



## **Exploring the Preservation, Survival and Resurrection of Defined Benefit in the Current Crisis**

*A paper presented by Gerry O'Carroll FSAI to the Society of Actuaries in Ireland on 3<sup>rd</sup> March 2009*

## Survival or Extinction

- Evolution
- Extinction
- Innovation
- Adaptation
- Survival

*“The beautiful river that provided sustenance in old age is polluted. Don't drink there from. Adapt and survive as the river is cleansed”*

## Birth of a Funding Standard

- Pre-1990
- Catalyst for legislation
- Transition
- Funding Standard arrival

## Problems

- Priority rules
- Buy-out cost
- Transfer value inadequacy
- Investment disconnect
- Restoration strains

## Options

- Cut benefits
- “Shovel” in contributions
- Wind-up
- Find suitable contingent assets

## Other Options

- Suspend/defer funding
- “Distressed assets – Government debt” swap
- State guarantee (annuity or insolvency fund)
- Two tiered benefit structure
- Static funding for a period

## Benefits Restructuring

- Pension increases
- Salary increases
- Normal pension age
- Years of accrual

## Typical Underfunded Mature Pension Scheme

	Liabilities	Assets	Coverage
	€m	€m	€m
Pensioners	80	80	100%
Deferreds	5	2.5	50%
Actives	15	7.5	50%
Total	100	90	

Deficit over 10 years: €10m

Capital cost of pension increases: €20m

Pension accruals to actives: €10m

Contributions €4m per annum, which is four times the cost of accruals.



## Pay-as-you-go

- Pay increase through company
- Replace €2m by €200k
- Each year this will increase by €200k
- Eventually the annual cost will get back to €2m
- No asset build-up to provide security

## The “Hold” Funding Strategy

- The environment dictates the need
- Wind-up is extinction...but it is where we are
- Let's maintain what we have unless...
- Let's avoid slippage
- What does this then mean?

## What is “Hold”?

- Say 50% coverage for actives/deferreds
- Maintain this based on service completed
- Ensure each new pensioner gets to 100% by retirement
- If this continues then we end up with a fund for pensioners only
- Wind up protection needed
- Investment policy review

