Society of Actuaries in Ireland

Review of ASPs LA-8, PEN-12 and PRSA-2 – effective 1 May 2023 with early adoption encouraged.

These three ASPs, which set out assumptions for benefit projections, were reviewed by the relevant Committees in summer 2022, and they recommended that the financial assumptions be updated as quickly as possible, with a more comprehensive review to be undertaken in 2023. The financial assumptions in the table below were approved by Council on 19 January 2023 following member consultation. The updated ASPs will be available shortly.

ASP Financial and Economic Assumptions Assumption	ASP LA-8 Reference	ASP PRSA-2 Reference	ASP PEN-12 Reference	Current Rate	Proposed Changes	Change	Discussion
Maximum Investment growth - overall	6.1	5.1	4.1	4.50%	5.75%	+1.25%	Increase in line with Equity max – see below
Maximum Investment growth - equity & property	6.2(i)	5.2(i)	4.2(i)	4.50%	5.75%	+1.25%	Finance & Investment Committee (FIC) recommends an RFR + ERP approach. In 2020 we used a 4.5% ERP over RFR (of 0%). Recommendation: Move ERP to 4% (mid-range of FIC suggested range)
Maximum Investment growth - fixed interest	6.2(ii)	5.2(ii)	4.2(ii)	1.00%	2.50%	+1.50%	Recommendation: RFR + 0.75% for an allowance for credit/liquidity risk. Fixed interest covers a diverse range of bonds.

Maximum Investment growth - cash	6.2(iii)	5.2(iii)	4.2(iii)	0.00%	0.25%	+0.25%	Cash returns still at 0% in most markets but this recommendation reflects expected ECB rate changes to come.
Maximum Investment growth - other assets with insufficient information	6.3	5.3	4.3	0.00%	0.25%	+0.25%	Move in line with max Cash return. FIC recommends at least 10 years of data if using a return above cash.
Difference between 2nd higher investment growth rate and 1st investment growth rate (see Note 3)	6.7	N/A	N/A	2.00%	2.00%	0.00%	No change
Salary inflation rate or benefit deflation rate	12.3(a)	7.1	6.1	1.50%	3.00%	+1.50%	Restore 1% differential between Salary and Inflation rates (see inflation below). FIC suggests a range of 0.5% to 2% over CPI is appropriate for the difference (Last review the difference was 0.5%).

2nd higher salary inflation rate or benefit deflation rate	12.3(b)	N/A	N/A	2.50%	4.00%	+1.50%	Move consistently with change in salary growth above
Maximum difference between 2nd lower investment growth rate and 2nd salary inflation rate	12.3(c)	N/A	N/A	4.00%	2.50%	-1.50%	Move consistently with change in salary growth above
Premium increases linked to general earnings	13.2(a)	8.1	7.2	1.50%	3.00%	+1.50%	As per salary growth above
Premium increases linked to consumer prices	13.2(a)	8.2	7.2	1.00%	2.00%	+1.00%	Recommendation: Move to the ECB target for inflation. FIC refers to the challenge for setting Irish Inflation, use of either the Inflation Swap Curve or bond approach (nominal vs real yield) and also consideration to the ECB target. Inflation Swap c 2.4% for 20 year duration at 30 June and 31 Aug.
Premium increases linked to general earnings (2nd higher illustration)	13.2(b)	N/A	N/A	2.50%	4.00%	+1.50%	As above – keep at 1% over primary salary growth assumption

Premium increases linked to consumer prices (2nd higher illustration)	13.2(b)	N/A	N/A	2.00%	3.00%	+1.00%	As above – keep at 1% over primary CPI assumption
Maximum difference between 2nd lower investment growth rate and rate of earnings inflation	13.2(c)	N/A	N/A	4.00%	2.50%	-1.50%	Move back to be consistent with 12.3(c)
Maximum difference between 2nd lower investment growth rate and rate of consumer price inflation	13.2(c)	N/A	N/A	4.50%	3.50%	-1.00%	Move back to be consistent with 12.3(c)
Maximum interest rate for annuities	14.1	9.1	8.1	0.50%	2.00%	+1.50%	No explicit method for setting this outlined last time. Recommendation now: Set as the RFR + a margin for additional yield available on investments backing annuities less expenses i.e. 1.75% + 0.75% - 0.5% (Latter two are estimates). Alternatively could look at fixed interest rate above of 2.5% and take off c 0.5% for expenses.

Rate of escalation for annuities	14.3	9.3	8.4	1.00%	2.00%	+1.00%	Recommendation: As per CPI assumption above
Minimum rate of escalation for annuities (2nd lower illustration)	14.3	N/A	N/A	1.00%	2.00%	+100%	Consistent with previous approach
ARF illustrations with periodic benefit payments - first investment growth rate	15.1	N/A	N/A	0.00%	0.25%	+0.25%	Consistent with cash as per last review.
ARF illustrations with periodic benefit payments - second investment growth rate	15.1	N/A	N/A	4.50%	5.75%	+1.25%	Consistent with ARF max as per last review
ARF illustrations with periodic benefit payments - rate of escalation of payments	15.2	N/A	N/A	1.50%	2.00%	0.50%	Recommendation: Consistent with inflation assumption.

Notes:

1. This review was carried out with an effective date of ***30 June 2022***. The Risk Free Rate (RFR) was taken as 1.75% (see graphs at end of this note).
2. The proposed effective date for the revised ASPs is 1 May 2023, with early adoption encouraged.
3. ASP LA-8 allows for an optional second illustration with a growth rate no more than 2% higher than the primary illustration. No proposed change here.

