

# **Pension Settlements**

# **Risk Reduction in Defined Benefit Schemes**

2<sup>nd</sup> November 2011

Patrick Cosgrave



# Discussion agenda

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## **Part I – Risk reduction & Settlement pre-Windup (Patrick Cosgrave)**

- DB pension risks from a CFO's perspective
- Partial liability settlement solutions
- Longer term liability settlement
- Pension deficit funding

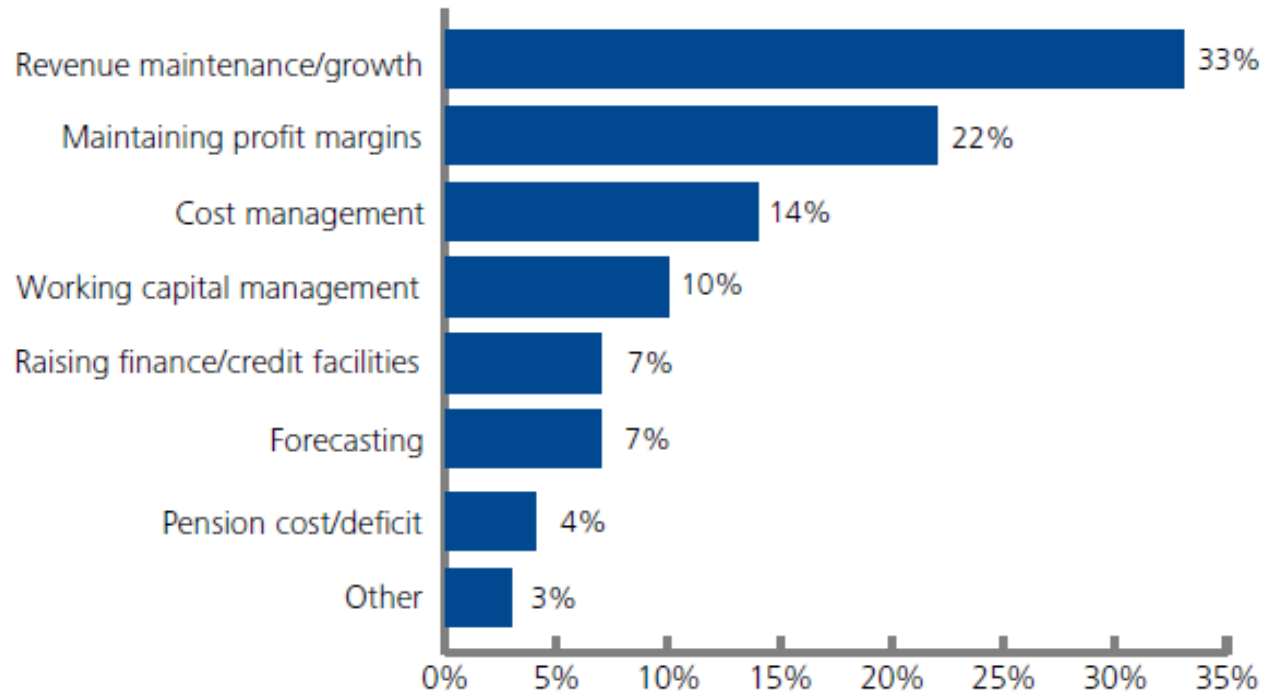
## **Part II – Windups (Paul Victory)**

- Overall Wind Up environment
- Trustee perspectives and issues on Wind Ups
- Wind Up process
- Key technical/practical issues associated with Wind Up

