



Society of Actuaries in Ireland

Application of Preservation Regime to DB Schemes

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Presentation to Society of Actuaries of Ireland

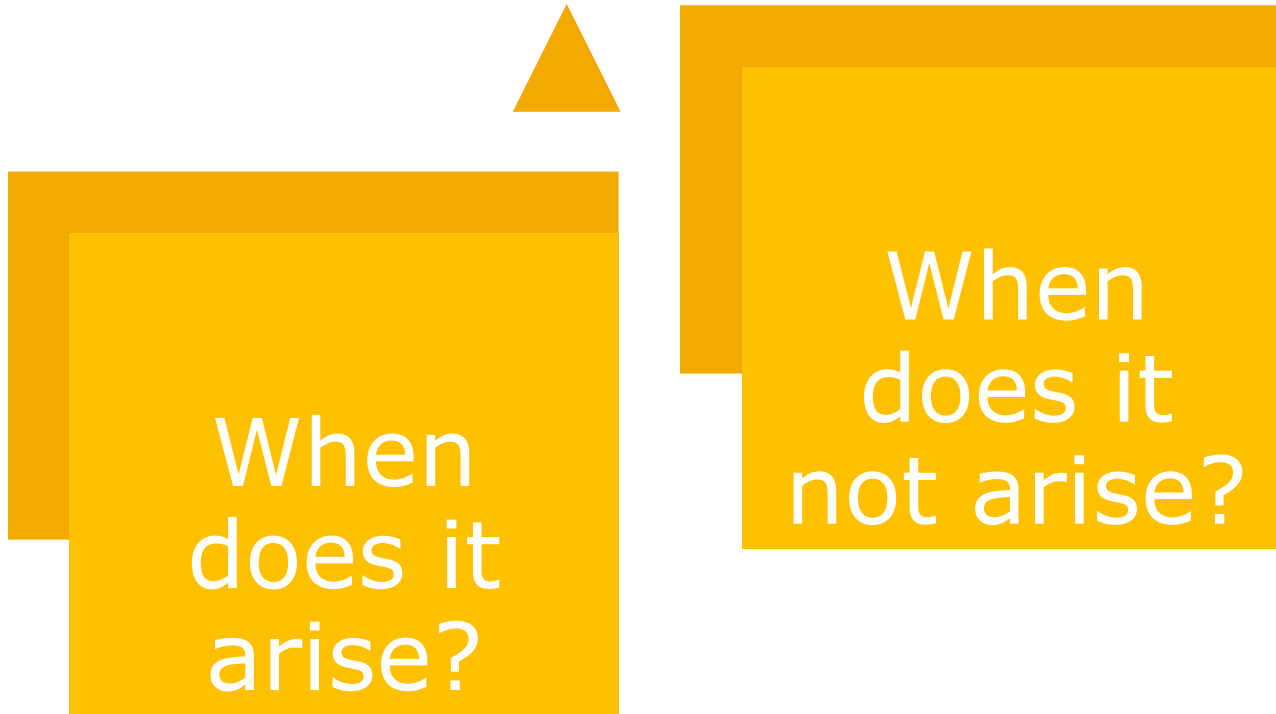
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Entitlement to a preserved benefit ("PB")



Consequences of a PB being created?

- Calculated in line with Part A Second Schedule
- Payable based on rules in force at date of leaving
- Refund of member's contributions prohibited
- Statutory revaluation
- Entitlement to transfer payment
- Forfeiture and employer liens disapplied, except on bankruptcy

How is PB calculated?

Part A – Second Schedule

- Basic PB (Phasing In) → Long service benefit x B/C
- Additional long service benefit → AVCs - X x Y/Z (Defined Benefit)
- Additional long service benefit → Transfer Payments
- For post 1 June 2002 leavers → Pre-1991 service

