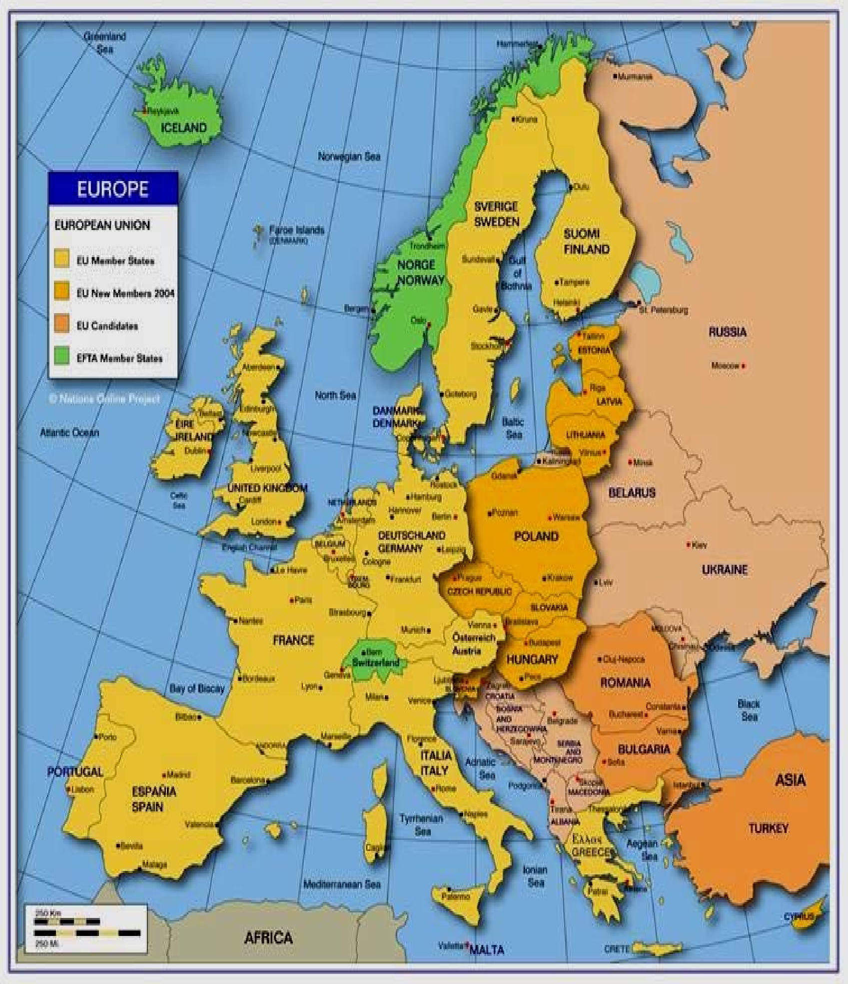

# DC IN IRELAND

James Kavanagh
Conference Chair

iapf
the voice of Irish pensions
ANNUAL
DC CONFERENCE

# *From Perfect Storm to Ash Clouds...*

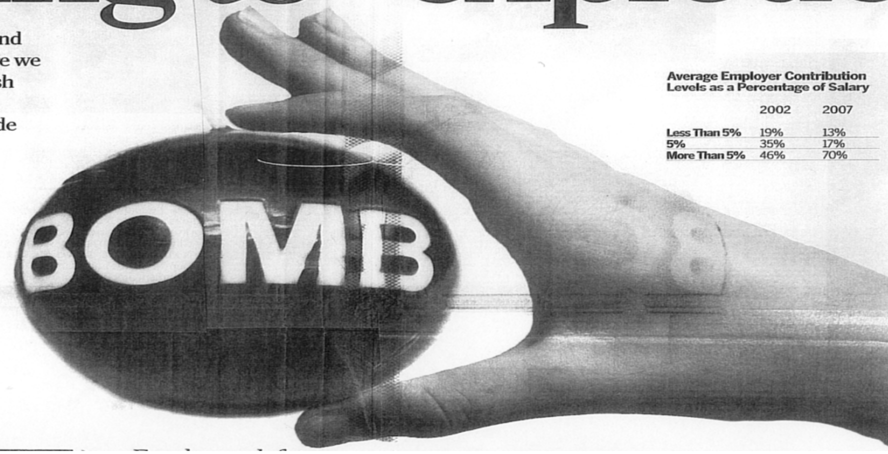




# GDP Analysis 2008


# Waiting to explode

We are being forced to work longer and longer into our golden years to ensure we have a decent pension. But as the Irish population ages, experts are asking: will there be enough money to provide for our retirement? **Jon Ihle** reports




**Average Employer Contribution Levels as a Percentage of Salary**

| | 2002 | 2007 |
|---|---|---|
| **Less Than 5%** | 19% | 13% |
| **5%** | 35% | 17% |
| **More Than 5%** | 46% | 70% |

WHEN pensions were first introduced 120 years ago, life expectancy was low enough that there was a good chance you would die before you had a chance collect your retirement savings. Nowadays, people are living so long the worry is we'll be forced to keep working into old age just to make sure our money doesn't run out.