# Finance Director Priorities



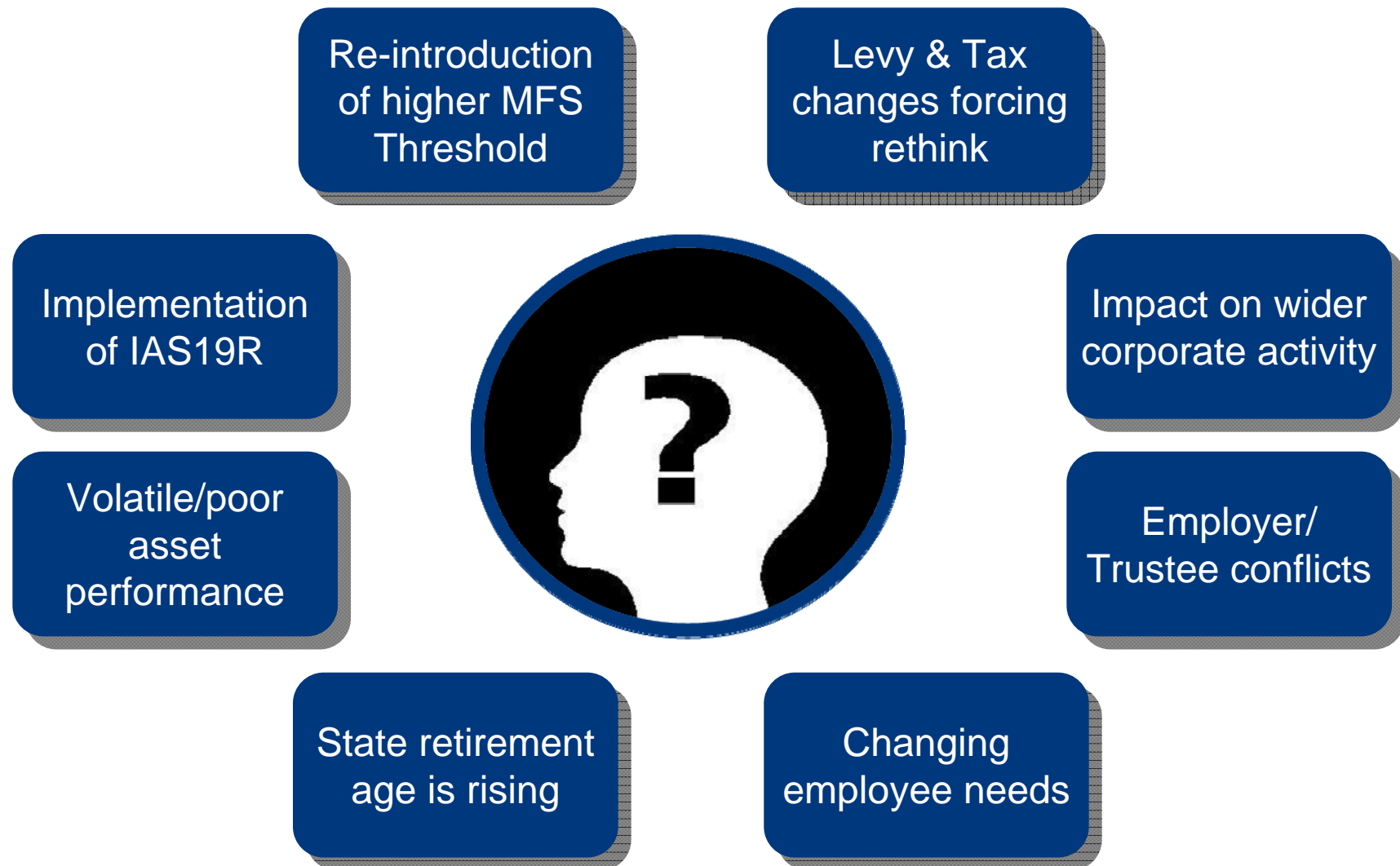
- What are the top three challenges facing your business today?



Source: Deloitte Quarterly CFO Survey June 2010

1. Many of the survey participants do not have a DB scheme
2. The suspension of the funding standard has taken some of the focus off pensions
3. Q3 2011 investment market turmoil had not yet occurred

