

A Hybrid Benefit Structure as part of an Integrated Pensions Strategy

Presentation by Frank Flynn, Head of Group Pensions,
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Agenda

- **Background**
- **Integrated Pensions Strategy**
- **LifeBalance**



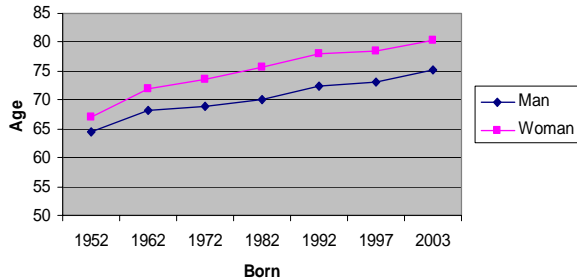
Background –2002 Top down review

- Shift to DC gaining momentum
- Boardrooms seeking change
- Review carried out
- Top down proposal for DC
- Review team reservations
- Alternative proposed
 - integrated DB and Exec DC top up
- Not accepted- DC put in place for UK subsids
- Group Pensions proposal for a broadly based Strategy review
- Proposal approved- Strategy review commences 2003

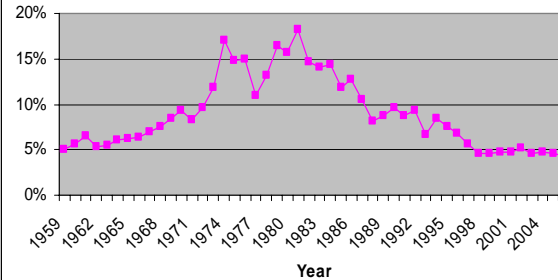


Market Background and Context

Life Expectancy



Long-term Interest Rates

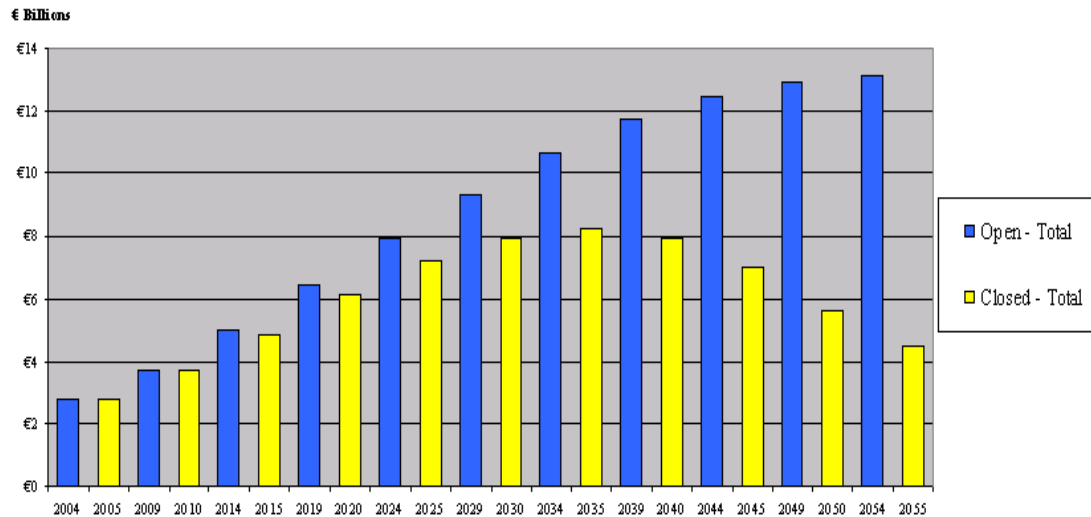


What was happening in the market generally?

Companies around the World reviewing their DB pension schemes, due to the combined effect of three factors :

1. People living longer (improved mortality).
2. Long-term interest rates at historically low levels
3. New accounting rules required companies to show the resulting figures in their company accounts

Liabilities - FRS17 Basis



BoI was no different and if we didn't take action our pension liabilities would adversely affect our ability to grow



Market Developments

- **Many organisations facing similar issues**
 - Large, growing deficits
 - Impacting business strategy
- **Some making major changes to benefit arrangements**
 - Closing to future accrual
- **Others making more modest changes**
 - Introducing DC schemes for new entrants
 - Moving to Career Average pension arrangements
- **Most reviewing their pension and investment strategies to address serious strategic challenges**



Background - Our Pensions Environment

Where we were

- BSPF main Pension Scheme
- Variety of schemes and benefits across Group
- Admin arrangements dispersed
- Inconsistency in benefits & governance

The need for transformation...