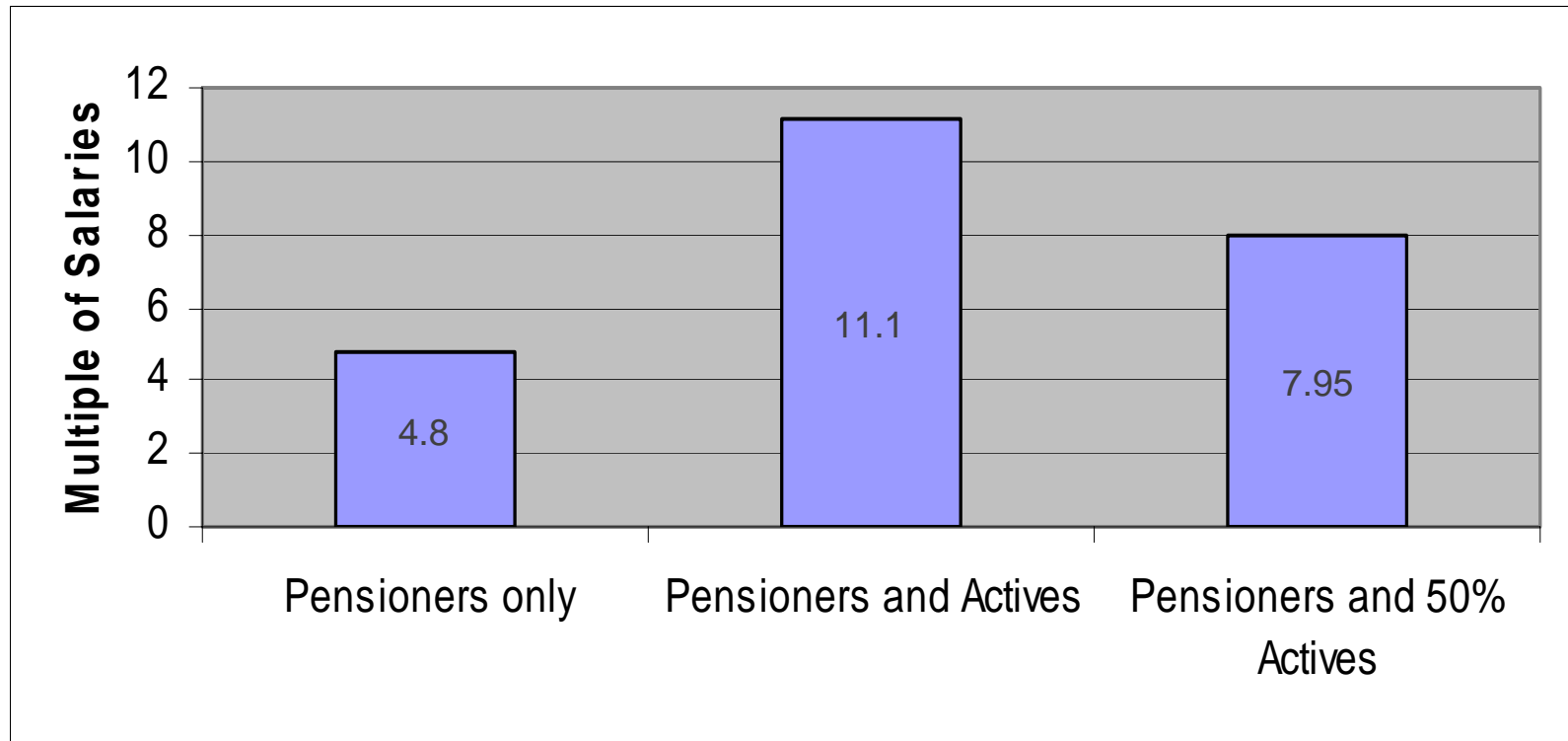
## “Hold” and evolution

- Reduced level of benefits become core
- Balance of benefits become discretionary
- Stronger funding standard/investment policy to govern core
- Pay-as-you-go or aggressive funding/investment to govern discretionary benefits
- Contingent assets or government protection to cushion wind-ups

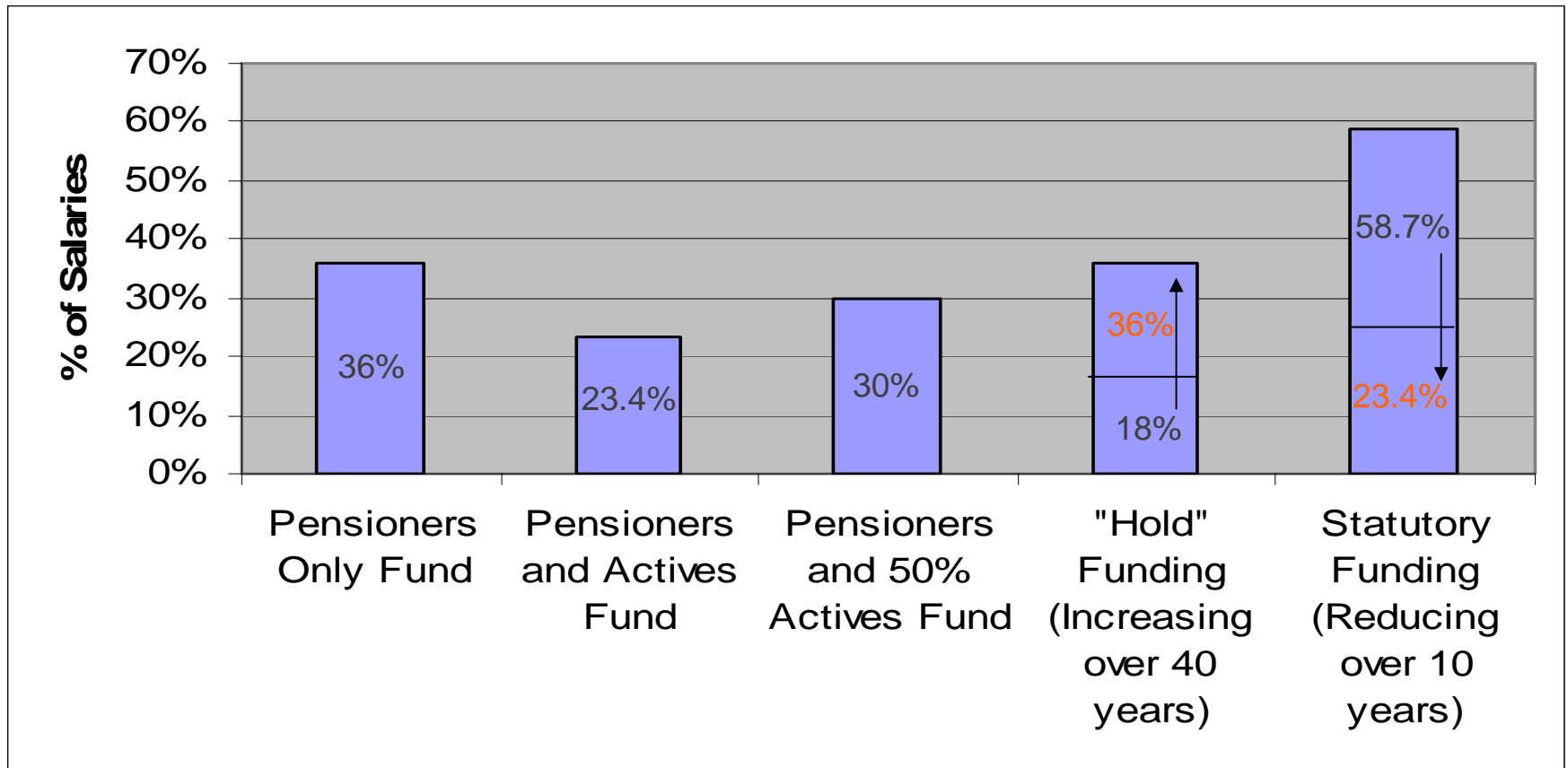
## The State

- Provider of basic benefits
- Excess to be funded
- Protection through regulation and support
- Healthy interaction

## Stable State – Fund Size



## Stable State – Contribution Rate



## Declaration

- We are all a product of our environment; shaped, helped, hindered by what is around us. I am a product of my past which includes my life at Watson Wyatt and my work with the Society. However, the responsibility for the views expressed in this paper rests with me, and these views should not be taken as indicative of Watson Wyatt philosophy or Society of Actuaries policy.