# Current pension issues.....

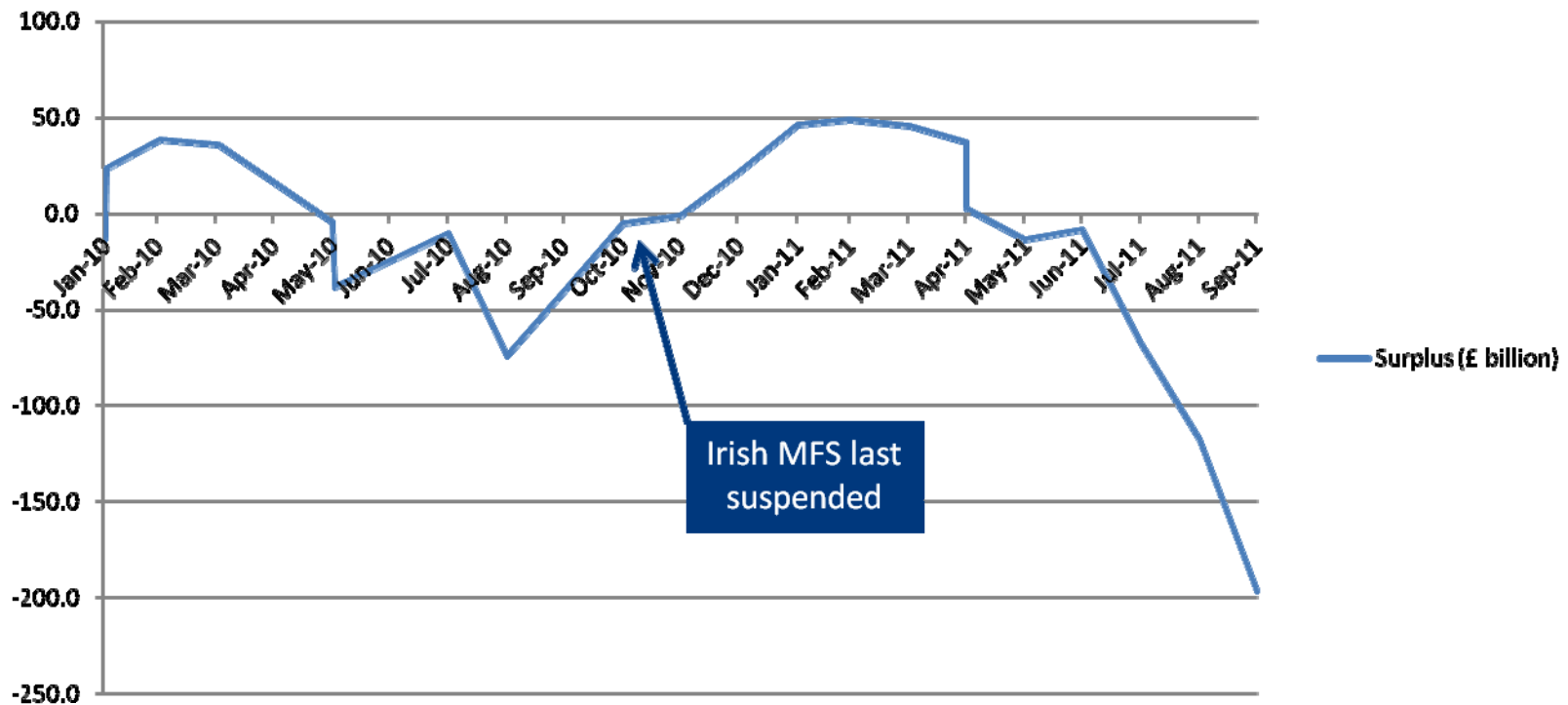


# Q3 2011 – Market Turmoil



