



# IAPF ANNUAL INVESTMENT CONFERENCE 2013

How funding rules are influencing  
investment strategy



IAPF Annual Investment Conference: 14th March 2013

[www.iapf.ie](http://www.iapf.ie)



# What is driving investment?



IAPF Annual Investment Conference: 14th March 2013

[www.iapf.ie](http://www.iapf.ie)



# What is driving investment?





# Why are solvency rules impacting investment?

- Most schemes are failing the funding standard!





## Statutory Guidance 2012

- Pensions Board funding proposals requirements
  - *Match pension liability with govt bonds and cash*

*“The investment strategy proposed under a funding proposal must envisage that the scheme will hold assets, comprised of government securities and cash deposits....at the end date at least equal in value to the value of the pensions in payment”*

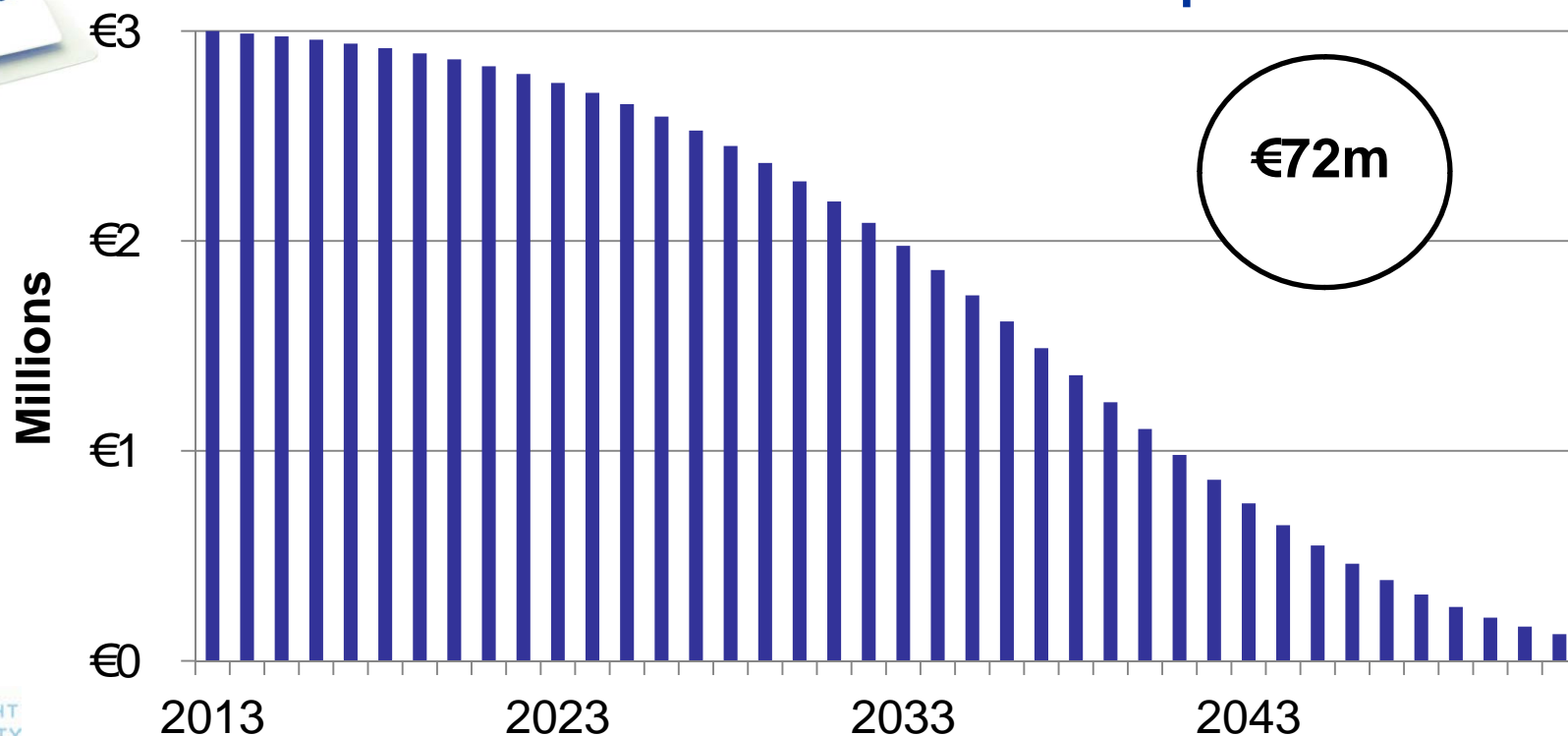


# Risk Reserves

1. 15% of the amount of the Funding Standard liabilities less the value of any EU govt bonds and cash held *plus*
2. Impact of a 0.5% fall in interest rates



