IAPF PENSION MARKET SURVEY

Irish Association of Pension Funds

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This Survey was commissioned by the IAPF and conducted by

UCD Michael Smurfit School of Business
Scoil Ghnó Michael Smurfit UCD

IAPF PENSION MARKET SURVEY

Prepared for:

Irish Association of Pension Funds

Prepared by:

Meabh Connellan

Sinead Conlon

Raymond Doyle

Marketing Advisors, UCD Marketing Development Programme

Editorial: Mr John O'Connell, Trident Benefit Consulting

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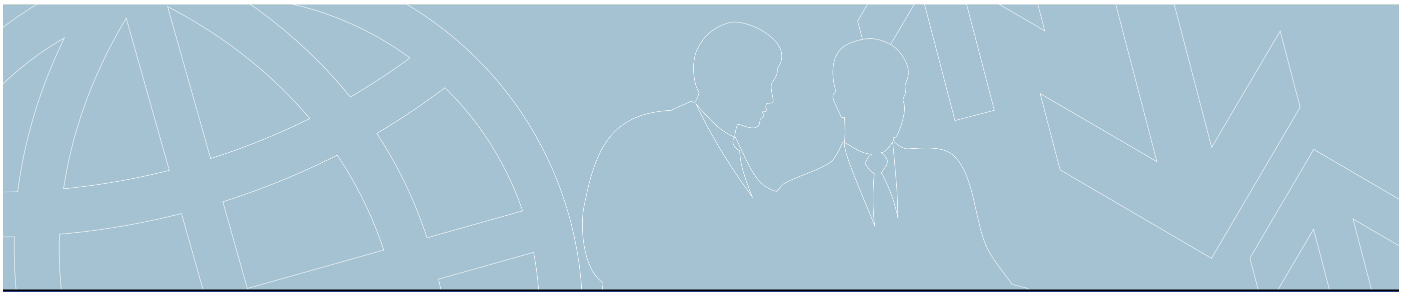


SECTION 1: INTRODUCTION

The IAPF 2007 Pension Market Survey was designed to highlight changes in the provision of pensions since the last major comparable survey, the 2002 IAPF Benefit Survey.

A considerable effort went into this Survey. Members of the IAPF Benefits Committee designed the survey; it was conducted diligently by the Marketing Development Programme of the UCD Michael Smurfit School of Business but the greatest thanks is owed to the participants who took the time to fill in the questionnaires enabling us to collate this valuable information.

The last five years has seen considerable change:

- The introduction of PRSAs

- The introduction and now maturity of SSIAs which naturally diverted part of the appetite for long-term saving away from pensions

- The extension of the freedom of choice which ARFs bring to more retirement funds (although ARFs are still not available in the main to the ordinary PAYE worker)

- A consideration of mandatory pension coverage

With regard to defined contribution schemes, it is likely that over the coming years a key theme will be the adequacy of funding. The IAPF highlighted this issue through major reports in 2003 and again in 2005. In the meantime, there has been little improvement in the adequacy of funding with some marginal improvement in contributions (see section 5 on DC contributions).

The Pension Trends Survey delves a little deeper than the national statistics in order to give an indication of the overall quality of pensions offered and how this quality is changing over time.

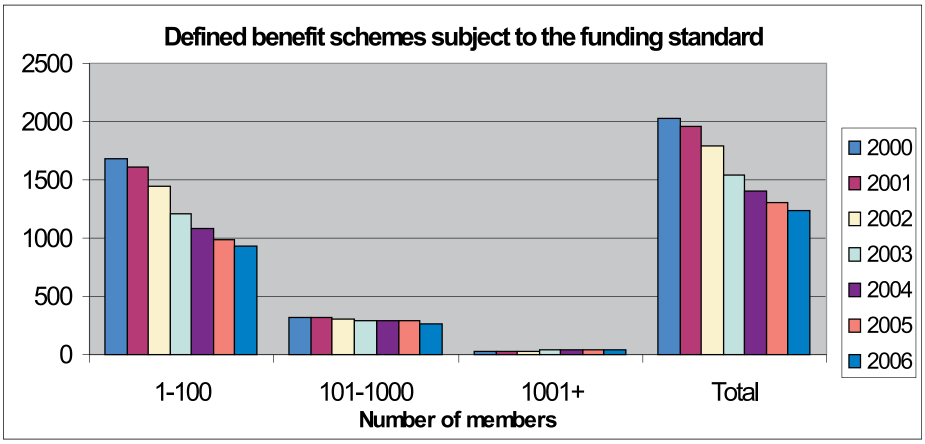
This Survey has many uses:

- For the IAPF it provides us with a 'temperature test' of the pension market which allows us to represent our members' views more effectively

- For our members, it allows you to assess the position of your pension scheme relative to others.

As with any survey, the results represent a sample of those who participated and care should be taken with the use of the results. 214 completed the survey in 2002 while 132 completed it in 2007 and the respondents are not necessarily the same as those in 2002. More than anything, the results give us a flavour of the changes which have taken place in pension provision rather than reflecting change with pinpoint precision.

The solvency crisis which started in 2002 resulted in a large number of defined benefit schemes failing the Minimum Funding Standard set down by the Pensions Board and this placed a lot of stress on pension schemes. Over the last five years, the number of defined benefit pension schemes has fallen considerably, particularly in the case of schemes with less than 100 members:



Source: Pensions Board annual reports 2000-2006

These statistics exclude schemes exempt from the funding standard – largely public sector schemes.