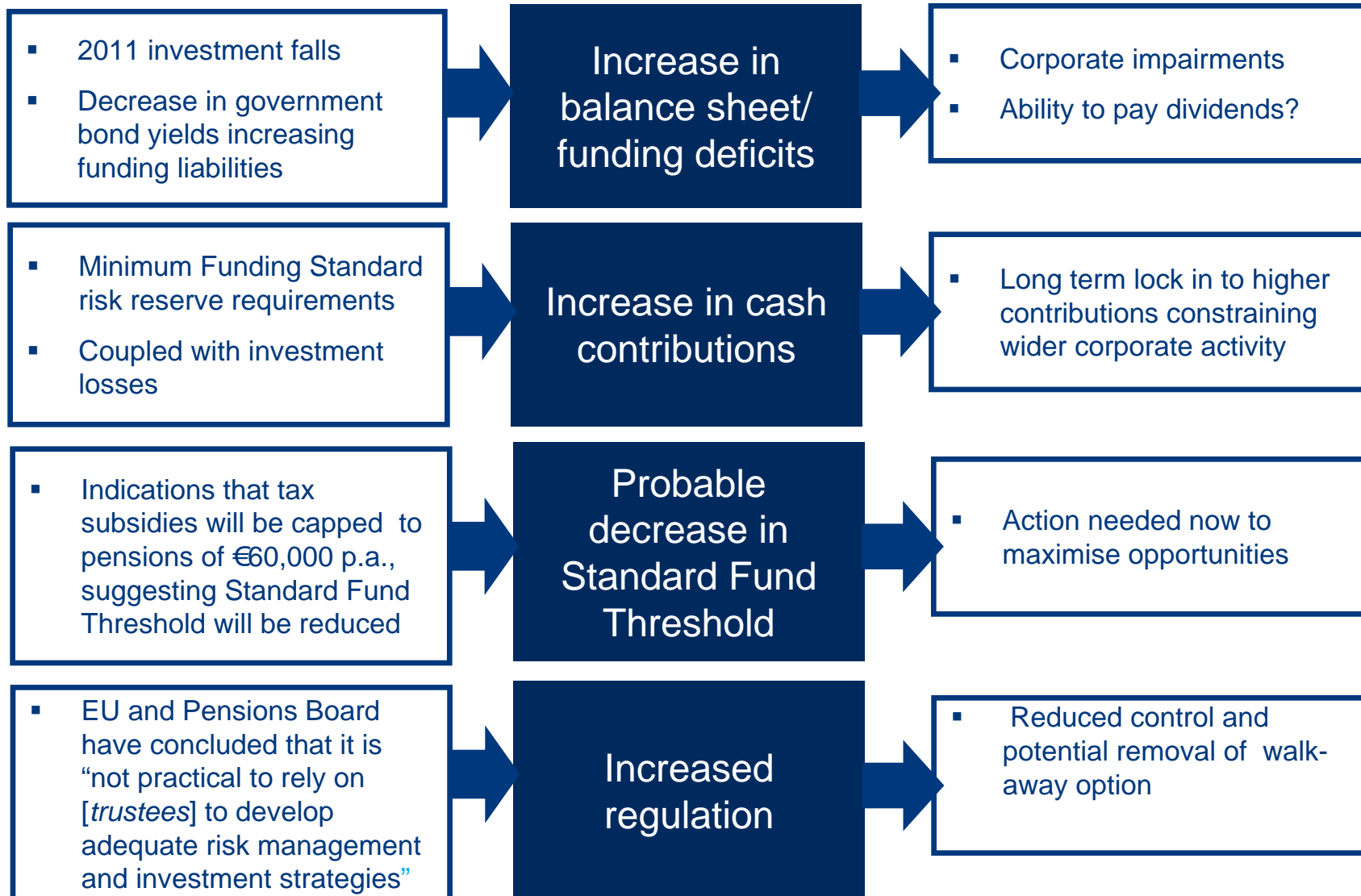
- Negative investment performance
- Increase in annuity prices