So if you're planning on hanging up your boots on your 65th birthday, think again. With the green paper on pensions due from the Minister for Social and Family Affairs, Martin Cullen, this month, the consensus is that we'll see a trial balloon on pushing the retirement age closer to 70.

Only in July Minister for Enterprise Micheal Martin spoke in favour of allowing people to continue working past age 65 – a position endorsed as progressive at the time by Age Action Ireland. But the tone of the conversation at the Irish Association of Pension Funds (IAPF) conference last Tuesday suggested we may need to encourage or even require over-65s to keep punching the clock.

Jerry Shanahan, national officer and head of pensions strategy with Unite, the country's second largest union, was blunt about the relationship between retirement and mortality.

"If you can increase the length of time people are in a job, they're more likely to die within the same number of years after retirement [as they used to]," he said. He added, however, that career extension should be voluntary. He was reluctant, too, to fully endorse the concept without some expansion of maximum drawdown.

Ibec's director of industrial relations Brendan McGinty found himself, unusually, in agreement with his union counterpart – but was keen to make public sector arrangements part of the debate.

"It's inevitably going to be on the agenda – we've already seen some moves towards flexibility," he said. "How sustainable is it to continue with early retirement arrangements we've seen in the public sector?"

With average public sector pension pro-

**BEHIND THE JARGON:**

Pensions explained

**Defined Benefit:** DB schemes guarantee a level of pension coverage, usually related to length of service, which makes post retirement financial planning easier. Often this type of scheme is integrated with the state pension. Contributions vary, however. If investment returns cannot meet the agreed benefit, members will have to increase the amount of money they put in.

**Defined Contribution:** Instead of a guaranteed benefit, DC schemes have set contributions for employer and employee. These contributions are invested on behalf of the member, who bears the risk. While the contribution rate is fixed and predictable – making the scheme simple to fund – the out-turn of the investment can't be known until close to retirement. If returns are good, it's a boon to the member. However,

# Government's public pension bill hits €75bn

By Kathleen Barrington

The state's pension bill for all serving and retired public servants has soared to €75 billion, according to government estimates disclosed in the Dáil last week.

The disclosure of the figure comes at a time of growing private sector criticism of the size and value of the public sector pay bill and pension benefits.

The figure was disclosed by incoming Taoiseach Brian Cowen, who is still Minister for Finance, in response to a question tabled by Joan Burton, Labour's finance spokesman.

The Labour deputy had asked for an analysis of public sector pension liabilities in accordance with IAS19, the accounting standard used by private sector firms to estimate their future pension liabilities.

Cowen replied that IAS19 was not used in the public service. However, an exercise had been carried out to estimate the accrued liability for public service occupational pensions.

"As of 2007, the accrued pensions liability in respect of all serving and retired public servants was estimated at €75 billion," Cowen said.

"The mortality assumption underlying this estimate is based on a special mortality table which was considered appropriate for use in forecasting pension costs for public servants. Under this mortality table the life expectancy for a male aged 65 is 22 years."

It is unclear why the pensions bill has soared so dramatically. One theory is that the government is now using more accurate mortality tables to reflect improved longevity.

Increases in the liability would also reflect the impact of rising public sector staff numbers, pay rises which were awarded to public servants through the first round of benchmarking and the national pay agreements.

"It is a huge increase on previous estimates," Burton said. "It needs a very detailed examination."

The Labour Party's deputy leader said the increase was a matter for discussion with the social partners.

"The value of pensions going forward will have to be included as one of the items in calculating public service pay," she said.

While it was right that public servants should enjoy decent pensions, a lot of people in the private sector would look on public sector pensions "with envy", she said.