Nationally, 795,000 Irish employees are members of pension schemes:

- Defined contribution	255,000
- Defined benefit (subject to funding standard)	270,000
- Defined benefit (excluded from funding standard)	270,000

In addition, there are approximately 110,000 PRSAs many of which have been taken out by self employed persons who can also fund for retirement through personal pension contracts.

Source: Pensions Board Annual Report 2006 and Pensions Board press release August 2007

We would very much welcome any feedback you may have on this Survey.

SECTION 1: INTRODUCTION

Structure of survey

The Survey comprises six main sections:

- Key trends
- Overall pension provision
- Defined benefit
- Defined contribution
- Main changes
- Opinions

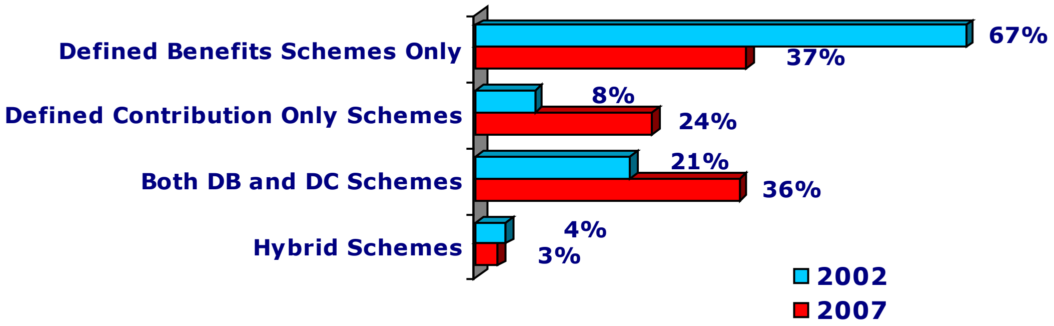
While obviously the key trends section will be of interest to all, we would encourage you to familiarise yourself with the other sections as well.

Regardless of the type of pension scheme you currently offer in the main, you should find it beneficial to know more about the alternatives being offered by the employers whom you are competing with for talent.

SECTION 2: KEY TRENDS

There has been a considerable change in the relative positions of defined benefit vs. defined contribution since the last survey:

Figure 1: Pension Scheme by type



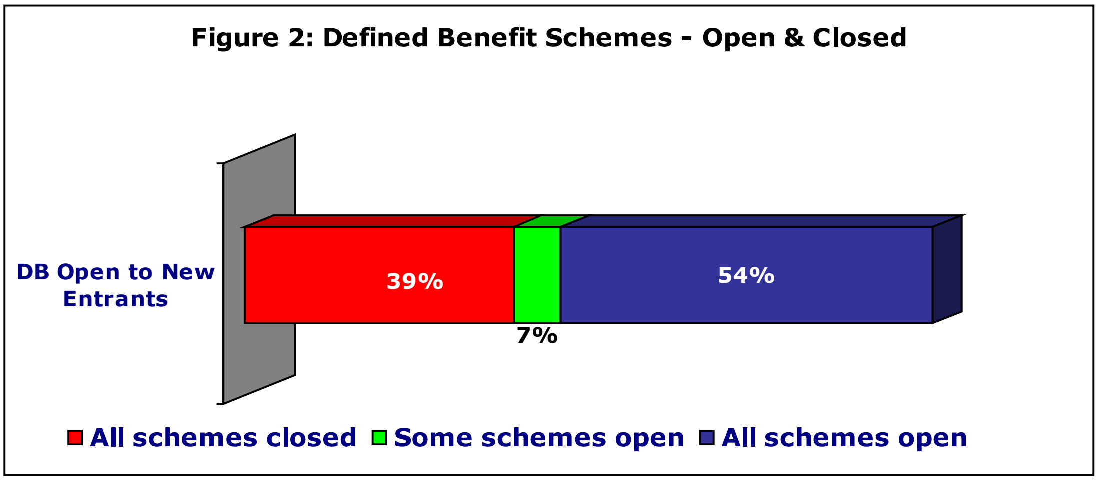
Type of pension scheme offered	2002	2007
Offering defined benefit only	67%	37%
Offering defined contribution only	8%	24%
Offering both DB and DC	21%	36%
Offering hybrid	4%	3%

The table above is very interesting as it indicates a trend in the respondents from a largely defined benefit base towards a defined contribution base.

This is an issue which the IAPF has recognised over the last number of years and in fact two of the most important issues which we have raised over the last few years have been DC focused:

- Extending the ARF flexibility to ordinary members of DC plans, and
- Promoting an awareness of DC adequacy

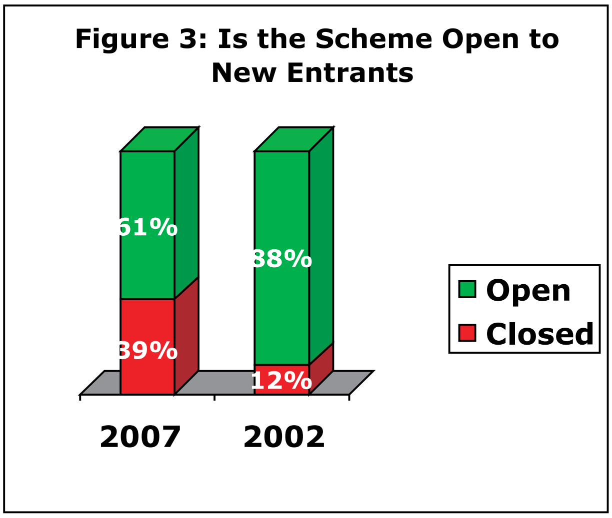
We also now have a dedicated DC committee to highlight DC-specific issues which members have raised requiring IAPF representation.



