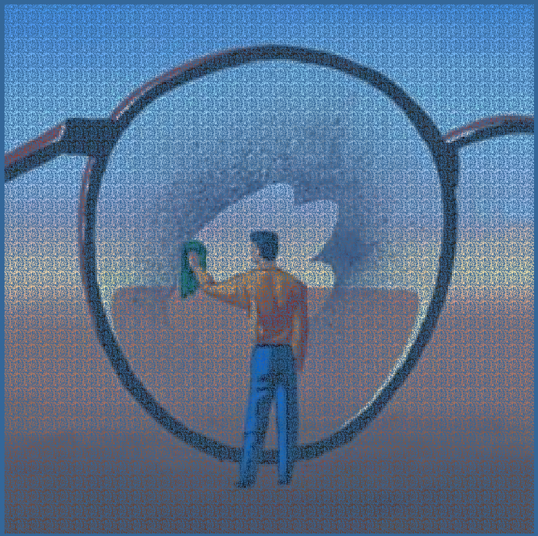
Society of Actuaries in Ireland
Pensions - Delivering by Design

A Time for Change
Liam Quigley

3rd April 2007

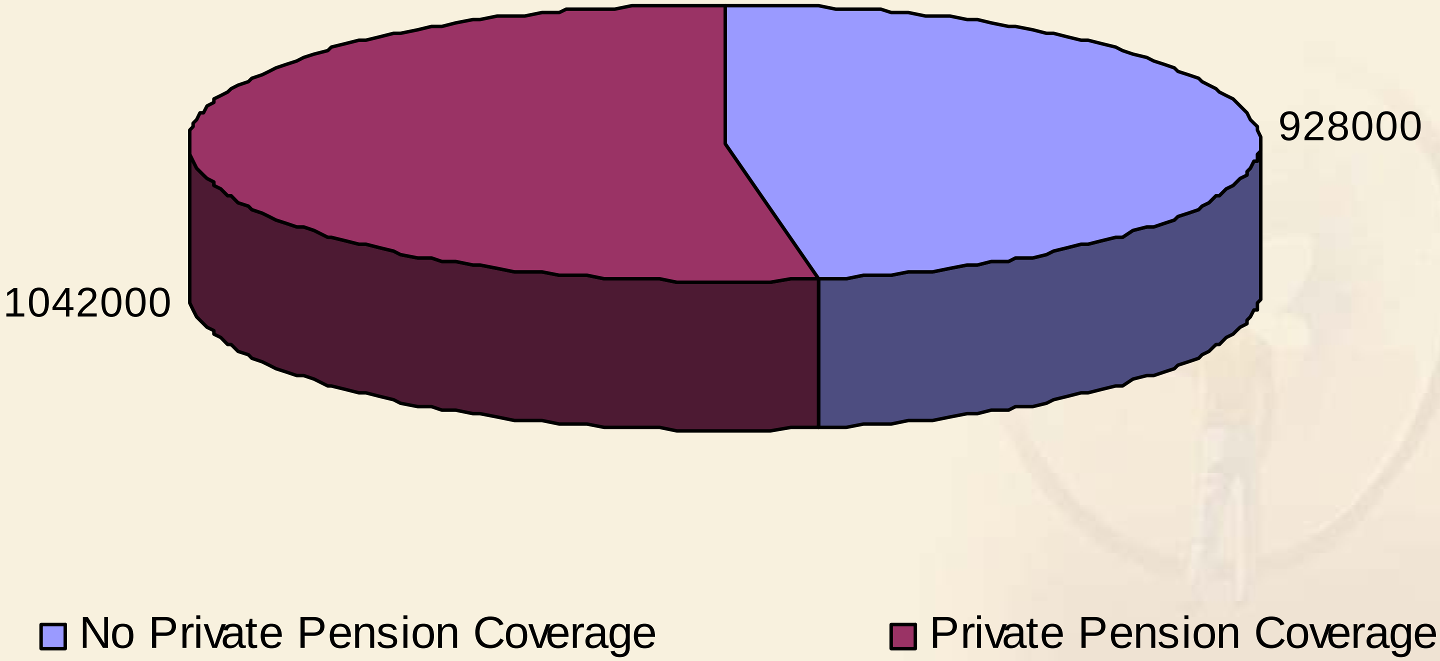


What's new in benefit design

- A time of great change except in relation to benefit design
- Defined Benefit
  - – Retirement at 65
  - – 1/60th accrual, integrated with state
  - – 50% spouse's contingent pension
  - – Member pays 5%, company pays the balance
- Defined Contribution
  - – Member pays 5%, company pays a little more
  - – Range of investment options
  - – Annuity at retirement

