
Defined benefit schemes

Review of 2014 statistics

Introduction

Since 2012, trustees of defined benefit (DB) schemes subject to the funding standard as set out in the Pensions Act have been required to submit an Annual Actuarial Data Return (AADR) to the Pensions Authority.

The Authority is publishing this data to increase the general understanding of the importance of the DB pensions sector and it intends to issue these statistics on an annual basis.

Data received

By the end of 2014 a total of 744 AADR returns had been submitted to the Authority. These were classified as current, frozen or in wind-up which is defined as follows:

- '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 AADRs received is as follows:

Status current	551
Status frozen	152
Continuing schemes	703
Schemes in wind-up	41
Total number of AADRs received	744

This report concentrates on the 703 continuing schemes (current or frozen schemes).

Effective dates

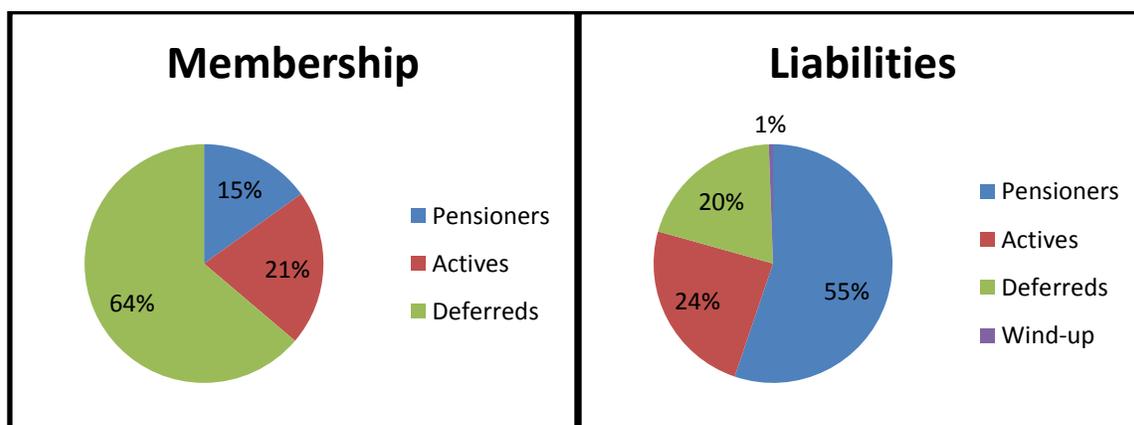
The effective date of each AADR is the end date of the relevant scheme year. As different schemes have different scheme year end dates, this means there is no single return date for the dataset; rather the effective dates are spread over the period from mid-2012 to late 2014. The average return date was end December 2013. 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 liabilities under the funding standard

This table shows the membership and liability breakdown for the 703 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	97,868	€28.7 bn.
Actives	137,357	€12.5 bn.
Deferreds	414,207	€10.4 bn.
Wind-up cost estimates		€0.3 bn.
Total		€51.9 bn.

These charts contrast the membership breakdown with the liability breakdown:



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

Analysis of assets and liabilities allowing for funding standard status

According to their AADR submission, 41% of current and frozen schemes were reported to be non-compliant with the funding standard (287 of 703). Note that some schemes' compliance 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	416	€24.9 bn.	€28.8 bn.	€3.9 bn.
Schemes not meeting the funding standard	287	€27.0 bn.	€22.1 bn.	(€4.8 bn.)
Totals	703	€51.9 bn.	€51.0 bn.	(€0.9 bn.)

Non-compliant schemes

Of the 287 non-compliant 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 February 2015, there were 30 schemes where no funding proposal is in place. For each of these schemes, 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 windup the scheme.

Largest schemes

The total assets and liabilities of the 50 largest schemes are respectively €34.8 bn. and €36.3 bn. This represents approximately 70% of the total liabilities for all active and frozen DB schemes.

Of these largest schemes, 18 were reported to be in compliance with the funding standard, i.e., 36% of these schemes. This compares to 59% of all active and frozen schemes, i.e., larger schemes are more likely be in deficit.

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
Equities	41.7%
EU sovereign bonds	31.3%
Other bonds	6.9%
Property	4.2%
Cash	3.1%
Net current assets	0.1%
With profit insurance policies	0.1%
Other*	12.6%
Total	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".

