



# Section 50 Proposal – Case Study

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# The Musgrave Group

- Family business founded in 1876
- Operations in Ireland UK & Spain
- We support 11 Retail & Foodservice Brands
- Partner to circa 3,400 Independent Retailers
- Together with our Retail Partners our business supports approximately 56,000 employees
- Group turnover in 2008 of €4.8 billion



# Our Scheme – A Brief History

- Defined Benefit established in 1968
- Immature Liability Profile – 2,500 actives, 750 deferred & 100 pensioner members
- Originally n/45ths Non-Contributory
- Changed in recent years to n/60ths with 6% Employee Contributions
- Spouse's Death in Retirement Pensions
- Guaranteed Pension Escalation



# Our Funding Challenge

- Rapid growth in assets and liabilities in past decade
- Funding Position deteriorated significantly over that time
- Failing the Minimum Funding Standard
- Costs set to increase by 44%
- Significantly changed commercial environment



# Despite Our Best Efforts!

- The introduction of employee contributions
- The reduction of the pension accrual rate
- The introduction of uniform accrual
- The reduction of pension escalation from 3% to 1.5% for future accrual
- The payment of special company contributions
- Implementation of LDI investment strategy



# Pension Change Objectives

- Improve the long term affordability of pension provision
- De-risk pension provision and provide greater cost certainty
- Fair and reasonable
- Ensure that Musgrave continues to provide market competitive pension benefits to employees



# Our Solution

- Close scheme to new entrants
- Replace fixed pension increases with a discretionary increase policy - Section 50
- Implement significantly de-risked investment strategy
- Company to pay an additional €1m p.a. over next inter-valuation period
- Improve our DC offer for existing DC members and future new hires



# Section 50

- Trustee engagement
- The trustees sought their own legal & actuarial advice re: the Company's proposal
- Comprehensive Communications Programme:
  - Formal Notification re: S50 Process
  - Newsletter and Q&A Documents
  - Employee Presentations
  - Deferred Member Presentations
  - Pensioner Member Presentations





# Investment Objectives & Strategy



The major stakeholders in a pension scheme are the sponsoring employer and the members, represented by the trustees



The trustees' focus centres on the security of the promised benefits. The sponsor's is often on achieving attractive levels of contributions and managing various accounting metrics



The governance goal of most pension schemes should be to get the trustees and the sponsor signed up to the same strategy for optimal risk taking





# The Investment Framework

- Agree risk appetite, objectives & high level policy
- Spending the Risk Budget –  
‘Liability Matching’ v ‘Return Seeking’ assets
- Implementation – how, who and when
- Framework takes cognisance of the Funding agenda:
  - What to fund for – pension increases/deficits
  - How quickly to pay down deficits
  - Detailed assumption setting



# Investment Risk Appetite

	No Increases		1% Disc. Inc.		1.5% Disc. Inc.	
Return Objective	Cost	VaR €m	Cost	VaR €m	Cost	VaR €m
Bonds	22%	7.7	26%	10.3	29%	11.6
Bonds + 0.75% p.a.	16%	10.6	19%	12.8	21%	14.2
Bonds + 1.50 % p.a.	10%	15.0	13%	16.9	15%	18.0





# Portfolio Construction



	Asset Alloc. 2009	Current Asset Classes	Target Portfolio A	Target Portfolio B
Liability Matching Bonds (LDI)	52%	74%	73%	74%
Corporate Bonds	9%	10%	10%	10%
Passive Global Equities	35%	16%	9.5%	9.5%
'Alpha' Alternatives/ Absolute return	-	-	-	6.5%
'Beta' Alternatives	4%	-	7.5%	-
<b>Risk Level (SD versus Liabilities)</b>	<b>8.7% *</b>	<b>2.7%</b>	<b>3.0%</b>	<b>2.2%</b>





# Impact of Pension Change

- Scheme now meeting MFS solvency test
- Significantly improved ongoing funding position
- Company cost maintained at an affordable level
- Certainty of cost for future new entrants



# THANK YOU

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