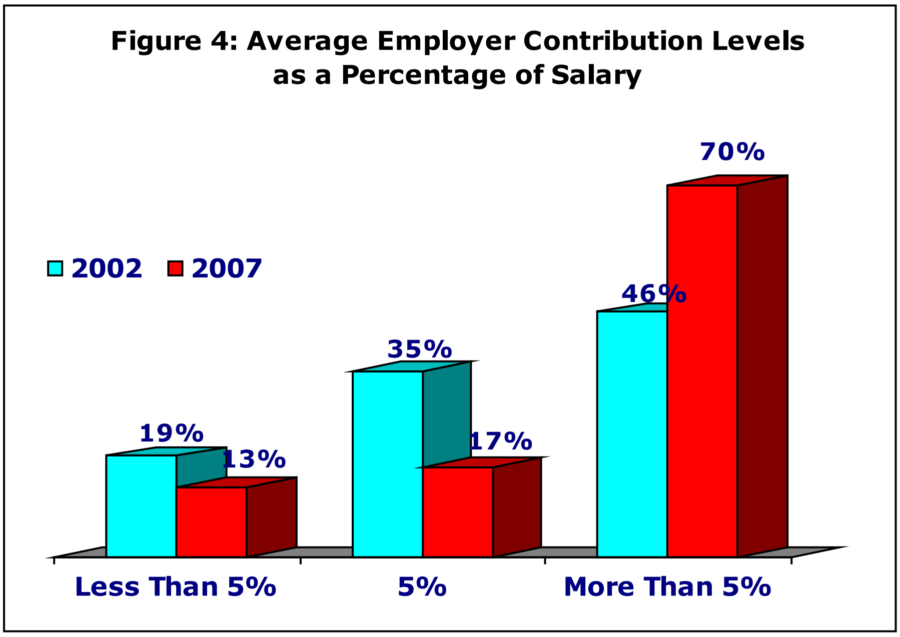
The above chart sheds more light on the transition towards defined contribution.

39% of companies sponsoring defined benefit schemes have completely closed their schemes to new members, while 46% have closed one or more of their defined benefit schemes.

The 39% of defined benefit schemes closed to new entrants compares with 12% in 2007, as shown below:

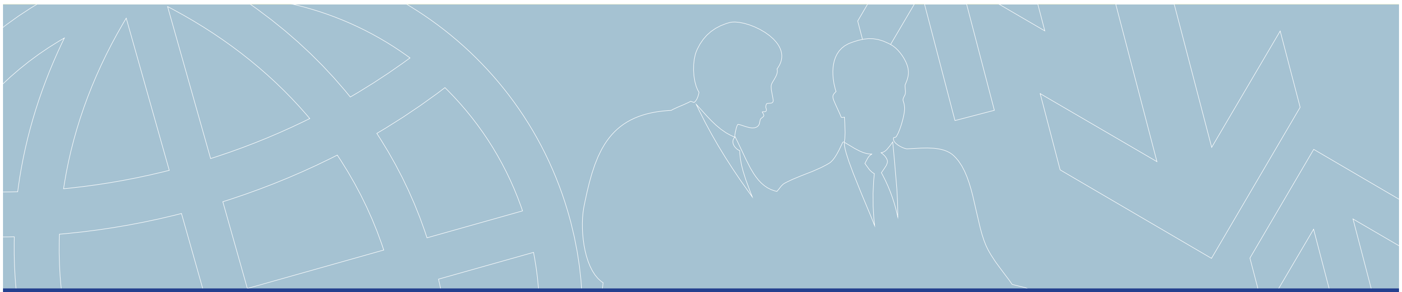


There has been an improvement in the quality of DC, as illustrated below. Many defined contribution schemes were set up, and continue to operate, on the basis of quite low employer contributions. 13% of schemes have an employer contribution rate of less than 5%. It is important that members of defined contribution schemes understand the likely level of benefits which will emerge based on the existing level of contributions so that they can decide whether to contribute additional AVCs. The disclosure regulations will be expanded shortly to provide defined contribution members with the information they require to form this judgement and the IAPF strongly support this.



While we accept that the employer contribution to a defined contribution scheme is simply that – a contribution – and is not designed to target a particular level of retirement benefits, it is encouraging that the trend of contributions is upwards.

Furthermore, 9% of respondents stated that they intended to increase the employer contributions into their defined contribution scheme over the next two years.



SECTION 3: OVERALL PENSION PROVISION

The survey indicates that very many employers operate both defined benefit and defined contribution schemes:

Q: Please indicate below how many pension schemes of each type you have in Ireland?

96 respondents operated at least one defined benefit scheme and 82 at least one defined contribution scheme. The percentage who operated multiple schemes is as follows.