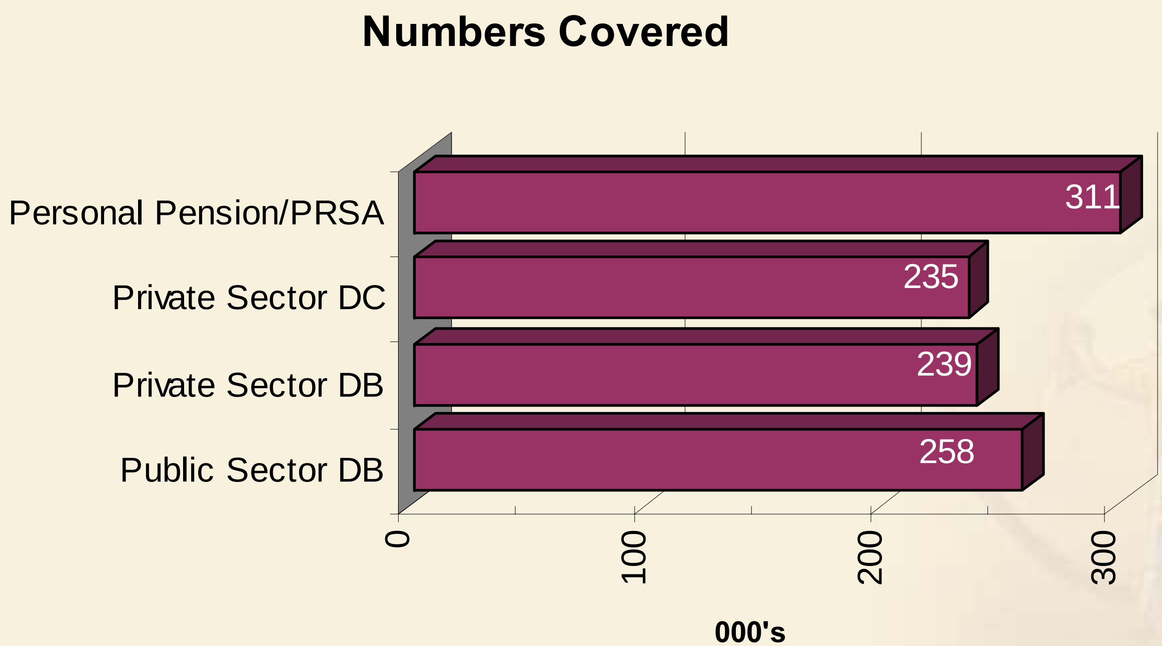
Employers’ attitude - Coverage

- Coverage at present
  - Little over 50% employees Vs long-term target of 70%



Employers' attitude - Adequacy

- Benefit adequacy
  - Target replacement ratio of 50% of earnings
  - State Pension alone covers only the lowest 30% earners
  - Public DB good, Private DB OK, DC likely to fall short



Recent developments

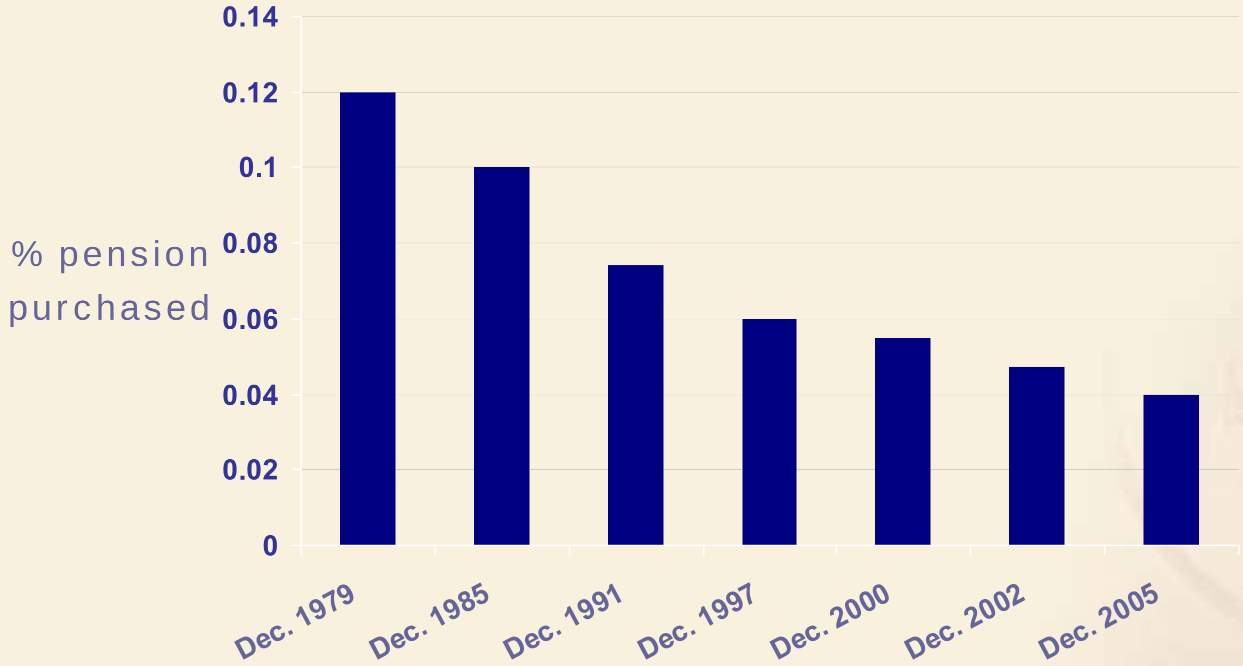
- Virtually no new DB
- Employers moving to DC for new entrants
- Existing employees not affected
  - Some evidence of increased employee contributions
- A minority have changed future benefits for existing members
  - Accrued benefits unchanged
- Some DB schemes winding up
- More recently increased evidence of other solutions

Employers' attitude - DB

- Pressure from companies to contain DB exposure reflecting
  - Accounting standards
    - Liability on the balance sheet
    - Enormous volatility (if invested in equity)
    - Emerging focus on true economic cost
  - Dawning reality of far higher costs
    - increased longevity
    - low interest rates
  - ..and higher risks!