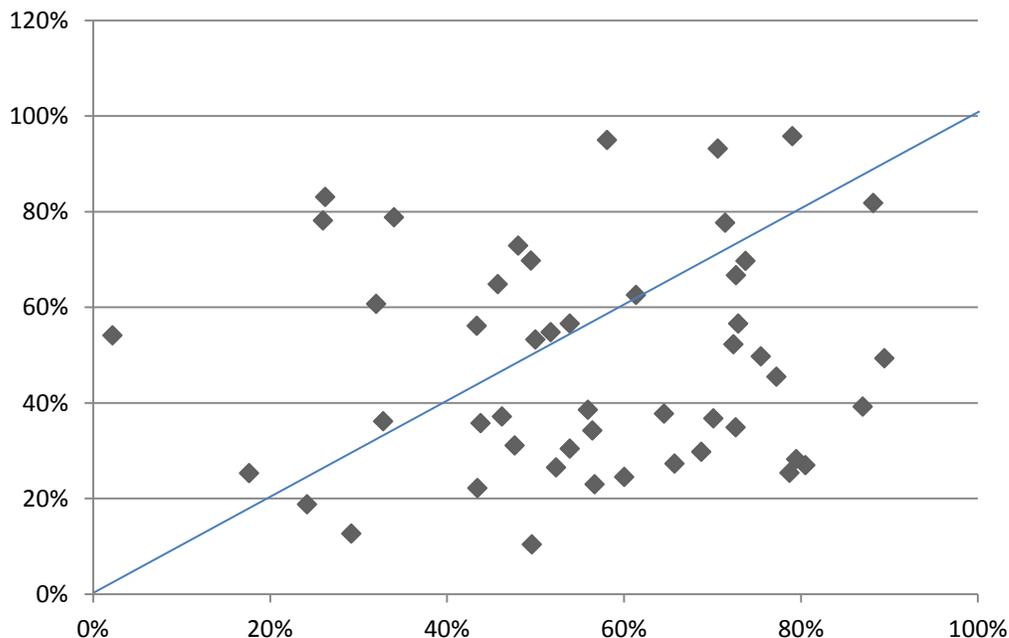
Classifying the holdings into broad categories gives 41.5% in the "financial" category and 58.5% in the "real" asset classes.

Correlation of asset allocation and liability profile.

The relationship between the assets and liabilities of DB schemes is a continuing concern for the Authority. The AADR data allows us to examine the current situation and any trends.

The diagram below is a scatter chart using data from the largest 50 schemes, plotting for each scheme the pensioner liability (x-axis) and the holding of bonds and cash (y-axis), both expressed as a percentage of the scheme's total liabilities.

Financial assets and pensioner liabilities



Each point on the chart above represents one of the 50 largest schemes.

Where a scheme holds financial assets equal to or greater than its pensioner liabilities, it will appear above the central diagonal line, e.g., the left-most data point represents a scheme where financial assets are held to the value of about 2% of the liabilities and the pensioner liabilities make up about 54% of the total for the scheme.

The data points below the line (representing the majority of the largest schemes) indicate where the financial assets held are less than the pensioner liability.

The chart clearly shows that the degree of matching of assets and liabilities as regards pensioners is quite low, which is a matter of great concern to the Authority.

Comment

Although the AADR does not record whether individual schemes are open to new members, the Authority knows from other information available that the great majority of these schemes are closed to new entrants. However, although the funded DB sector is in run-off, it represents a very substantial amount of retirement savings and this will remain true for a long time to come. It is therefore important that these savings be managed properly.

The position shown whereby 59% of DB schemes meet the funding standard is a considerable improvement over recent years though it must be remembered that this improvement is the combined result of multiple factors, including the closure of many schemes, and benefit reductions and contribution increases in most of the remaining schemes. However, the aggregate scheme data as well as the figures for individual schemes make it clear that the position of DB schemes is very fragile. Even where schemes meet the funding standard, they rarely have much leeway. Furthermore, it must be remembered that the funding standard is a minimum, and achieving the funding standard is certainly no guarantee that a scheme will always be able to meet its liabilities.

Low bond yields are the single biggest challenge to the ability of these schemes to pay the promised benefits. These low yields mean that the cost of long term financial promises is extremely high, and long-term financial promises are the sole reason why DB schemes exist. It is important that all involved with the DB recognise this fact. If interest rates increase, these costs will fall, but interest rate increases cannot and should not be taken for granted.

A considerable proportion of the liabilities of DB schemes are very predictable. 55% of liabilities are in respect of those who have already retired, and a considerable proportion of the remainder are in respect of those who are close to retirement. The monetary amount of these liabilities is therefore very predictable and can most closely be matched by bonds. In recent years, the proportion of bonds held by DB schemes has increased, but over the same period, the proportion of liabilities represented by pensioners has also increased, so the total level of investment risk has not significantly changed, and continues to be worryingly high.

Although some schemes have considerably reduced their investment risk, the overall situation is one where many trustees are relying on equities to outperform bonds in order to meet their liabilities. This strategy entails considerable risk, which will fall especially on the younger members of the schemes. High risk is not an appropriate approach to take where the benefits cannot otherwise be

afforded. This is a matter the Authority intends to raise directly with pension scheme trustees as part of a programme of increased direct contact.