

THE SOCIETY OF ACTUARIES IN IRELAND

Press Release

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Rethink of defined benefit pension model required

According to the Society of Actuaries in Ireland, a rethink of the traditional model of defined benefit pension provision is needed. In particular, the way in which costs and risks are shared between companies and their employees will need review to allow the continued provision of appropriate benefits and security into the future.

In a presentation to the Pensions Partnership Review Group, established under the recent social partnership agreement, Ms Roz Briggs, on behalf of the Society, highlighted that the total cost of funding defined benefit pensions has typically doubled over the past fifteen years. Where employees' pension contribution rates are fixed, with employers meeting the balance of cost, this can mean a tripling of employers' contribution rates.

Ms Briggs stated, "The combination of improving life expectancy, lower interest rates and greater protection for earned pension benefits have all served to increase costs, while volatile investment returns have contributed to the problem. Going forward, the type and level of benefits provided may need to be reconsidered with a view to retaining defined benefit pensions. Can the cost be shared more equitably with the members who will enjoy the benefits? Is the level of benefits promised too high if their delivery is dependent on uncertain returns on equity investments? Should lower benefits be promised with higher benefits payable only where justified by experience, including favourable investment returns?"

The requirement to record pension costs and funding deficits in the financial statements of sponsoring companies has brought increased focus on the cost and risk

of providing a defined benefit scheme, in particular as the magnitude of the pension numbers may be significant relative to the size of the sponsor itself. The historic dependency on positive stock market performance to make good these deficits brings with it a significant level of investment risk.

Ms Briggs added, "In a more risk-focused corporate environment, the current level of risk, in particular investment and life expectancy risk, being borne by companies via their defined benefit pension schemes may be unsustainable. While regulatory and accounting standards have their detractors, of themselves they are not the problem. Rather, it is the underlying cost of pension benefits that is leading to the closure of defined benefit schemes."

Ends

The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland. Actuaries provide advice and relevant solutions for financial, business and societal issues involving uncertain future events. Most of the Society's members work in the financial services industry, and the profession has a number of statutory roles relating to the supervision of pension schemes and insurance companies.

The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value.