Cost of pensions spiralling

- Increasing pension costs
  - Declining mortality rates
  - Interest rates at a generational low



Employers attitude - DB

- Pressure from companies to contain DB exposure reflecting
  - Regulatory risk & Compliance requirements
    - Regulation creep increasing liabilities
    - Increased compliance burden
    - Minimum Funding Standard
    - EU involvement
  - Changing employment patterns and attitude
    - Emphasis on transportability & short term reward
    - New employees remain ambivalent on pensions
  - Peer pressure & limited employee resistance

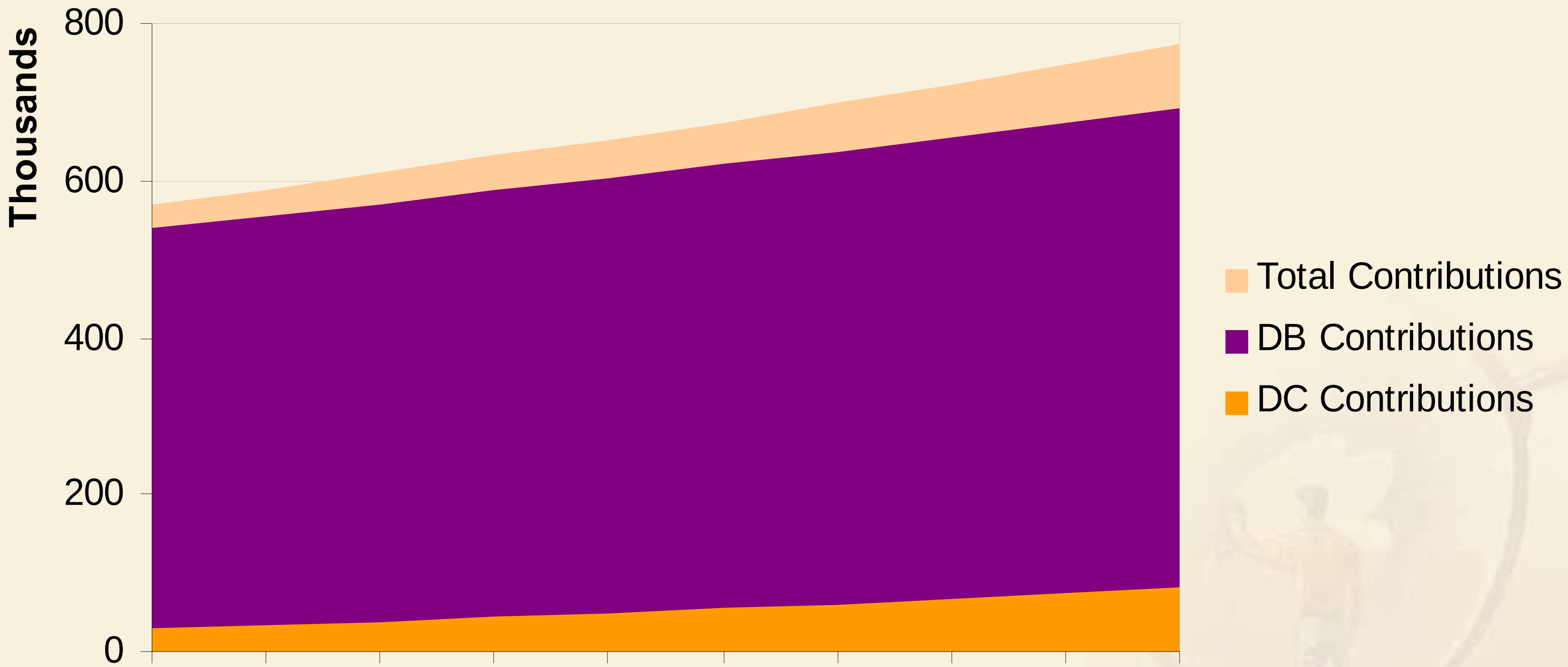
Employees' attitude

- Young employees are still at best ambivalent
- Older employees much more pension focused
- Those with expensive DB provision have a myopic resistance to change
  - DB always good and DC always bad syndrome