### UK PPF 7800 Aggregate Balance



NB- UK PPF 7800 is not necessarily a reliable proxy for Irish MFS movements

# Current CFO concerns



# CFO Pension Risk Management

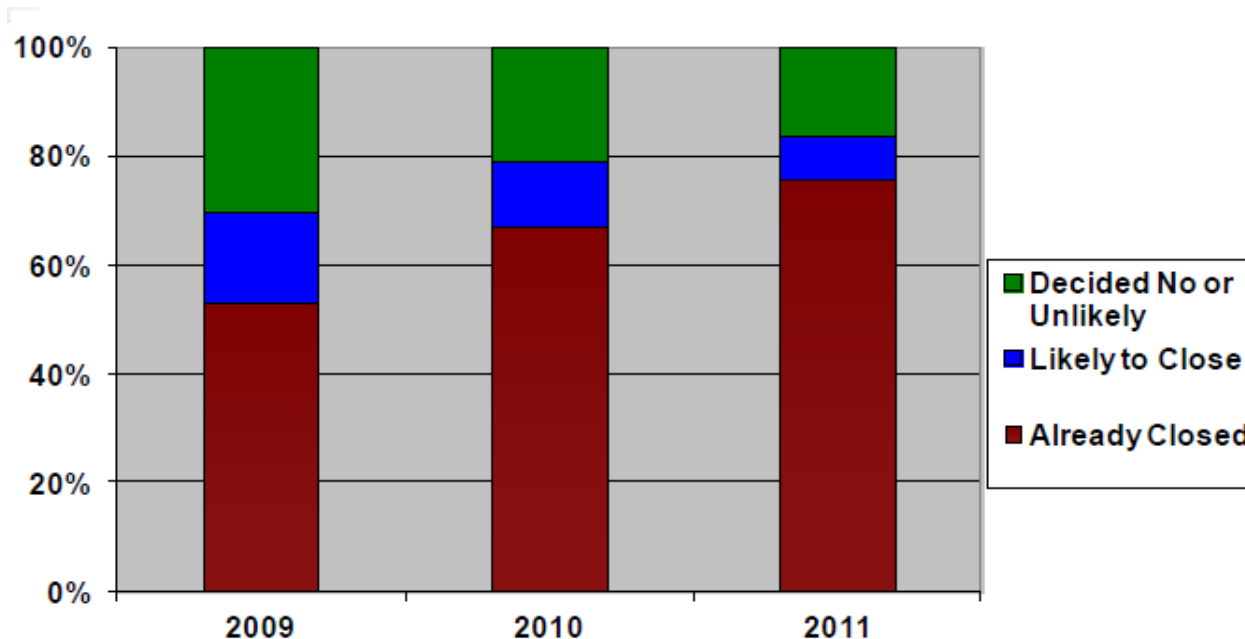


- Objectives might include
  - Delivery of promised benefits....but with what level of risk?
  - Delivery of adequate benefits (e.g. sacrifice some pension increases?)
  - Minimise near term cash requirements in challenging economic environment
  - Minimise overall cost and secure a return on the investment



- *“Trustees must recognise the contribution rate, the investment policy and, where relevant, changes to the benefits structure, as being interrelated, and the best solution is one that allows the scheme to undertake appropriate investment risk to achieve long term returns without such risk endangering the benefits already accrued by members.”*  
– Pensions Board

# Most DB Schemes are in 'End Game' mode



Source – IAPF 2011 DB Pension Scheme Survey

## The choice – to Wind up immediately or develop the End-Game Roadmap

- CFO's cannot rely on trustees to be driving End Game strategies or fully considering the options
- Normal funding valuation process does not assume any final End Game