Part B – Second Schedule

- Revaluation applied annually

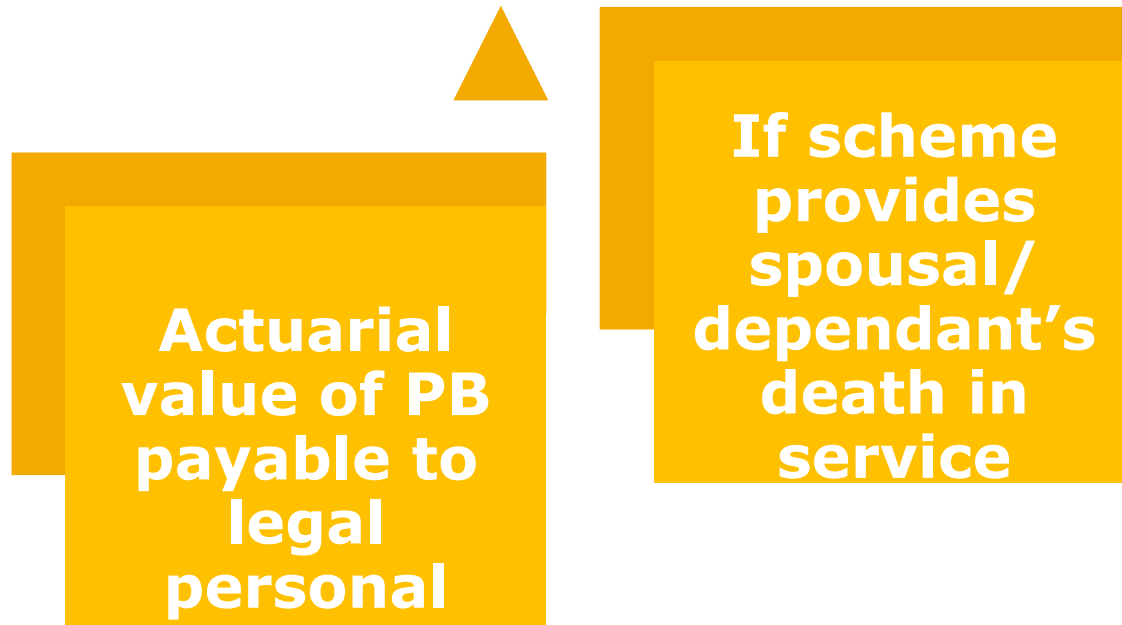
Revaluation – how it works

- Applies to PB created after 1 January 1996
- Member is at least one year from NPA
- PB revalued annually by the prescribed revaluation percentage
- Since 1 January 2013 - increase / decrease in CPI capped at 4%
- Minister can increase 4% cap to smooth effects of negative revaluation
- Ceases on payment, NPA or death