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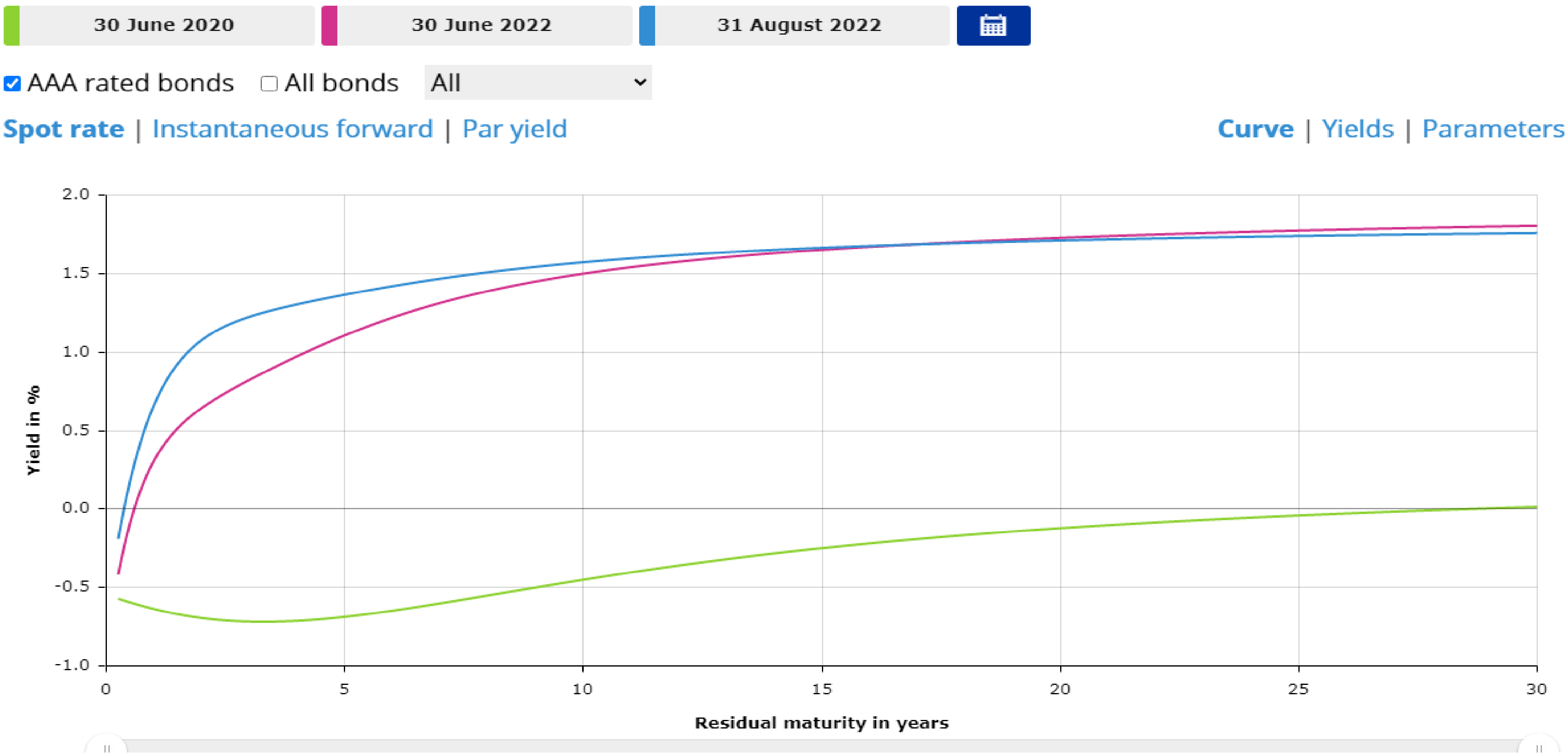

- Yield curve increase of c 1.75% at 20 year duration since last review (June 2020)
- 2022: c RFR 1.75% at 20 year duration
- 2020: c RFR 0% at 20 year duration

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Appendix: Impact of proposed changes

The table below shows the impact of the proposed assumptions on three pensions policies:

	Case 1			**Case 2**			**Case 3**		
	Single Premium, Age 35, NRA 60, All Equity			Single Premium, Age 55, NRA 65, All Cash			Regular premium €250pm, Age 30, NRA 65, Balanced Fund		
Assumptions	Current	Proposed	Change	Current	Proposed	Change	Current	Proposed	Change
Projected Fund	23,400	31,500	35%	9,100	9,300	2%	202,000	317,700	57%
PV Fund	16,100	15,100	-6%	7,800	6,900	-12%	120,000	112,900	-6%
Projected Pension pa	646	950	47%	312	346	11%	6,413	10,893	70%
PV Pension pa	445	454	2%	269	257	-4%	3,808	3,871	2%

The above figures allow for a 1% annual management charge.

Case 3 represents a regular monthly premium to a balanced fund, which might be considered a common case. Case 1 is a single payment into an equity fund, and case 2 is a cash investment for a shorter period.

It can be seen that whilst the nominal values of projected funds and pension figures increase significantly for the longer periods to retirement, the present values of the funds fall, reflecting a greater increase in the discount rate compared to increase in growth rates. The projected pensions in those cases are however slightly higher as this is offset due to the annuity interest rate increase being greater than the change in the pension increase rate.

24 January 2023