



*Pictured at the recent pensions seminar hosted by Irish Life are (from left): Lord Adair Turner; Irish Life Investments Manager Chief Executive Gerry Keenan and the Minister for Social, Community and Family Affairs, Seamus Brennan TD*

## 40% of Defined Benefit Schemes Closed to New Members

As many as 40% of Defined Benefit pensions schemes in the private sector have now closed to new members with that percentage likely to grow significantly in the near future according to Gerry Keenan of Irish Life Investment Managers (ILIM). Mr Keenan was speaking at a seminar on the Future Direction of Pensions organised by Irish Life.

Keenan said that the debate on the respective merits of Defined Benefit (DB) versus Defined Contribution (DC) schemes was now over; "whether it's right or wrong, good or bad, the future is Defined Contribution. There is simply no going back." However Keenan also said that DC schemes faced many of the challenges already faced by DB schemes; "DC schemes resolve risk issues for employers – and for the solvency of pension funds. They don't – of themselves – resolve the challenge of dealing with significantly increased life spans or moderate pension fund values arising from low contribution levels."

The investment challenge was addressed by Karin Lissakers, Chief Advisor to George

Soros on Globalisation. Speaking in a personal capacity, Lissakers said that she expects interest rates in the United States and the Euro Zone to rise further in the coming months. Lissakers said that "given underlying conditions" she expected the Fed to "be at the ready with another interest rate rise or two". She continued; "and if markets show another burst of exuberance which feeds into consumer and corporate behaviour resuming upward pressure on prices, I would expect that move to come fast. Most likely, the ECB would follow suit."

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Lissakers said that while investors would have to live with "continued uncertainty" for the near term, she remained in the

"soft landing camp" in terms of the short to medium term outlook for the global economy. She said; "I just don't see the conditions for a sharp economic reversal. A US slow down is highly likely; the Fed will make it happen. And that will probably have some damping effect in Europe. But I think that global economic linkages are sufficiently complex that a US down-turn will not trigger a domino effect dragging down other major economies. On the other hand, global linkages across economies are sufficiently strong so that autonomous growth, particularly in the larger emerging markets, will help to cushion the US and European slow-downs."

### POPULAR PERCEPTION

Donal Casey, Chief Executive of Irish Life Corporate Business said that contrary to popular perception, the Defined Benefit schemes of old were not as perfect as they are now being made to seem; "The big winners in the DB model were long stay employees with rapid salary growth throughout their careers but especially in their later years. The relative losers were people who (1) moved jobs regularly, (2) have more modest salary growth, (3) go part-time in their mid careers." Casey said that these three categories represented a huge proportion of modern employees and the DB schemes were not very fair or useful for them.

Lord Turner – author of the ground breaking report on Pensions in the UK – told the conference that the Irish and UK State Pension schemes were only designed to keep people out of "absolute poverty". To enjoy a reasonable standard of living (measured by their incomes before retirement), people would "really need private pension provision on top."

Lord Turner said that his Commission on Pensions in the UK had recommended a system which would automatically enrol employees in a pension from the time they began working unless they themselves choose to opt out of the scheme. This was necessary, he argued, because "a purely voluntary system was not going to work.... employers won't provide adequate pensions for employees and individuals won't go.