

# MERCER SURVEY CONFIRMS SOLVENCY PROBLEMS



*Irene Goldrick, Marketing Manager, Mercer Consulting, Tom Murphy, Head of Mercer Investment Consulting, Tom Geraghty, Senior Consultant, Mercer Investment Consulting.*



Up to 80% of respondents to the latest pension and investment survey conducted by Mercer Investment Consulting say they are failing to meet minimum funding solvency requirements. Most respondents,

who represent many of Ireland's largest pension schemes, also believe that DC contributions levels are inadequate to provide members with a sufficient standard of living at retirement.

Commenting on the survey results, Tom Murphy, Head of Mercer Investment Consulting in Ireland, said: "With assets underperforming in recent years and liabilities rising faster than expected, this double blow has left the majority of pension funds in a precarious funding position, with many now embarking on a series of funding proposals to the Pensions Board."

According to the survey, the key objectives of defined benefit trustees and plan sponsors continue to remain long term in nature. Despite the concentration of regulators and the accounting profession on short-term metrics, only a very small minority of trustees and employers believe issues such as the minimum solvency standard and FRS17 should constitute their primary objectives.

"It is somewhat refreshing that trustees and employers still have an eye on the long-term nature of pension plan investment and that they are not implementing short-term investment strategies which could potentially have an adverse impact on plan's financial standing," according to Tom Murphy.

The Mercer survey also indicates that Defined Contribution trustees and plan sponsors believe that current contribution levels are inadequate to provide members with a sufficient standard of living on retirement.

While the majority of respondents believe that contribution levels should be in excess of 20%, the reality is that the average contribution level amongst Irish DC schemes is 10%.

A significant number of respondents believe that employing specialist investment managers will solve their funding issues. When asked what course of action they would take to secure / improve a plan's solvency position, approximately 20% of respondents felt that employing specialist managers would be the key to success.

Mercer research shows that historically, investment managers (specialist or otherwise) have accounted for only 10% of the actual investment return and risk level achieved by pension plans. Therefore, whilst better investment management might help the cause, its likely impact will be much less significant than restructuring the investment strategy of the fund (i.e. changing the mix of equities and bonds).

The survey also reveals that the level of specialist management among Irish pension plans is still low. Only 8% of respondents had 80% to 100% of their assets managed by specialist managers. Despite much publicity of late, the traditional managed fund approach is still the pervasive model amongst Irish institutional investors. These statistics are based on the number of respondents rather than by asset size.

On a more critical note, 87% of respondents believe investment managers "hug" benchmarks. Mercer believes that this statistic reflects the disillusionment of trustees and employers with the investment management community. Such attitudes may also help explain the growth in passive management in the Irish market over the last number of years.

"Clearly both trustees and indeed plan sponsors need to understand the investment approach and philosophy undertaken by their investment managers," said Mr Murphy. "This understanding will allow them to appreciate whether benchmark hugging or indeed deviation away from the benchmark should be expected as well as assessing whether their manager is delivering what they have been hired to deliver."

Among delegates surveyed, the most popular area of alternative investments were Hedge Funds and Corporate Bonds. Approximately 55% of respondents believe that the major barrier to increasing their allocation to alternatives is a lack of knowledge in this area.