



# Pensions – Delivering by Design

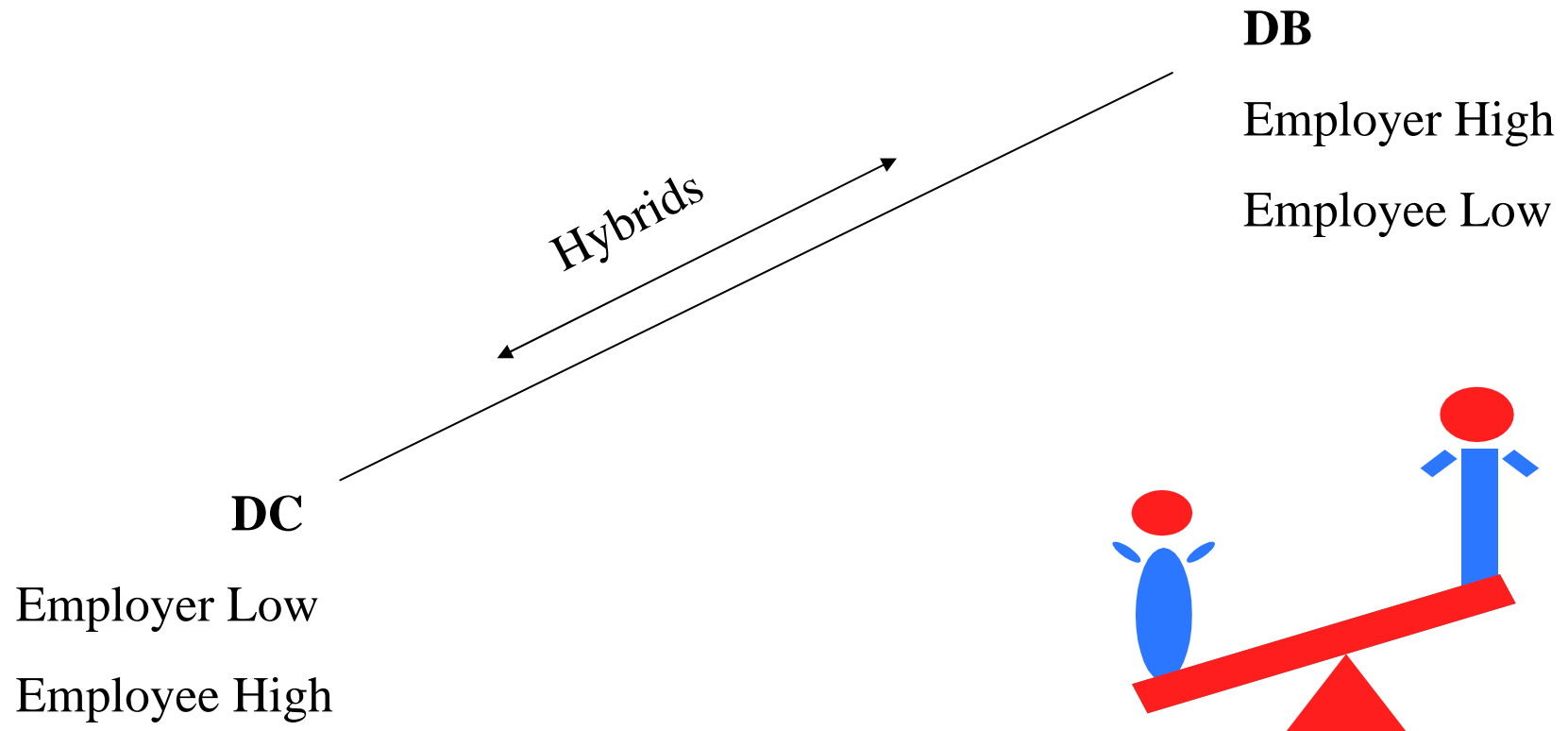
*“Quis periculum subiret?”*

Some Risk-balance Designs  
in Ireland & the UK

Alan Hardie – AIB Director of Pensions



# The See-Saw of Risk





# The Main Risk Factors

	<b>DB</b>	<b>DC</b>
Real Investment return pre-retirement	Employer	Employee
Real Investment return at / post-retirement	Employer	Employee
Improving Mortality	Employer	Employee
Security of Benefits	Employee	N/A



# The Emergence of Hybrid Designs

- Recent phenomenon in Ireland
- Various Designs
  - By Benefit
  - By Service
  - By Salary
- “Half-way house” between DB and DC
- Risk Sharing



# Risk-sharing in DB Schemes

- Shared cost
  - Initial Proportions (not necessarily equal)
  - Variance Proportions
- Variable Benefits – Aer Lingus
  - Fixed Cost
  - Cost Ranges
- Career Average - Tesco



# Career-Average Revalued Earnings

- Accrual rate
- Choice of index (CPI?)
- Suitable for mid-career earnings peak
- “Souped-down” DB



# Risk-Sharing in DC Schemes

- Target benefits
  - Initial
  - Reviewable
  
- Matching Contributions
  
- Internal Purchase



# Hybrid Design by Benefit

- Traditional – pension plus tax-free cash
  - Public & Civil Servants
  - EBS new design
- Cash Balance – retirement benefit is cash fund
  - Barclays





# Cash Balance Plans

- Benefit is cash sum guaranteed at retirement
- Increased by an index (RPI) plus some investment return
- Very like with-profits
- Internal purchase option
- Possible associated DC matching plan



# Cash Balance Plans

## Pro

- Pre-retirement risk reduced for employee
- Internal purchase likely better value
- Longevity risk shared

## Con

- “Cliff-edge” of annuity purchase
- Cost of guarantee reduces overall return



# Hybrid Design by Service

- Nursery plans
- DC for initial period, DB thereafter
- PRSA model – Irish Life & Permanent



# Nursery Plans

## Pro

- All risks much reduced for long-servers
- DC element can be looked on TFC source
- Flexibility in retirement options

## Con

- Overcompensates early leavers
- More expensive than DB



# Hybrid Design by Salary

- Higher salary – higher risk
- DB for initial level of salary
- Integrated?
- DC on top
- AXA / Alliance / EBS



# Salary Hybrid Plans

## Pro

- All risks removed for lower-paid
- Initial tranche of DC is TFC source
- Flexibility in retirement options
- Cheaper than full DB

## Con

- What is correct DC contribution
- Indexation of ceiling
- Still risks for higher-paid



# Other Considerations

- Accounting – IAS19, FRS17 etc
- Perceptions
- Employer positioning – caring?
- Staff retention / attraction
- Communications