held sufficient resources to satisfy the FSR.

FSR liabilities of up to 15% of funding standard liabilities were reported, with schemes reporting an average FSR liability of 5% of FS liabilities. 22% of continuing schemes reported a FSR liability of less than 1% of FS liabilities.

Assets

The AADR provides data on the asset allocation of scheme funds. Aggregating the euro amounts for all continuing schemes gives the following:



Asset class	Percentage holding 2019	Percentage holding 2018
Equities	24.5%	28.4%
EU sovereign bonds	34.8%	33.0%
Other bonds	9.6%	9.0%
Property	4.8%	4.8%
Cash	3.6%	3.0%
Net current assets	0.0%	0.1%
With profit insurance policies	0.0%	0.0%
Other*	22.7%	21.7%
Total	100%	100%

**The AADR allows the actuary to include a description for assets included under the classification "Other". The most common descriptions included "Absolute Return Funds", "Diversified Growth Funds", "Alternatives", "Hedge Funds", "Commodities", "Derivatives" and "Annuities".*

Sovereign annuities

Legislation facilitating the introduction of sovereign annuities was introduced in the Social Welfare and Pensions Act, 2011. A sovereign annuity is an annuity contract issued by insurance companies where the annual income payment is linked directly to payments under bonds issued by Ireland or any other EU Member State (known as reference bonds). No new sovereign annuity contracts were issued during 2019.



Year	Number of pension schemes	Number of individual policies issued	Pensions aggregate amount per annum	Pension subject to reduction	Premium amount paid by schemes
2013	22	1729	€29,721,885	€29,721,885	€437,121,972
2014	8	320	€4,262,044	€4,262,044	€76,417,930
2015	1	285	€5,763,669	€2,881,834	€96,495,325
2016	1	395	€4,743,230	€4,743,230	€101,559,418
2017	2	70	€2,144,864	€2,144,864	€37,072,425
2018	0	0	€0	€0	€0
2019	0	0	€0	€0	€0
Total	34	2799	€46,635,692	€43,753,857	€748,667,070