



Defined Benefit schemes

Review of 2018 statistics

Introduction and commentary

Trustees of defined benefit schemes to which the funding standard and funding standard reserve apply are required to have the scheme actuary complete an Annual Actuarial Data Return (AADR). AADRs are submitted to the Pensions Authority within 9 months of the scheme year end. The Pensions Authority feels it is appropriate to publish an annual summary of the data to help increase the general understanding of this important pensions sector.

The Pensions Authority continues to be concerned about the level of risk borne by defined benefit schemes and the effect this has on the likelihood of paying benefits as they fall due, especially for younger members. The IORP II Directive will shortly be transposed into Irish law and, thereafter, trustees of pension schemes will be obliged to conduct a periodic Own Risk Assessment and to incorporate the results of this assessment into their strategic decisions. The Authority will expect trustees to examine in detail and quantify where possible the risks borne by their schemes and to assess the resulting risk to member benefits.

AADR Data received

This report is based on an analysis of 598 AADR returns which have been submitted to the Pensions Authority by 31 March 2019.

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 2017 and 2018 calendar years. The average return date was March 2018. For simplicity, the data in this report is referred to as the 2018 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:

	2018	2017
Status current	388	414
Status frozen	194	197
Continuing schemes	582	611
Schemes in wind-up	16	16
Total number of AADRs received	598	627

This report concentrates on the 582 continuing schemes (current or frozen schemes).

Membership and funding standard liabilities

The table below shows the membership and liability breakdown for the current and 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	Funding Standard Liabilities
Pensioners	106,256	€34.2 bn.
Actives	105,526	€11.8 bn.
Deferreds	420,337	€11.9 bn.
Wind-up cost estimates		€0.3 bn.
Total Funding Standard Liabilities		€58.2 bn.

Although pensioners account for 17% of the membership numbers, pensions in payment make up 59% of the overall funding standard liabilities. The number of pensioners increased by 3% since last year while there was a reduction of 1% in the number of active and deferred members.

Analysis of assets and liabilities allowing for funding standard status

According to their most recent AADR submission, 15% (2017: 21%) of current and frozen schemes were reported as not meeting the funding standard (90 schemes of 582). 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	492	€44.7 bn.	€53.2 bn.	€8.5 bn.
Schemes not meeting the funding standard	90	€13.5 bn.	€12.4 bn.	(€1.1 bn)
Totals 2018	582	€58.2 bn.	€65.6 bn.	€7.4 bn.
Totals 2017	611	€59.0 bn.	€64.1 bn.	€5.1 bn.

Funding Standard Reserve

The Funding Standard Reserve (FSR) is an amount of additional resources that schemes must hold to increase the likelihood that they will have sufficient assets to cover their liabilities on the funding standard basis even in times of market volatility. It is comprised of an interest rate volatility component and an asset volatility component. 26% of all current and frozen schemes subject to the funding standard do not hold sufficient additional resources to satisfy the FSR according to their most recent AADR (150 of 582

schemes). Of the 492 current and frozen schemes that satisfy the funding standard, 432 hold sufficient additional resources to satisfy the FSR.

Schemes reported an average FSR of 6% of funding standard liabilities and 17% of schemes reported a FSR of less than 1% of funding standard liabilities.

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 2018	Percentage holding 2017
Equities	28.4%	32.4%
EU sovereign bonds	33.0%	32.4%
Other bonds	9.0%	8.2%
Property	4.8%	5.0%
Cash	3.0%	2.9%
Net current assets	0.1%	0.1%
With profit insurance policies	0.0%	0.0%
Other*	21.7%	18.9%
Total	100%	100%

**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".*



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).

Year	No 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
Overall	34	2799	€46,635,692	€43,753,857	€748,667,070