Number of schemes	Defined benefit	Defined contribution
1	65%	74%
2	25%	15%
More than 2	10%	11%

Figure 5: Pension Scheme by type

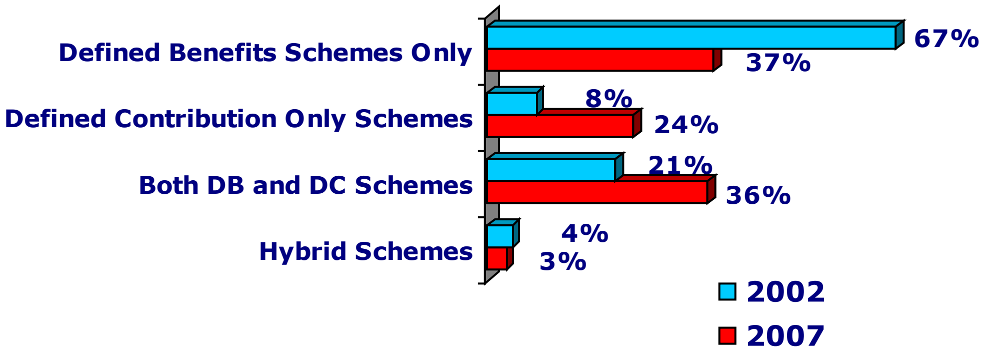
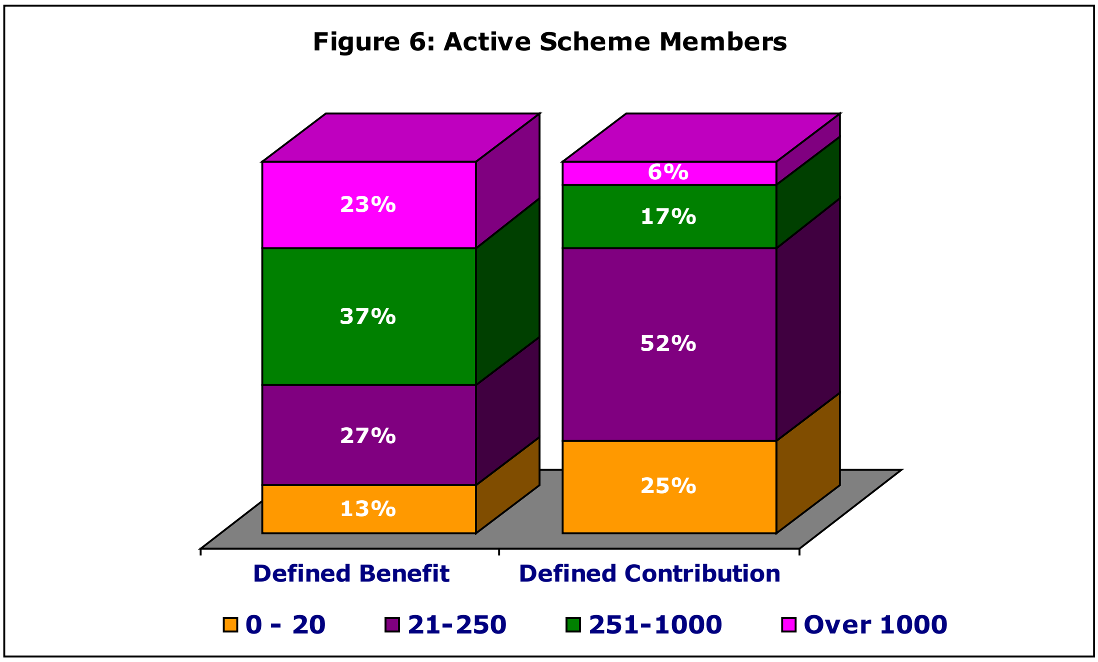
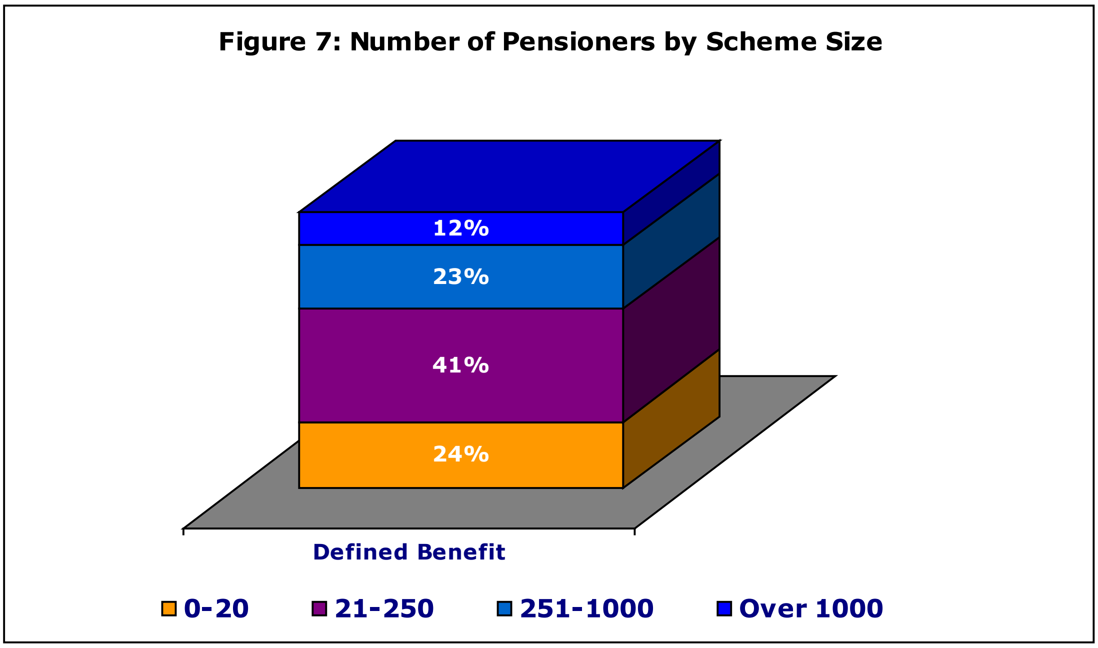


Figure 5 indicates that over a five year period, the number of survey respondents whose benefit policy was based entirely on defined benefit provision has fallen sharply.