## Mature Scheme example





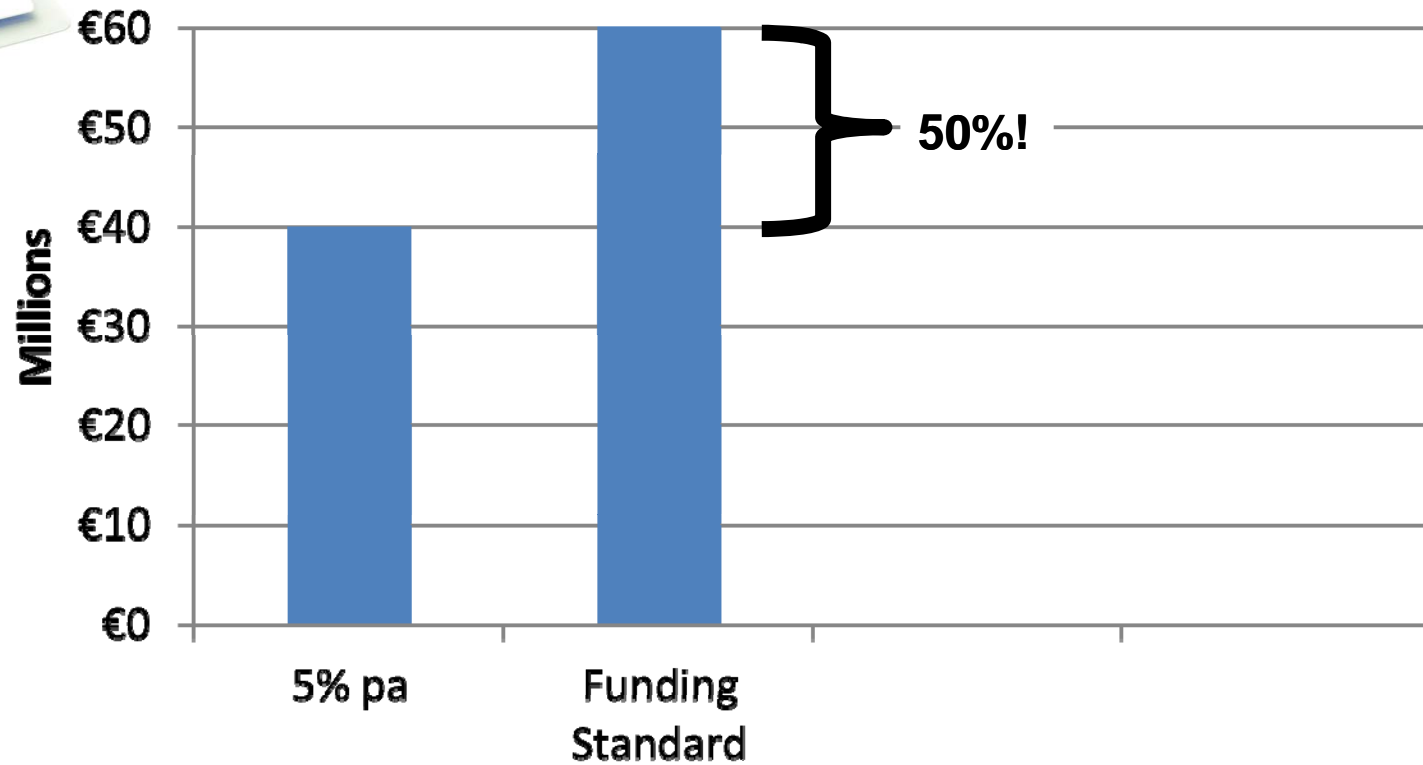
## Fund required





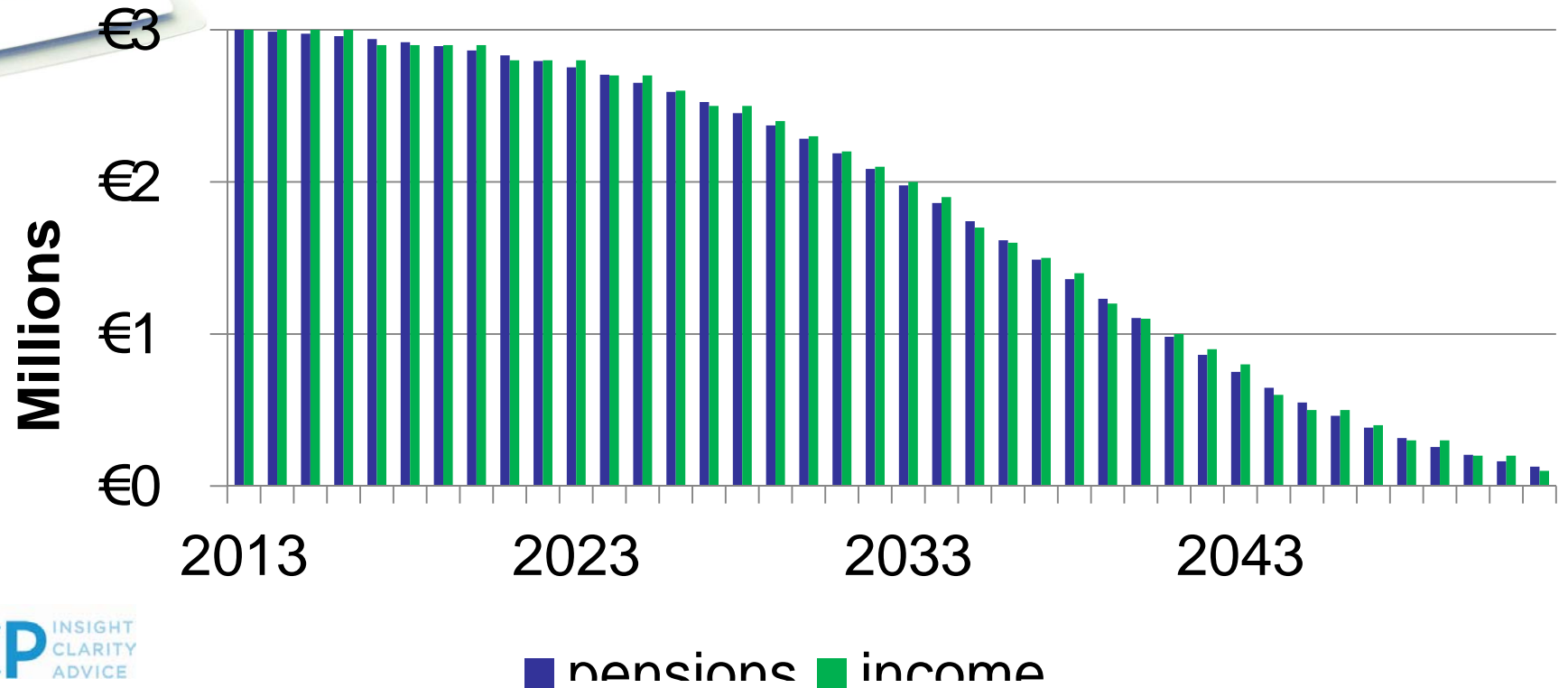