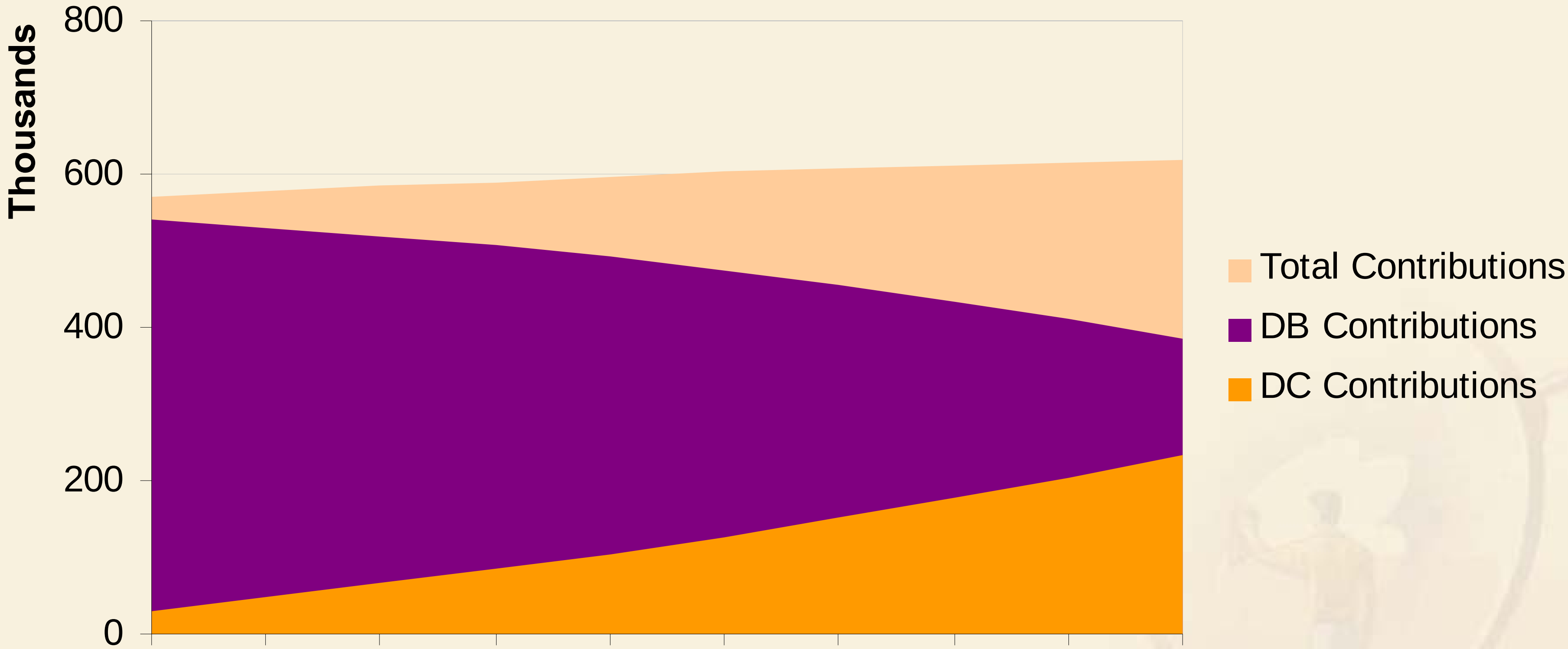
Impact

- Moving to DC for new entrants may help in the medium-long term
- Impact on company accounts/cash flow will depend on the level of DB turnover
  - – Low turnover will have minimal impact
  - – High turnover will accelerate benefit of switch
- Legacy DB liabilities will remain

Impact
Future contributions – low DB turnover



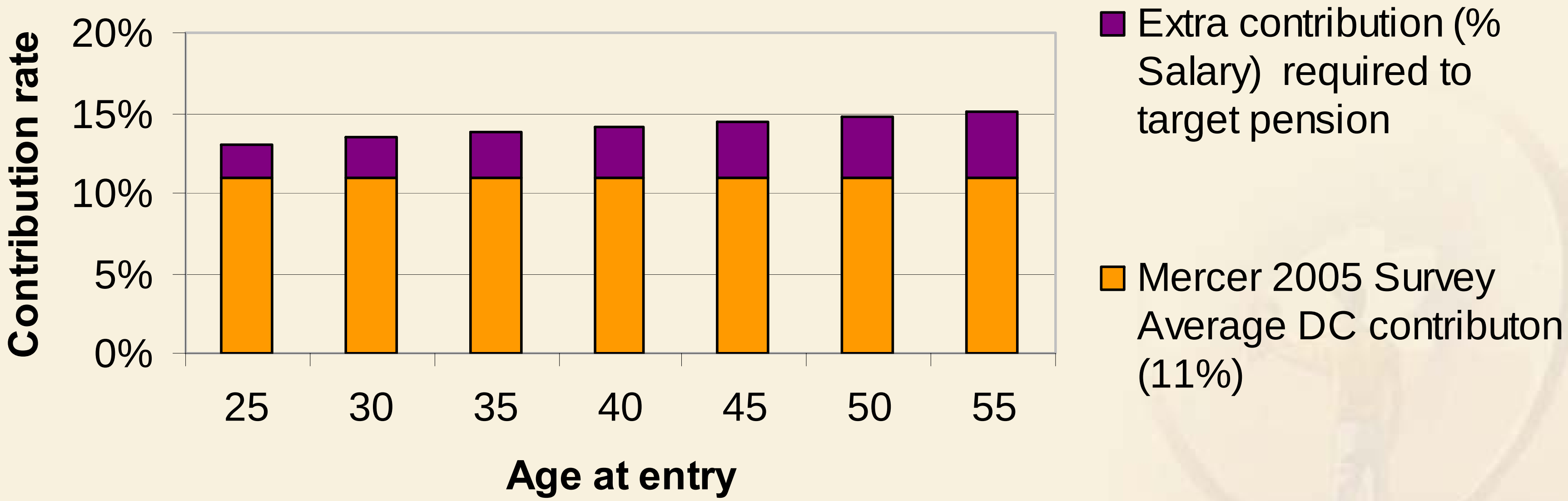
Impact
Future contributions – high DB turnover