The survey indicates that while defined benefit schemes have over a long period been overshadowed by the growth in defined contribution, they continue to account for the bulk of assets.

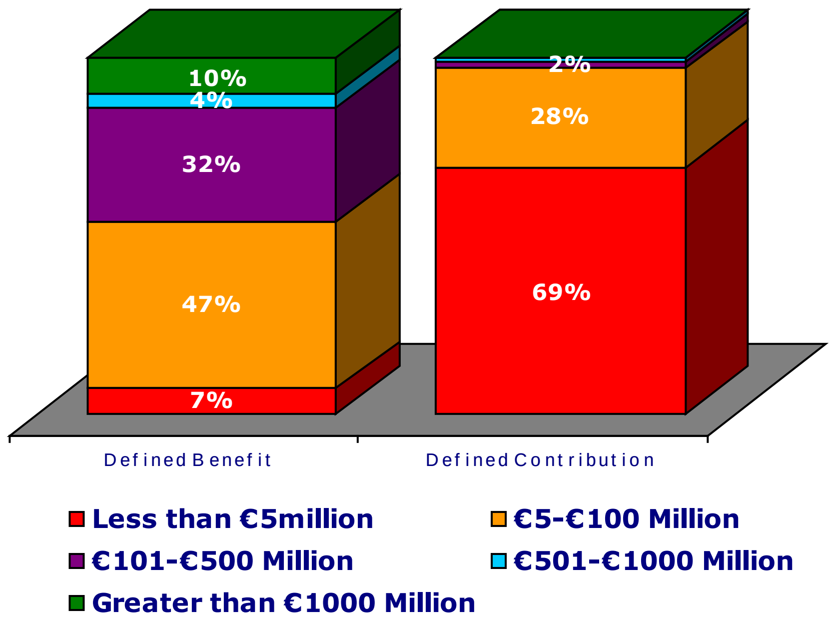
As regards all other measures, including active members, defined benefit continues to dominate in respect of large employers.





Comparative information is not available for defined contribution as annuities are purchased at retirement for defined contribution retirees.

Figure 8: Approximate Asset Value of each Pension Type in Ireland



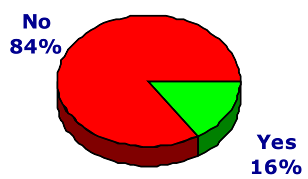
PRSAs

Finally in terms of overall pension provision, 60% of employers provide a PRSA facility. Of those that do, just 16% of employers contribute to the PRSA.

Q: Does your company provide a payroll facility for PRSA's? If yes, does the employer make contributions?

Figure 9: PRSA Payroll Provision

Figure 10: Employer Contributions to PRSA



SECTION 4: DEFINED BENEFIT PLANS

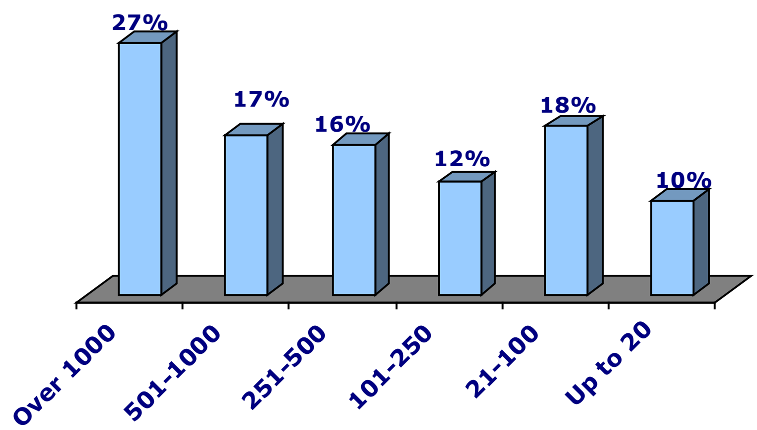
The majority of defined benefit (DB) pension schemes were established before 1990:

Before 1972	38%
1972-1990	44%
Since 1990	18%

The responses reflect a cross section of scheme sizes. Large schemes are well represented in the survey as indicated below.

Q: How many employees are covered by this Scheme?

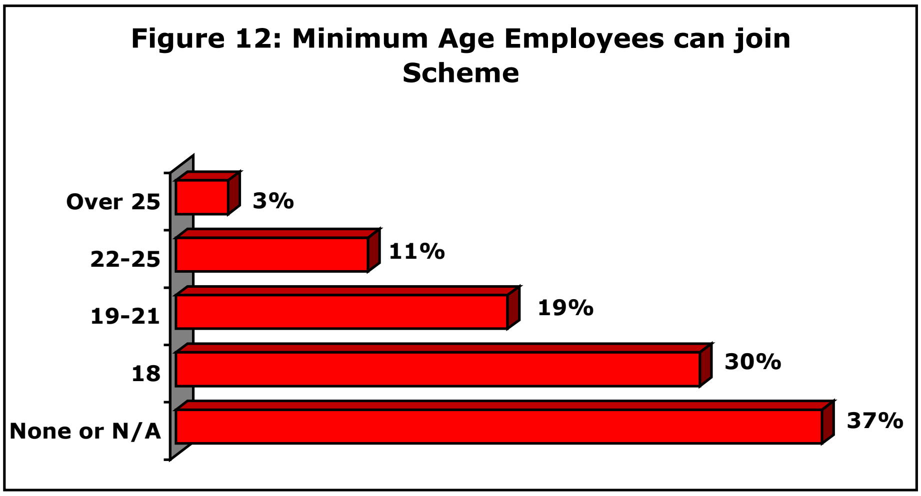
Figure 11: Employees covered by main DB Scheme