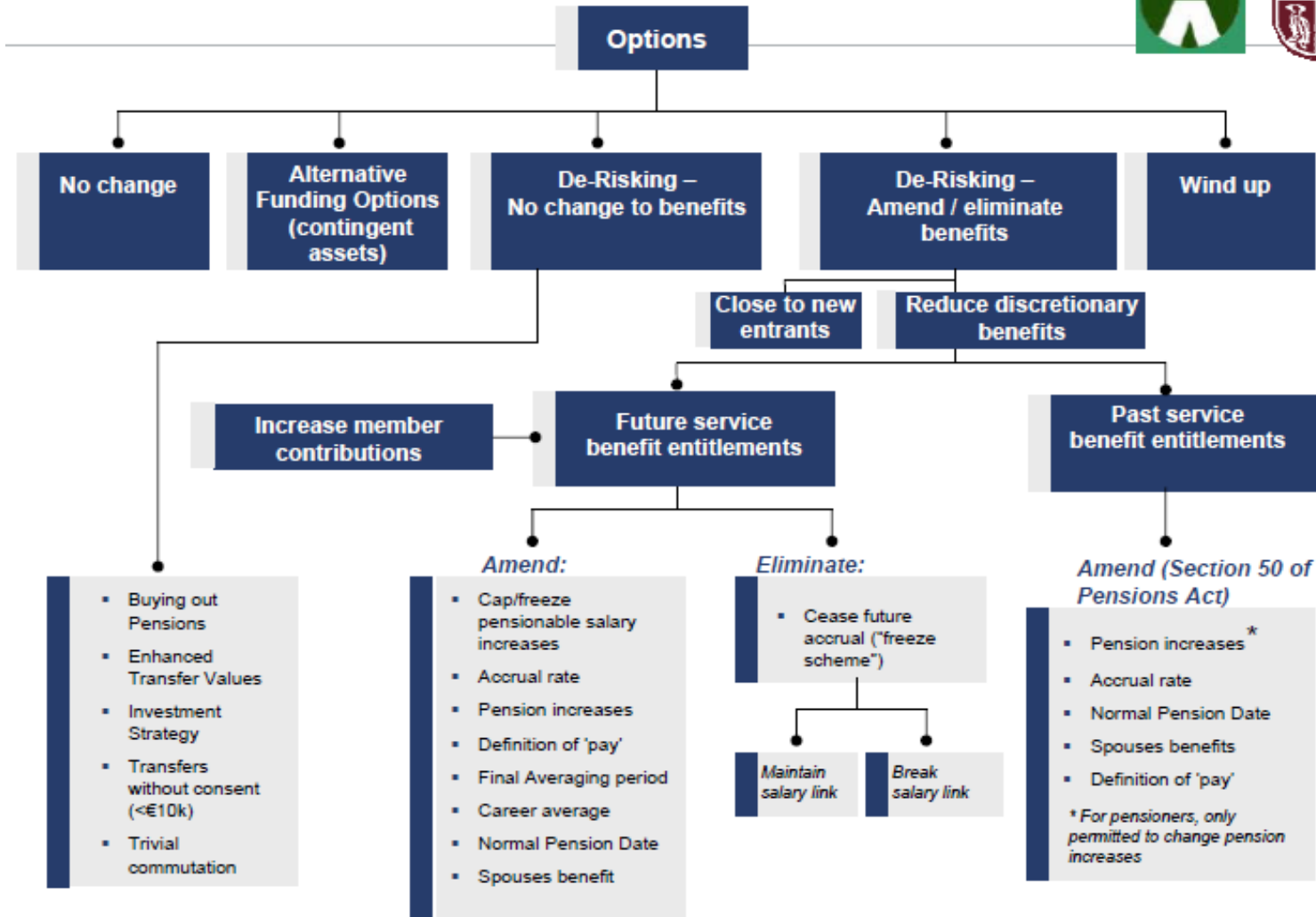


# Liability Settlement Options

## Key considerations for companies



# Reducing Benefits – APLI/SAI May 2010



- Buying out Pensions
- Enhanced Transfer Values
- Investment Strategy
- Transfers without consent (<€10k)
- Trivial commutation

- Amend:*
- Cap/freeze pensionable salary increases
  - Accrual rate
  - Pension increases
  - Definition of 'pay'
  - Final Averaging period
  - Career average
  - Normal Pension Date
  - Spouses benefit

- Eliminate:*
- Cease future accrual ("freeze scheme")
    - Maintain salary link
    - Break salary link

- Amend (Section 50 of Pensions Act)*
- Pension increases\*
  - Accrual rate
  - Normal Pension Date
  - Spouses benefits
  - Definition of 'pay'
- \* For pensioners, only permitted to change pension increases