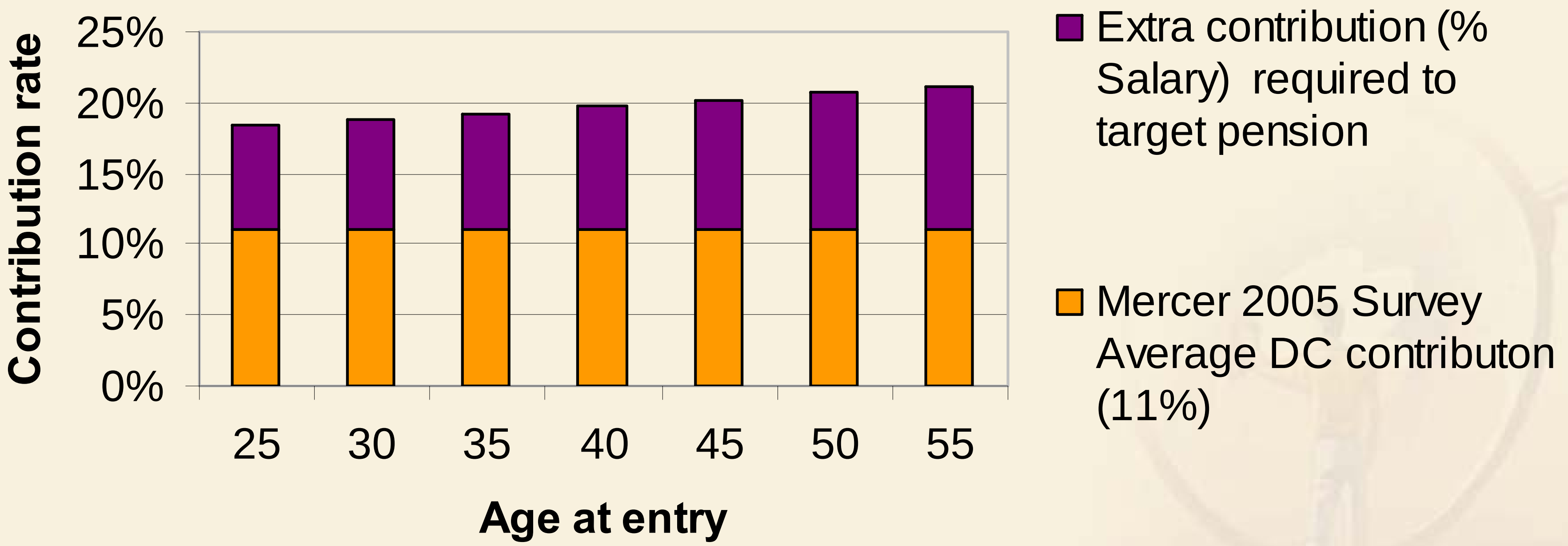
Contributions Adequacy

- 80% DC schemes established in 1990’s
- Average contribution rates of 5% employee/6% employer
  - Inadequate except at very low pay levels
- Some evidence of higher rates being negotiated now
- Projected benefits on statements from 2008 will increase awareness

Total contributions required to target a pension of n/60ths at 65, including State pension, Salary €30,000

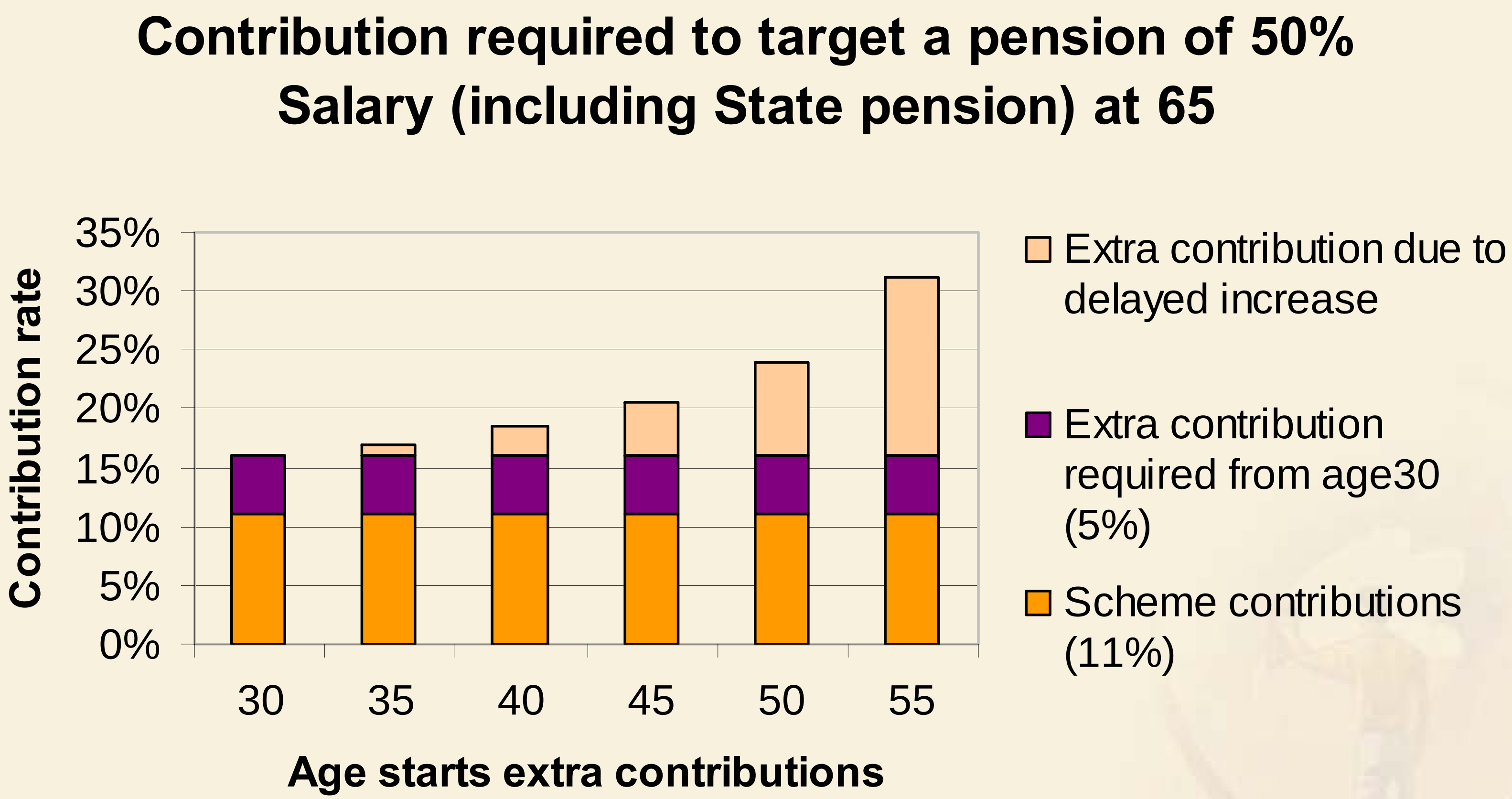


Total contributions required to target a pension of n/60ths at 65, including State pension, Salary €50,000



The cost of delay

Member joins at age 30.......