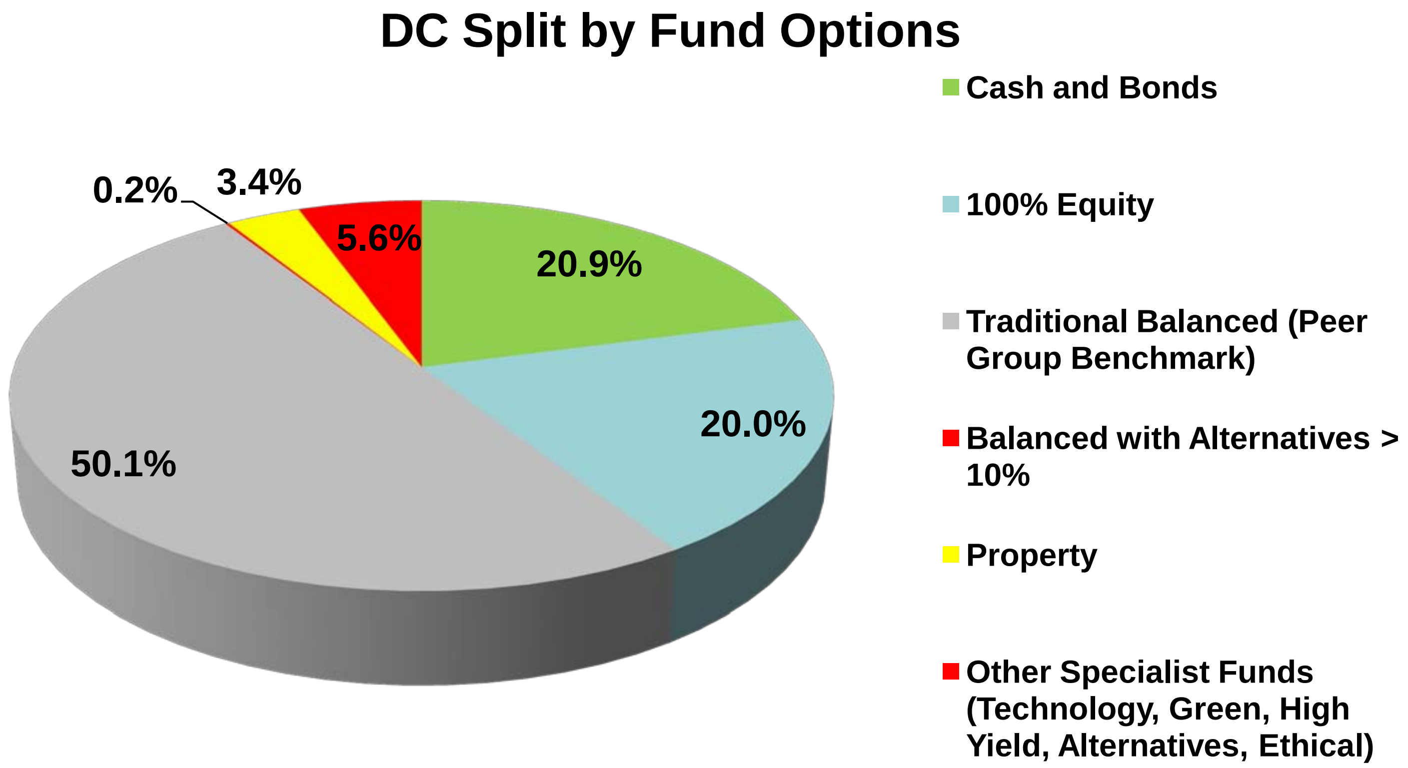

# DC – Schemes by Size

| 2009 – Schemes | 2009 – Members |
|---|---|
| **82,939** | **266,909** |

| | 2008 - Schemes | 2008 - Members |
|---|---|---|
| Non – Group | 60,504 | 68,504 |
| 1 to 50 | 21,330 | 89,277 |
| 51 to 99 | 332 | 22,952 |
| 100 to 500 | 222 | 41,338 |
| 501 to 1000 | 19 | 13,422 |
| 1001 + | 17 | 36,704 |
| Total | 90,424 | 272,197 |