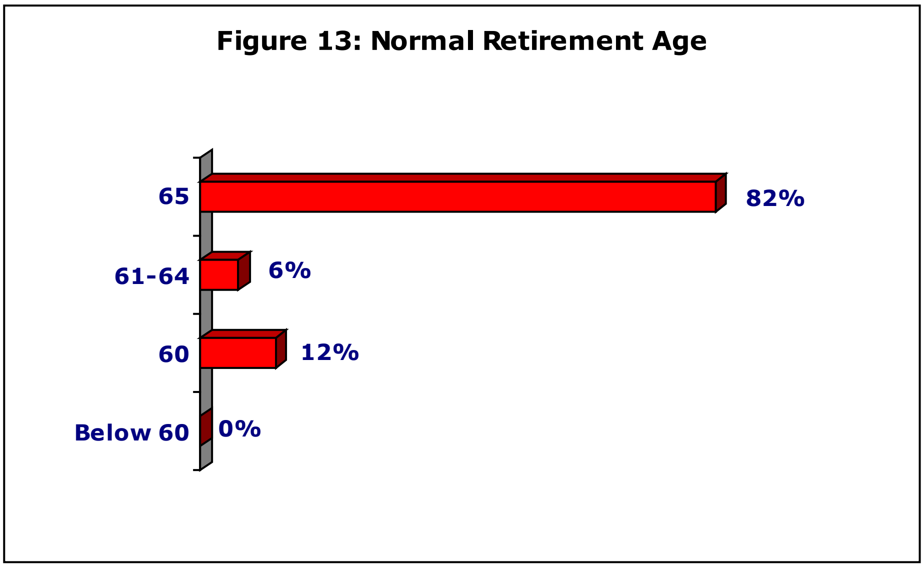
Eligibility

Eligibility remains mixed with little evidence that the requirement to offer a pension or PRSA to all employees with at least six months service has had any impact on eligibility design. While undoubtedly some employers changed the eligibility to reflect the six month condition, almost two-thirds of schemes have an eligibility condition that excludes some ages hence requiring a PRSA to be available in addition to the main pension plan for those excluded employees.

Q: What is the minimum age at which employees can join the scheme?



It appears schemes whose eligibility does not dovetail with the statutory requirements (pension option available after no more than six months service) must provide PRSA access to excluded employees.

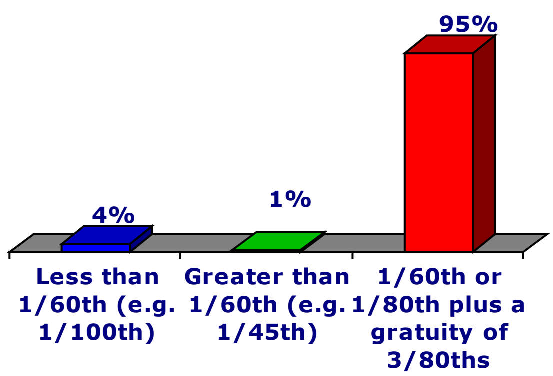


As expected, the most common normal retirement age is 65.

The survey indicates that 95% of schemes offer either 1/60th accrual per year of service or 1/80th pension + 3/80ths lump sum accrual per year of service.

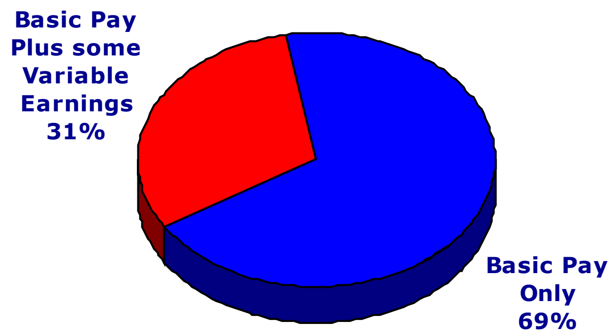
Q: Please indicate which rate of pension accrual is used for each year of future service for this scheme.

Figure 14: Rate of Accrual



Q: Are members' pensions based on:
- **Basic Pay Only**
- **Basic pay plus some variable earnings (eg. shift pay, commission, bonus, overtime etc.)**

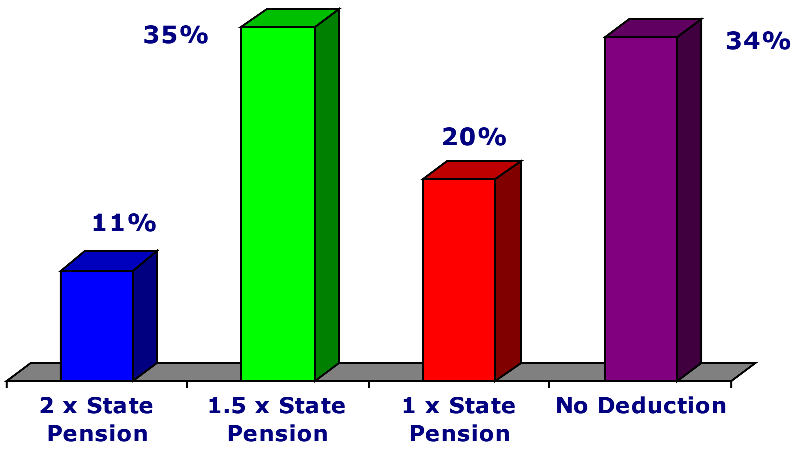
Figure 15: Basis of Member Pension



As is evident from figure 15, over two thirds of scheme provides a pension based on basic pay only.