The role of the state

"Pensions are now firmly on the national agenda"

"Everyone should have a decent pension, security and dignity" (...in retirement)

Seamus Brennan, TD
Minister for Social and Family Affairs

Irish pension system

Ist Pillar → Basic State Pension → Prevent Poverty

2nd Pillar → Voluntary Private → Income Adequacy & Comfort

Global trends towards three pillar approach

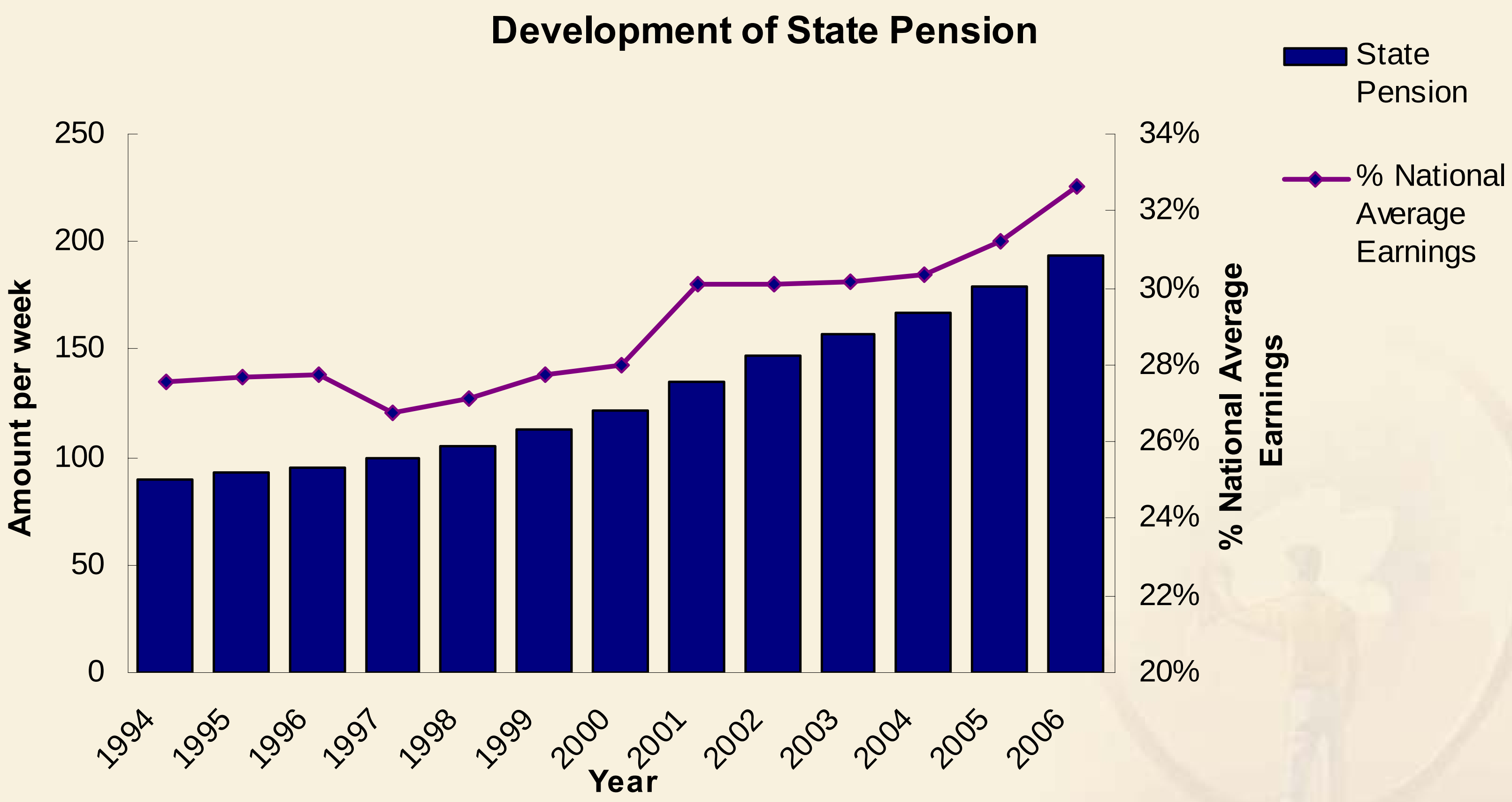
Ist Pillar	Basic State Pension	Prevent Poverty
2nd Pillar	Mandatory Private	Income Adequacy
3rd Pillar	Voluntary Private	Retirement Comfort