## Fund required





# Why invest in bonds?



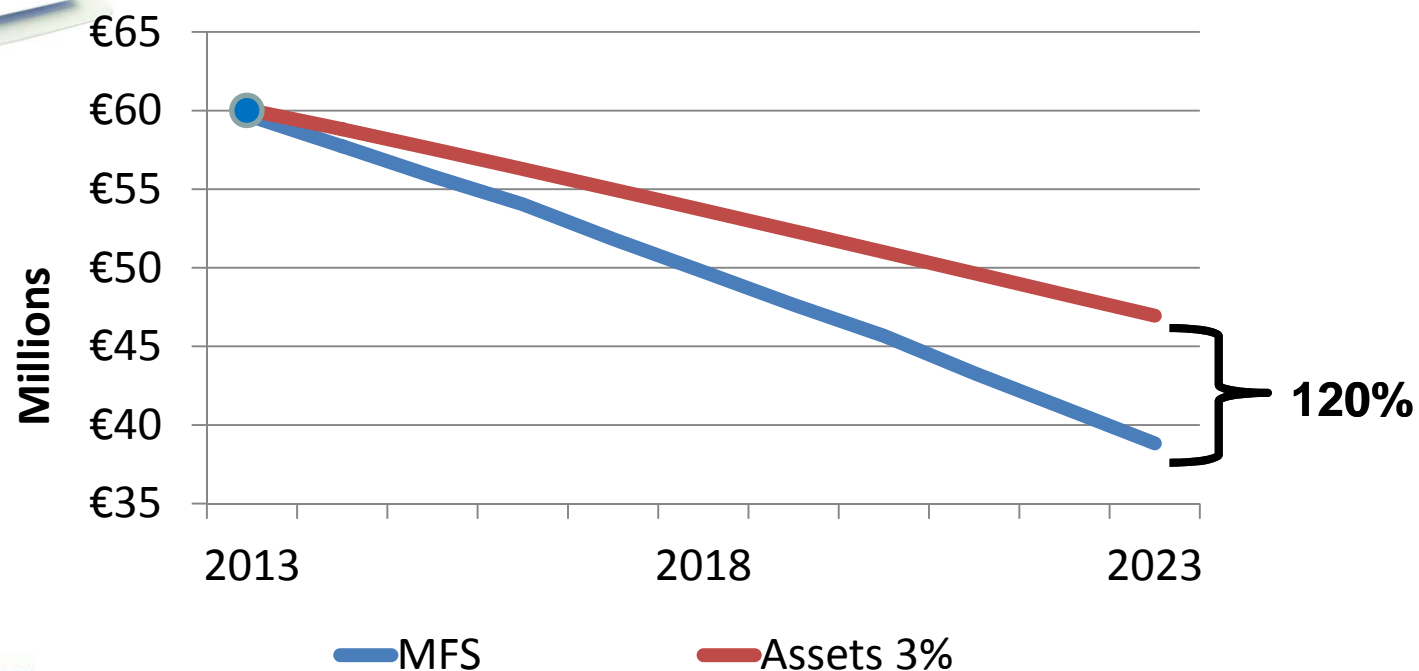


## BUT.....

- Ignores current price levels
- An exact match is impossible in any event
- There are other risks!