Q: What multiple, if any, of the State Pension is deducted from pay in determining a member's pensionable earnings?

Figure 16: Multiple of State Pension Deducted



Note that the question posed was different to the 2002 question and hence the two surveys cannot be compared directly. A number of schemes make an adjustment for the State pension to scheme pension rather than pensionable salary and this adjustment is not captured in this data.

Most respondents indicated that they have not changed the offset applied by their scheme over the last three years.

Life Assurance

The vast majority of pension schemes provide the same lump sum death benefit for single and married members, perhaps recognition that many single members will have non-marital dependants.

Figure 17 : Lump Sum Death Benefit- Single Person

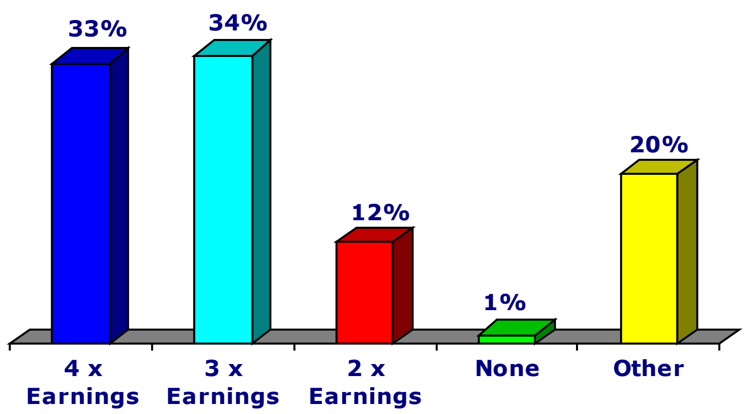
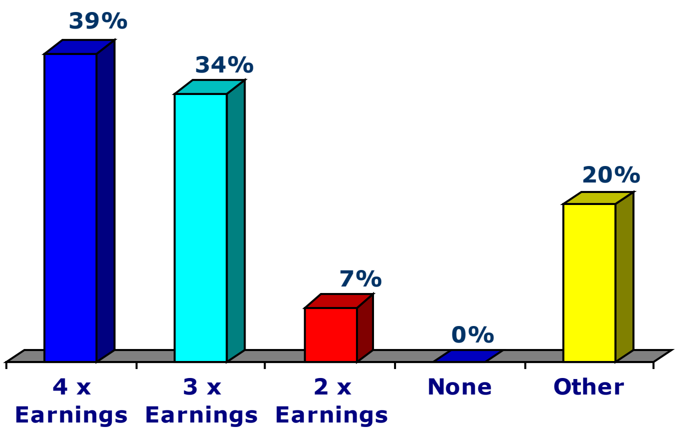


Figure 18: Lump Sum Death Benefit - Married Person



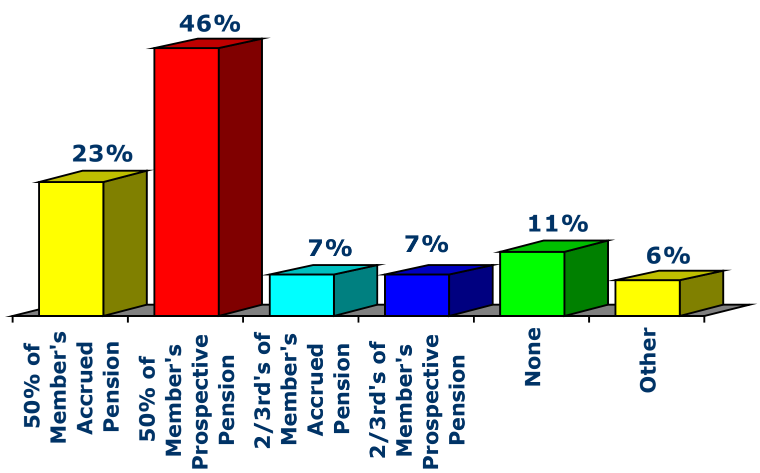
Only 1% of schemes stated that they reviewed lump sum life assurance levels during the last three years. There was an increase in the level of lump sums from 1999-2002 but the current statistics show no real change from 2002.

46% of schemes return member contributions in addition to the lump sum.

Spouse's pension on death in service

97% indicated no change within the last three years.

Figure 19: Spouses Pension on Death in Service



This question was rephrased since the last survey and the results are not directly comparable but appear broadly consistent.