Global trends towards three pillar approach

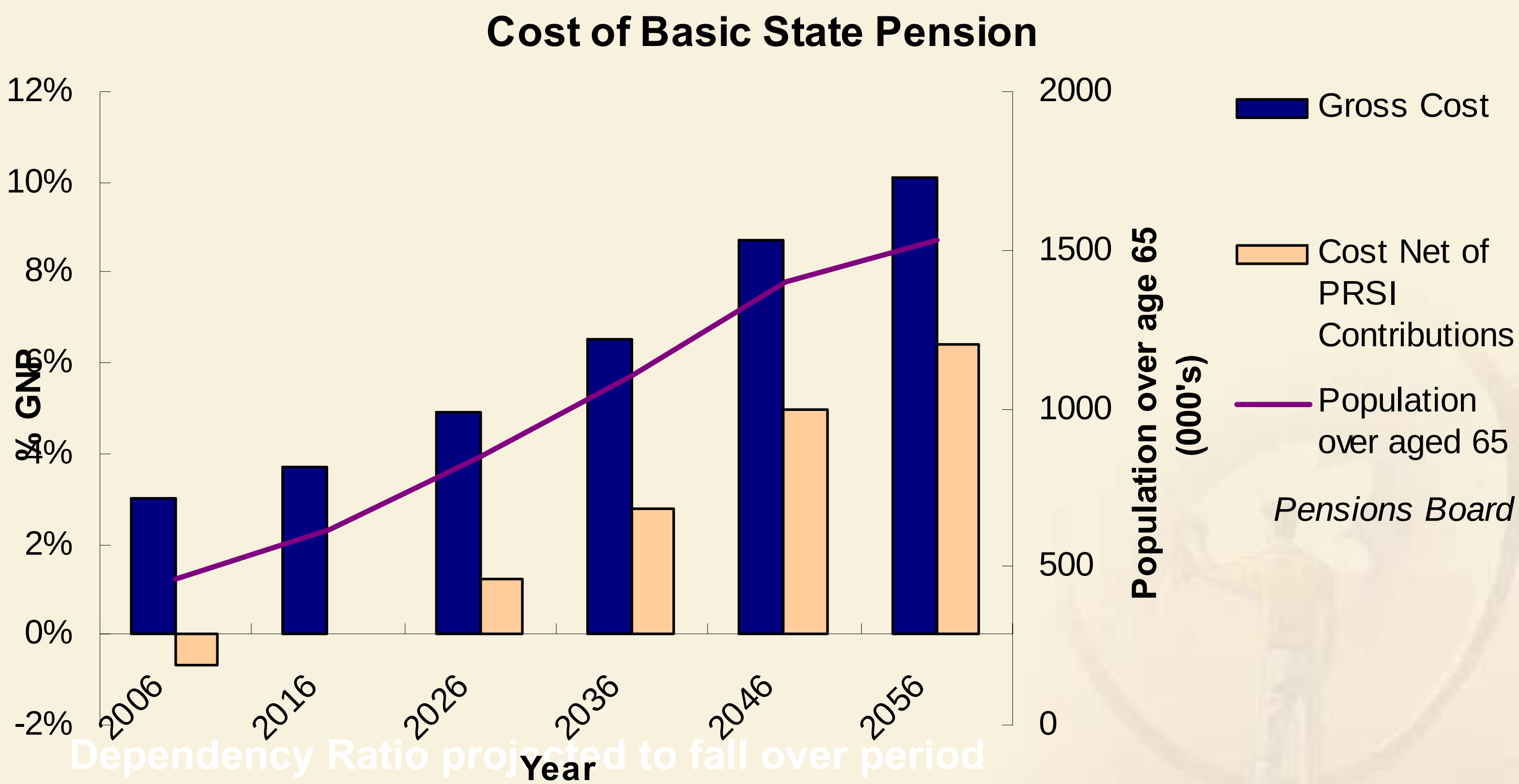
1981-85	1986-90	1991-95	1996-2000	2001-05*
Switzerland	Netherlands	Uruguay	Hong Kong	Slovakia
Chile	UK	Argentina	Sweden	Lithuania
		Colombia	Poland	Russia
		Peru	Hungary	Estonia
		Australia	Kazakhstan	Croatia
		Denmark	El Salvador	Romania
			Costa Rica	Latvia
			Mexico	Kosovo
			Bolivia	Bulgaria
				Macedonia
				Dominican Rep.