- Multiplicity of Group Schemes
- Funding Positions deteriorated in some schemes
- Market Volatility/Acct standard changes
- Improving mortality rates/ future uncertainty
- Pension deficits could hinder expansion plans



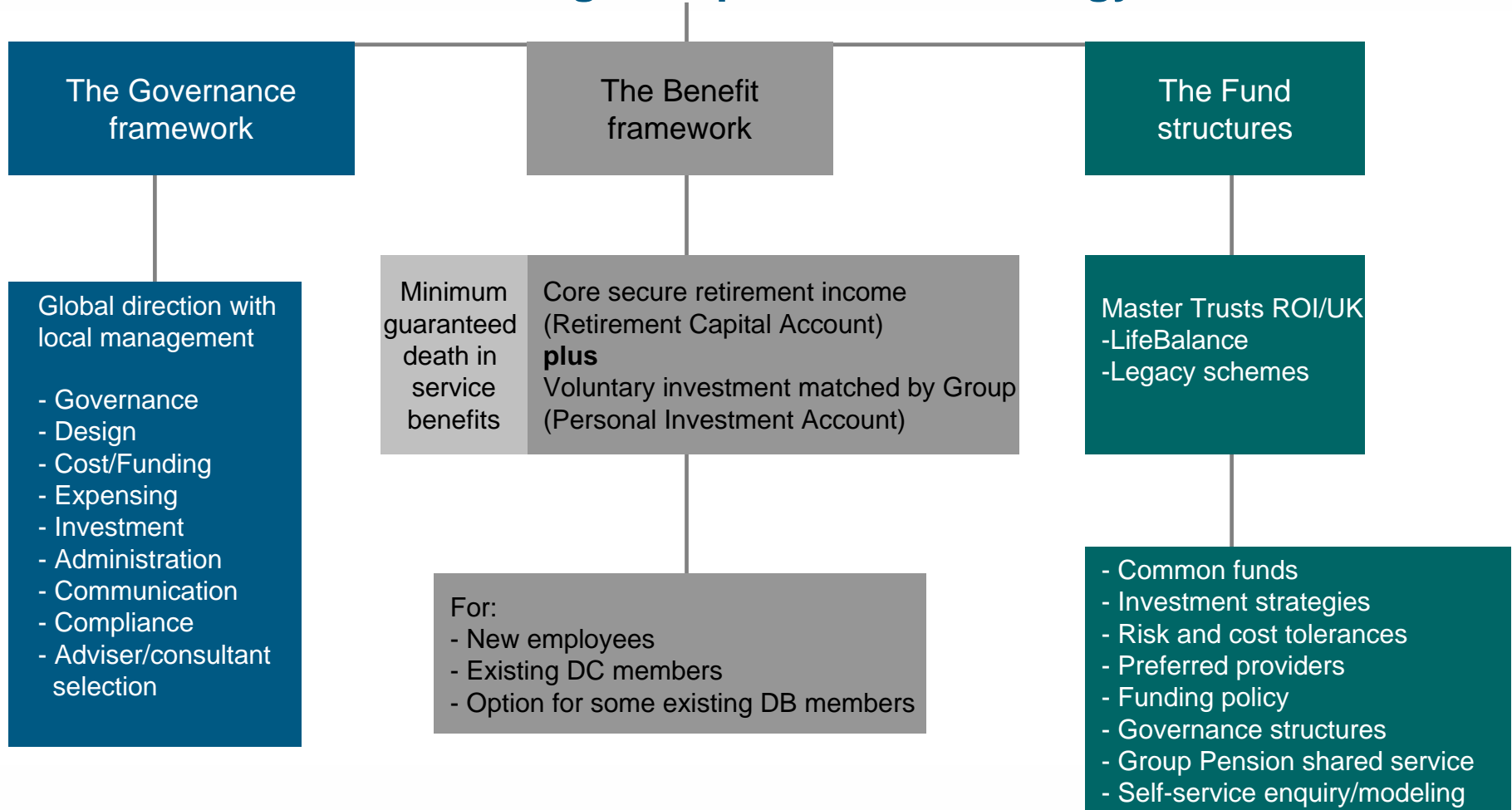
Bol Pension Principles 2003

- **Structure pension provision in a way which offers progressive benefits for staff, within the overall strategic needs of the Group**
 - Providing competitive, progressive pension benefits
 - In a manner which minimises volatility of pension surpluses/deficits, while maintaining costs at an acceptable level
- **Ensure consistency in pension provision across Group**
 - All schemes contributory
 - Standardisation of authority levels
 - Facilitates mobility across Group businesses
- **Enable all staff to have a decent pension at retirement**
- **Streamline the provision of pension benefits in the Group**
 - Rationalising funds where possible
 - Centralising administration arrangements
- **Bol Group corporate values at heart of our pension benefit design**



Our Group Pensions Strategy outlined

The overarching Group Pensions strategy



New LifeBalance Scheme – how it works

Two complementary pension accounts...

Retirement Capital Account

Guarantees a sum for retirement:

- Bol takes risk by committing to providing a lump sum at a future date
- individual given a good deal of certainty

Personal Investment Account

Opportunity for greater returns:

- individual takes investment risk
- individual controls extra saving

Purchase of retirement benefits

- individual has choice over cash and annuity purchase

Plus : Death in Service Benefits

New LifeBalance Scheme - How Retirement Capital Account Works?

Year	Salary (3% incs with salary scale)	20% Credit	CPI Index @ 2.5%	Discretionary Inv Credit 2%	Total
1	20,000	4,000	-	-	4,000
2	22,096	4,419	100	80	8,599
3	24,300	4,860	215	172	13,846
4	26,616	5,323	346	277	19,793
5	29,049	5,810	495	396	26,493
25	96,232	19,246	9,497	7,598	416,217
40	168,978	33,796	31,469	25,176	1,349,219
45	197,948	39,590	44,132	35,306	1,884,310
		858,708	569,779	455,823	

This value, plus the value of the PIA is available to purchase benefits at retirement

Retirement Capital Account gives certainty

Employee gets a guaranteed value, which increases on a yearly basis