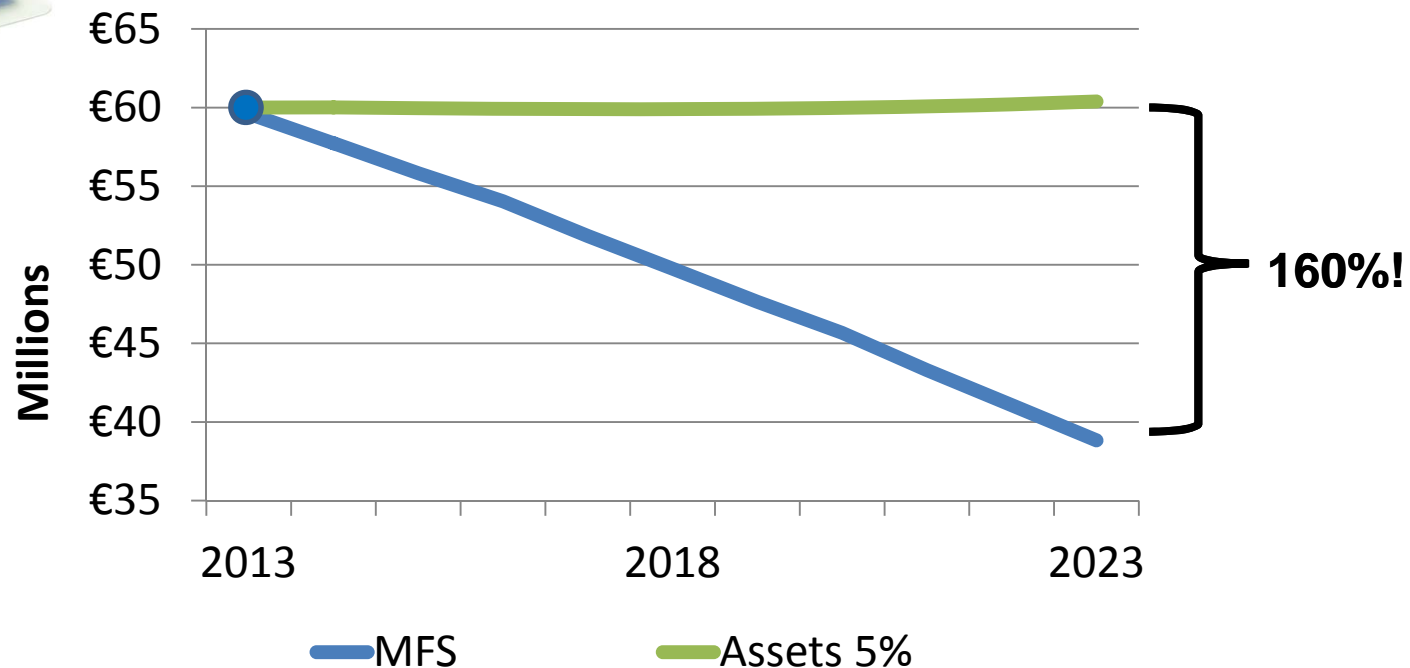


## Evolution of assets and funding target





## Evolution of assets and funding target





## The issue

- Target linked to AAA bond yields is too high
- Push to 100% govt. bonds ill advised





# Implications

- Sponsors will cite inability to pay and...
  - Section 50 benefit cuts more severe than necessary
  - Disorderly wind ups of schemes viable in the long term...
- In the members best interests?





# What is being done?

Amendment to bond investment strategies

- Irish amortising bonds
- Equity linked bonds
- Absolute return bond funds







# The bigger picture?

## 1. Amend the Funding Standard!

- Remove link to AAA bond yields



## 2. Pensions Board to take a more holistic view of risk?





# What should be done?

## PART IV FUNDING STANDARD

40.—(1) In this Part and the *Third Schedule*, except where the context otherwise requires, the following expressions have the meanings assigned to them in this section—

"actuarial funding certificate" has the meaning assigned to it in section 42;

"certified percentage" has the meaning assigned to it in section 43;

"defined contribution scheme" has the meaning assigned to it in section 44;

"relevant scheme" has the meaning assigned to it in section 45;

"specified percentage" has the meaning assigned to it in section 46.

41.—Subject to section 42, a defined contribution scheme shall be treated as a defined contribution scheme for the purposes of this Part and the *Third Schedule* only if it satisfies the funding standard in relation to the scheme.

42.—(1) The trustees of a defined contribution scheme shall, in accordance with section 43, submit to the relevant authority a certificate in relation to the scheme, which shall be in such form as may be prescribed.

(2) The trustees of a defined contribution scheme shall, in accordance with section 43, submit to the relevant authority a certificate in relation to the scheme, which shall be in such form as may be prescribed.

(3) A defined contribution scheme which does not satisfy the funding standard in relation to the scheme shall be treated as a defined contribution scheme for the purposes of this Part and the *Third Schedule* only if it satisfies the funding standard in relation to the scheme.

(4) An actuarial funding certificate shall be in such form as may be prescribed.

43.—(1) The first actuarial funding certificate shall have an effective date—