*some recent countries not yet implemented

The State Pension to date



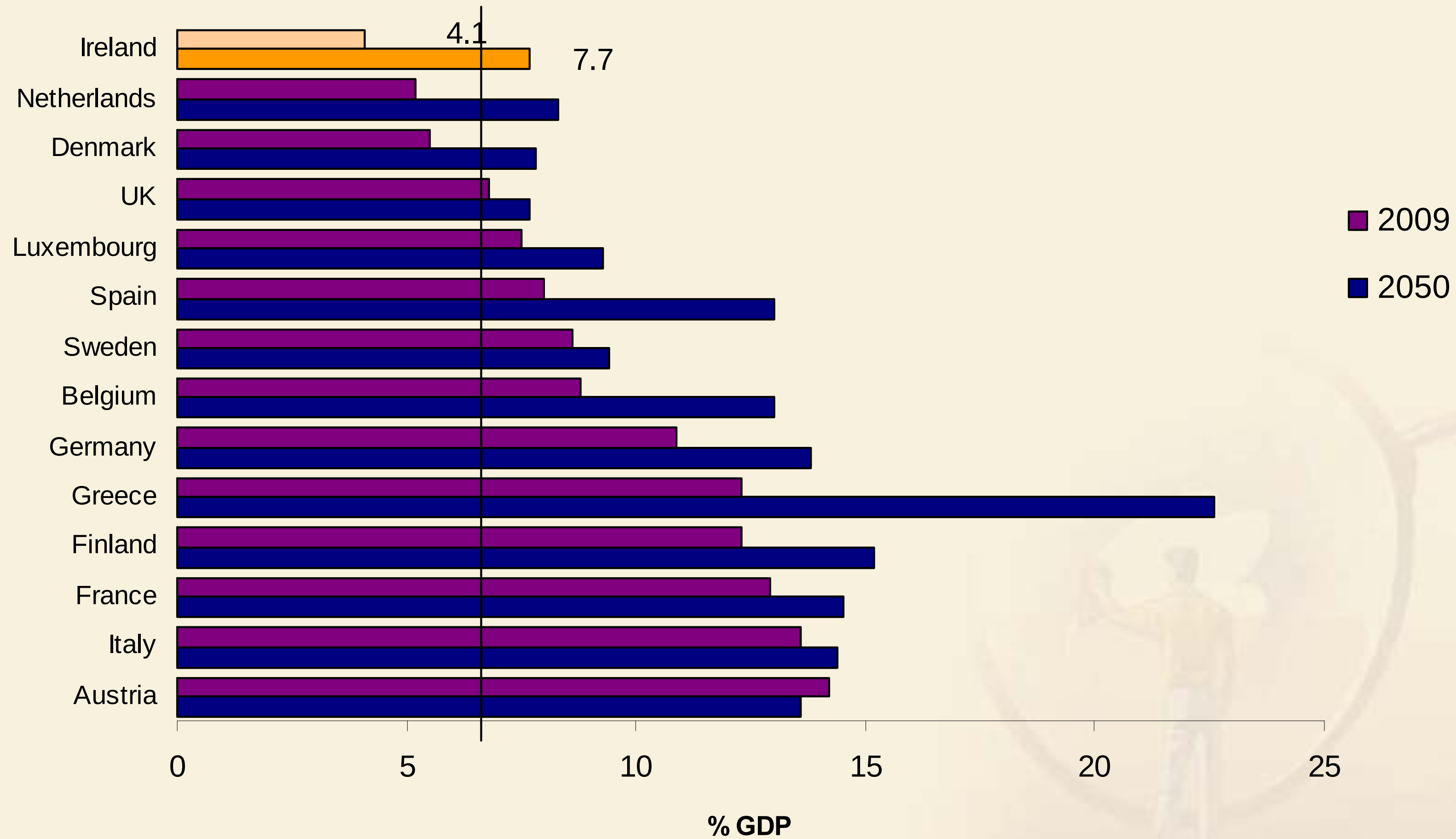
The State's Prospective Commitments



Dependency Ratio projected to fall over period

4.3 → 1.5

The State Pension relative to other countries



Towards 2016

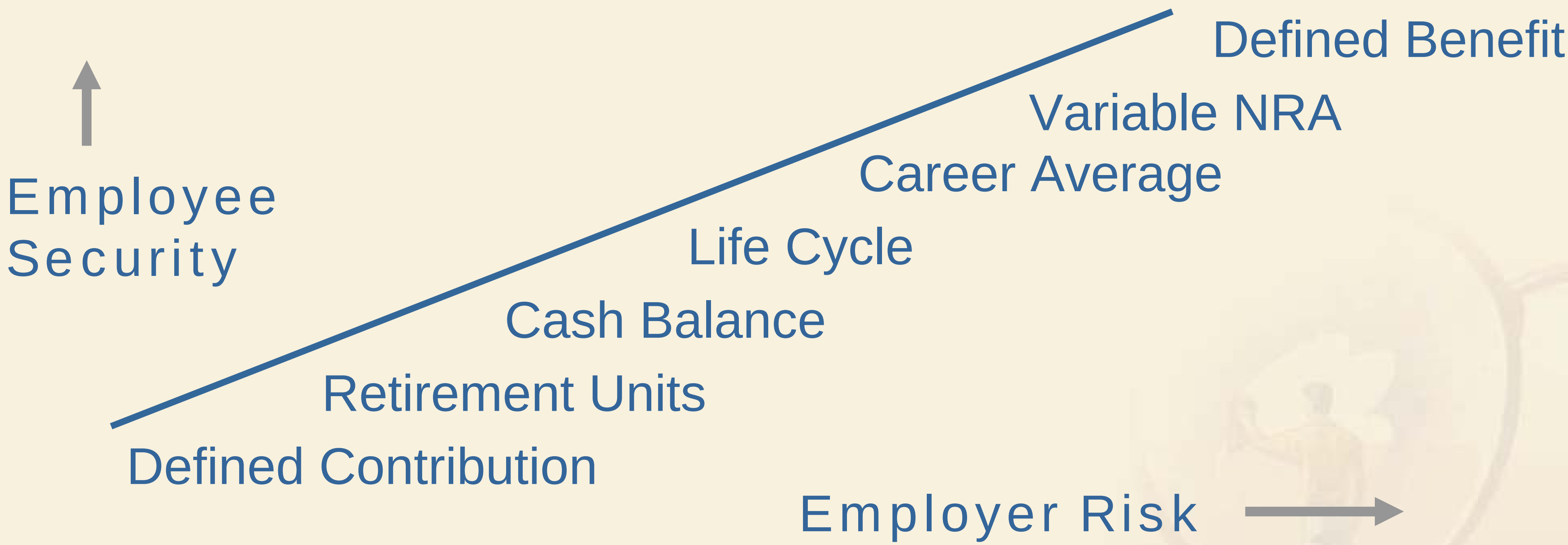
- General
  - – To provide an adequate income in retirement
  - – To enhance occupation pensions coverage
  - – Green Paper imminent

- Protecting older people
  - – Enhancement of basic state pension
  - – Increases to qualifying dependants allowance

Towards 2016
Pay, workplace & employment rights

- Unions can make claims
  - introduction of new or improvement of substandard schemes
  - Cost issues recognised
  - Agreements may include phasing
  - National Implementation Body
- Financial pressures in DB acknowledged, Pensions Board to consider alternative designs
- Government to consider transposition of Occupational pensions provisions of TU Directive into Irish law

Other Solutions



Conclusions

- All change but traditional bias remains in relation to pension provision
- Government must provide clarity
  - Level of state pension and retirement ages
  - Regulation of private pensions
- Employers and employees need to recognise economic realities
- Many possible solutions exist, its not all about DB or DC