Source: Pensions Board Annual Report 2008

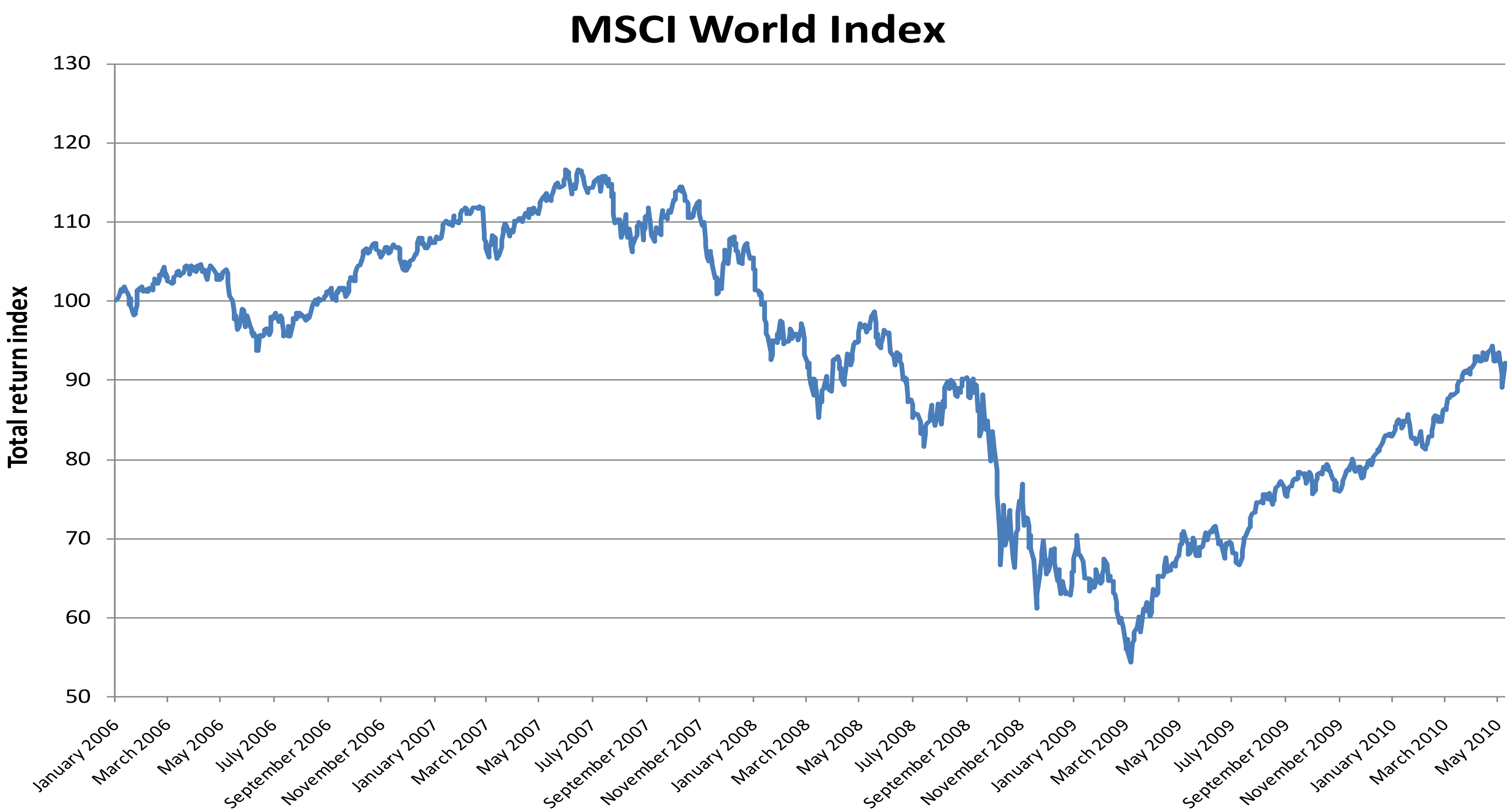
# DC – Schemes by Fund Size




**Value of DC Assets as at 31.12.09 was €23.7 billion**

Source: IAPF Pension Investment Survey 2009

# The Investment Performance Snapshot ...




# Questions to ask and “promises” to unfold ...

## Investment Performance

- What type of investment risk will Trustees offer?
- What innovative products and fund choices can we expect ?
- What can be done to protect future pension valuations and funds?

## Member’s Expectations

- Is it fair that members take all the burden of ownership in DC?
- Is there anything else we can do to help members?
- What about pension adequacy?

## Communications

- Are Trustees and sponsoring employers doing enough?
- Are members fully “engaged”?
- Is it time to shift focus from educating members to assisting them?

## Governance

- Are Trustee’s pro-active enough?
- Trustees’ efforts  for increased membership Vs participation rates?

## State Intervention

- What about the National Pensions Framework (NPF) ?
- Will the NPF deliver on themes of adequacy, simplification,
- fairness, flexibility and sustainability?

# Thank You

James Kavanagh

Conference Chair