

Investigation into State Annuity Options

**SAI Annual Convention
21st May 2009**



Background

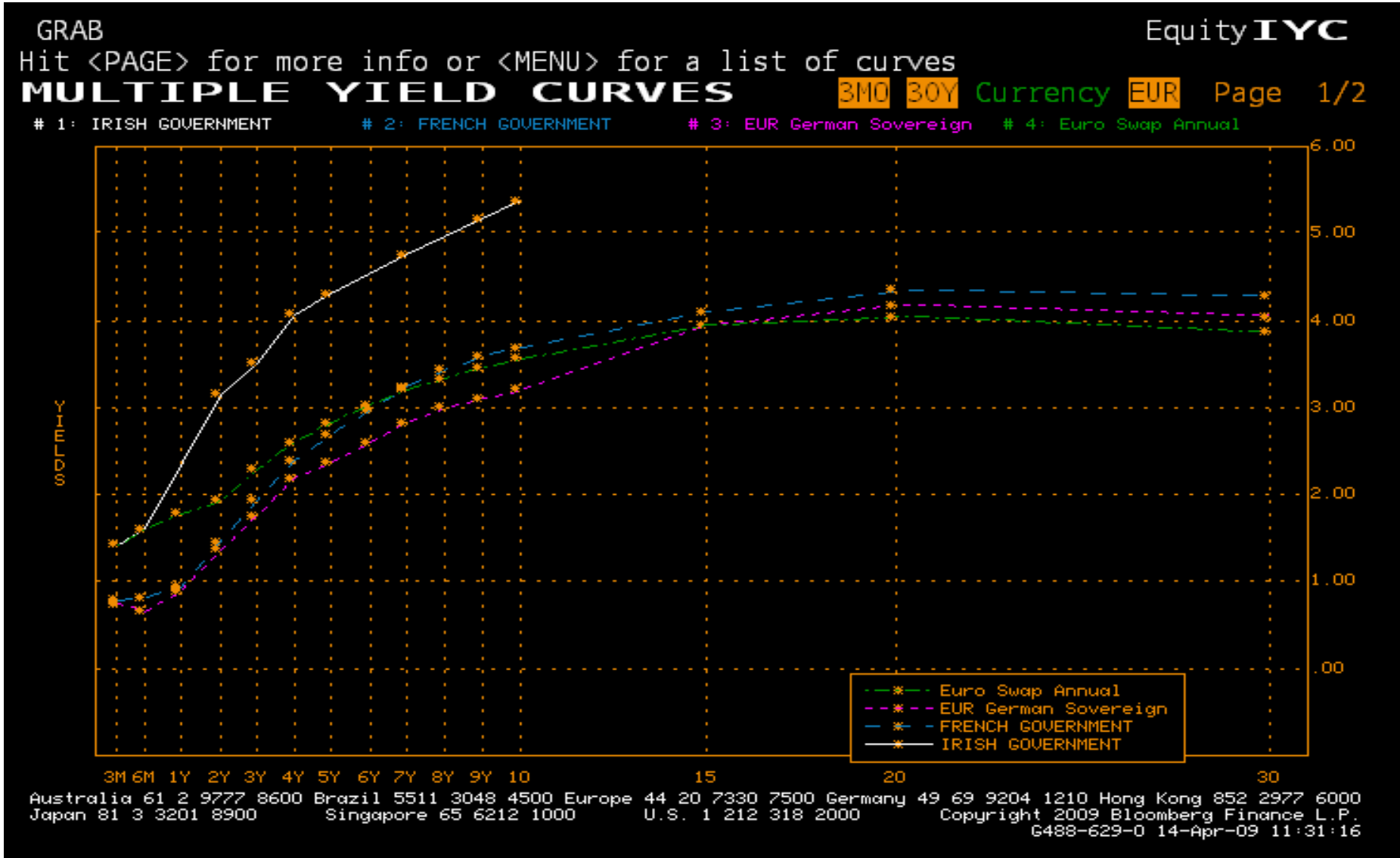
- IAPF and SAI recently prepared proposals on changes to pension legislation
- Included in these proposals was a recommendation for a state annuity fund to be introduced for insolvent DB pension schemes of insolvent employers
- SAI were asked to explore options further
- Working party formed:
 - David Harney
 - Dave Roberts
 - Paul Victory
 - Gerry O'Carroll
 - James Maher
 - Yvonne Lynch
 - Thomas Farrell
 - Aisling Kennedy also provided input

Insurance Market Efficiency



- Market annuity quotes compared to possible state annuity pricing
- Assumptions:
 - Yield of 5% used for comparisons
 - State Annuity mortality assumptions taken from Oct 08 Demography Committee report
 - Market quotes on nil commission basis
 - Annual admin fee of €60 allowed for in state annuity pricing
- Difference between the rates of approximately 5%
- Differences vary by age

Pricing Yields



Options Considered



- **State Annuity Fund**
 - Cost neutral to Govt.
 - Level of advantage dependent on bond yields
 - Longevity risk taken on by state
 - Admin issues - pricing / payment etc.

- **Annuities paid from Govt. current account**
 - Cost neutral to Govt.
 - Level of advantage dependent on bond yields
 - Longevity risk taken on by state

Options Considered - continued



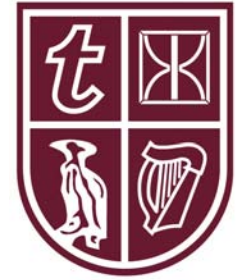
- Insurance Co. Annuities backed by Govt. bond
 - Credit risk passed through to policy holder
 - Circa 5% more expensive than previous options
 - Could easily be extended to all schemes

- Direct Subsidy
 - Direct cost to the state
 - Unlikely to be acceptable
 - Greater flexibility



Other Considerations

- Pressure to extend option to other funds?
- Priority on wind up
- Credit Risk
- MFS calculations
- Voluntary Debt on Employer
- Moral hazard



Questions?