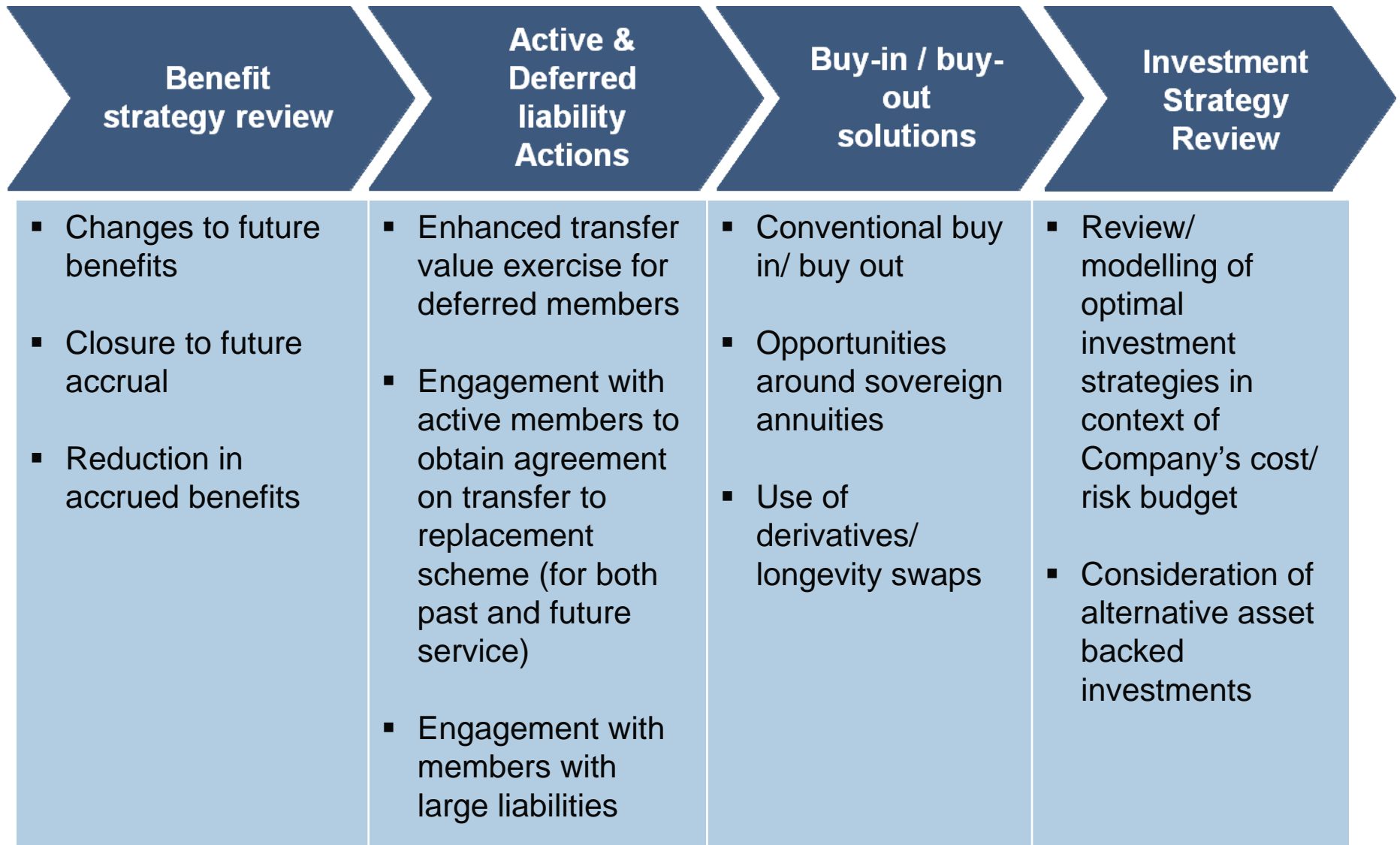


# What Actions are being taken?

	Implemented		Considering		No
	More than 12 months ago	Within last 12 months or in process	Likely	Unlikely	
Increase Member Contributions	26%	15%	17%	17%	25%
Reduce Investment Risk	25%	36%	27%	3%	9%
Cap/reduce Pension Increases	15%	26%	23%	8%	28%
Freeze/Restrict Pensionable Salary	15%	15%	20%	15%	35%
Reduce Future Accrual	11%	8%	10%	14%	57%
Reduce Past Benefits (S.50)	5%	7%	11%	9%	68%
Increase Retirement Age	1%	4%	16%	23%	56%
Buy out of Pensions	4%	1%	9%	22%	64%
Offer Enhanced Transfer Values	4%	0%	6%	12%	78%

Source – IAPF 2011 DB Pension Scheme Survey

# DB Liability Settlement Options





# Enhanced Transfer Value (ETV) Exercise

- Deferred members have a statutory right to transfer their pension into either a personal pension plan (e.g. buy-out bond or PRSA in some cases) or a scheme run by their new employer.
- An ETV exercise may provide a financial supplement, either as cash or an additional pension contribution, to the standard scheme transfer value, for a limited period, as an incentive to deferred pensioner members to transfer their benefits.
- ETVs are beginning to gain traction in Ireland, but are well established in the UK where the regulators have published best practice guidelines to ensure that members' interests are protected.