- This value is **guaranteed not to go down**
- It **does not lose** its original value, as the account is given **inflationary** and **discretionary investment-related increases** each year
- If the employee leaves the Group, no further credits are made, but statutory increases apply



While, the PIA gives an opportunity to optimise the benefit

- **Personal Investment Account is an optional defined contribution scheme**
- **Bank will match employee contributions up to 3% of salary**
- **Value grows in line with investment performance**
- **To produce additional value at retirement, for purchase of retirement benefits**



New LifeBalance Scheme - At Retirement.....

- **At retirement, employee uses the capital sum from RCA and (if applicable) PIA, to purchase pension benefits.**
- **The fund will make available a pension offer, including pension, and other dependant benefits.**
- **Employee has flexibility around how the proposal will be structured.**
- **Employee also has the option to use capital sum to purchase pension benefits from the market**



Benefit Analysis of LifeBalance Pension Scheme

Employer

- Delivers good retirement income for employees
- Provides greater control over pension plan risks
- Supports desired culture shift to employee empowerment and self determination
- Enables cost containment while supporting employee needs
- Versatile design for emerging needs and obligations

Employee

- Provides core secure benefit
- Protects dependants against contingencies
- Facilitates choice and increases ownership
- Balance between security and positive returns
- Facilitates Group wide mobility

How does it meet our objectives?

It meets our corporate business and pension aims:

- **Harmonisation and Integration**

- a common Global pension framework which might then be adapted for local market needs

- **Transformation**

- supports culture shift
- supports HR strategy: employer of choice, competitive to market, engaging employees to generate customer satisfaction, integration of wealth creation programmes
- corporate responsibility: reputation, responsibility to the wider community



Bank of Ireland Group Pensions Strategy

“Progressive, Versatile, Reliable - Balancing the Interests of all Group Stakeholders”