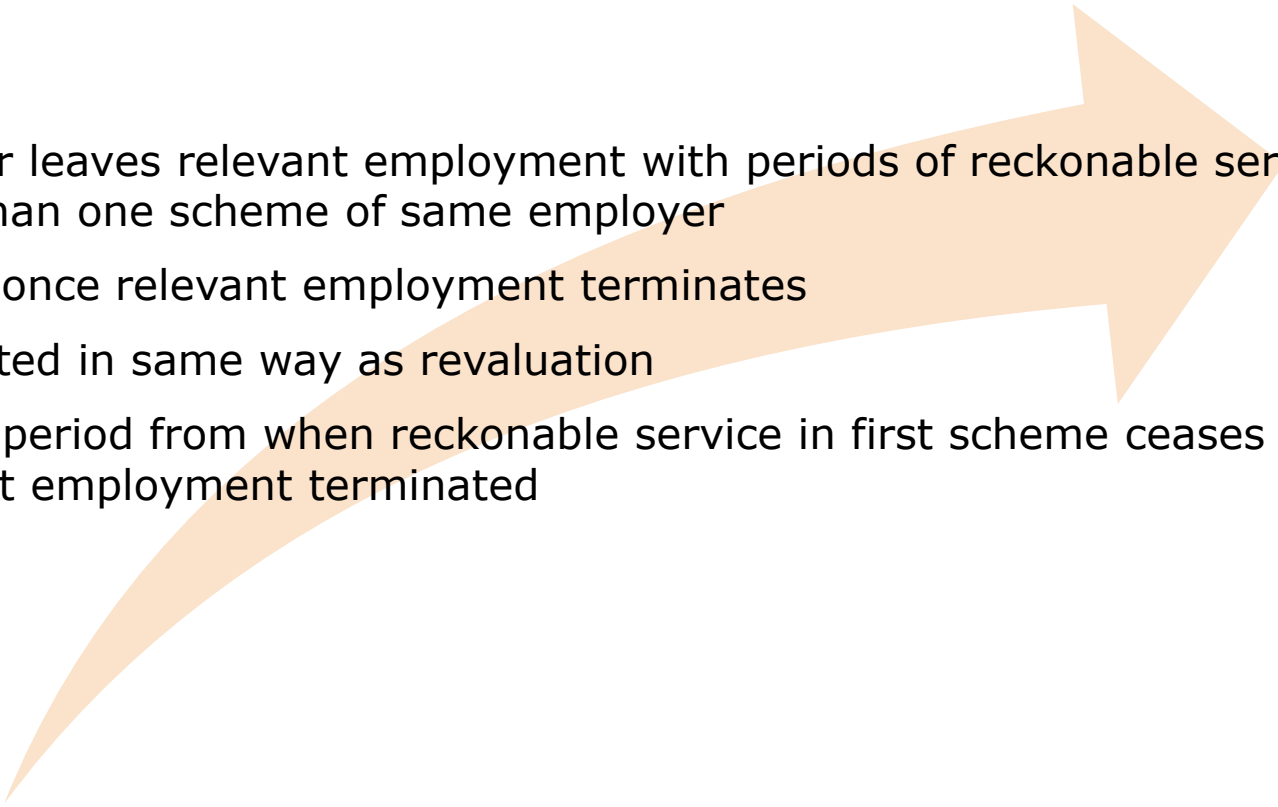
Transfer payments – how they work

- Transfer payments = actuarial value of PB (including revaluation and contingent death benefits)
- Calculated in line with PA and SAI guidance
- May be reduced to reflect MFS deficit
- Entitles members to direct trustee to effect transfer payment to
 - Another OPS – funded/unfunded
 - A PRB
 - PRSA (15 year rule)
 - Overseas Pension Vehicle
- Right lapses two years after leaving service but trustees can extend

PB– treatment on death



Enhancement – how it works

- Member leaves relevant employment with periods of reckonable service in more than one scheme of same employer
 - Occurs once relevant employment terminates
 - Calculated in same way as revaluation
 - Covers period from when reckonable service in first scheme ceases to date relevant employment terminated
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Phasing In – how it works

- Basis of calculating long service benefit is altered between commencing and terminating relevant employment
- Benefit changes phased in after date of change
- Only fully crystallises once member reach NPA – except where NPA changed
- If member leaves pre-NPA their PB will not reflect full impact of benefit change

Full Freeze

- Break link with FPS and cease accrual
- Revaluation issue
 - Typically no break in relevant employment
 - Revaluation not triggered
 - Enhancement will apply on subsequent break in relevant employment but
 - What if actives stay until NPA?
 - Solution – contractual revaluation – floor 0%?



Full Freeze

- Phasing In issue
 - Change in basis of calculating long service benefit
 - Typically no break in relevant employment
 - Risk contractual revaluation may be continuation of reckonable service
- Workarounds?
 - Employer – why?
 - Trustees – why?



Full Freeze

Phasing In – workarounds

Create break in relevant employment

- Gap between leaving DB and joining DC
 - death cover
 - employee comms

Create break in reckonable service

- A. Trustees notify members service post-freeze does not entitle them to long service benefit
 - PA aware of this approach
- B. Two deeds

Implement freeze via Section 50

- Section 50(2) overrides phasing in provisions of Second Schedule
- Section 50 application form needs to be framed accordingly

Apply revaluation as augmentation

- No contractual revaluation within rules
- Applied as augmentation on member retiring, leaving service or dying
- Employer funds for revaluation

Make contractual revaluation discretionary

- Employer promises revaluation outside scheme
- Employer funds for revaluation
- Trustees notify members service post-freeze does not entitle them to long service benefit

Pensionable Service Freeze

- **Accrual frozen but link to final salary maintained**
 - No break in relevant employment
 - Change in basis of calculating long service benefit

- **Phasing In – workarounds?**
 - Implement via Section 50

Pensionable Salary Cap

- **Pensionable Salary capped but accrual continues**
 - No break in relevant employment
 - Change in basis of calculating long service benefit
- **Phasing In – Workarounds?**
 - Implement via Section 50
 - Implement via member / trustee notification – if possible

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