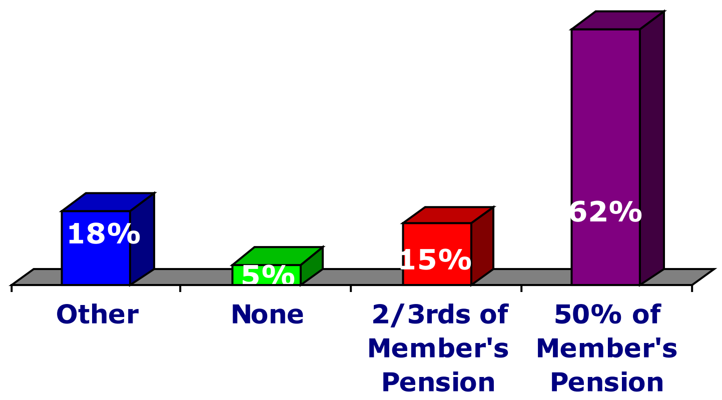
In addition:

- In 71% of cases, the spouse's pension increases in payment
- In 73% of cases, children's pensions are payable in addition

Spouse's pension on death after retirement

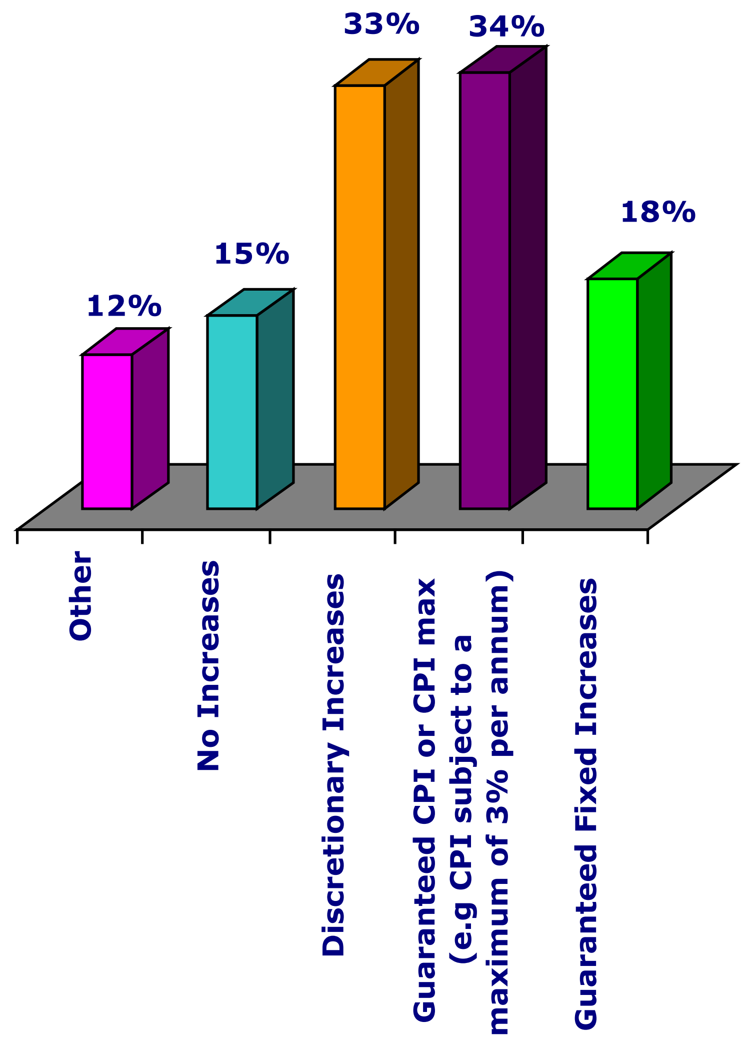
No pension schemes indicated a change in this benefit over the previous three years.

Figure 20: Spouse's Pension on Death After Retirement



The question posed was slightly different to the corresponding question in previous surveys and hence is not directly comparable.

Figure 21 : Pension Increases



The “other” category includes schemes which increase pensions infrequently.

Overall, therefore, in just 15% of cases there are no pension increases whatsoever – showing no real change in this area over the last ten years.

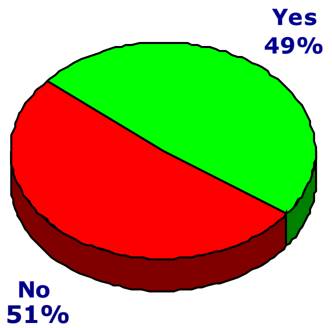
In the case of guaranteed pension increases, the most common increase in 2006 was 3%. In the case of discretionary pension increases, the most common increase in 2006 was also 3% with a range of 1% to 6%.

The data suggests that larger schemes are more likely to provide discretionary increases than smaller schemes, but there was insufficient data to be definitive on this point.

Ill Health Retirement and Permanent Health Insurance

Q: Does your main Defined Benefit Scheme provide for an enhanced pension on ill health?

Figure 22: Enhanced Pension on Ill Health

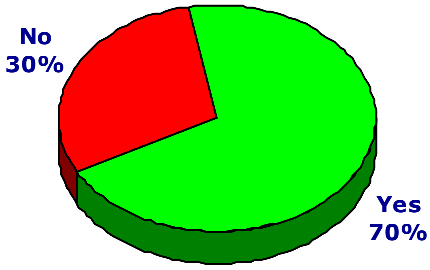


Of those schemes that do provide an enhanced pension on ill health, in 57% of cases the benefit increases automatically during payment. 70% of schemes separately insure members for a permanent health insurance benefit.

As both an enhanced ill health early retirement pension and permanent health insurance cannot be paid simultaneously, it is likely that in some cases, the trust deed's ill health retirement provision is not applied when a claimant is eligible for PHI.

Q: Does your organisation provide for a separate permanent health insurance or income continuance scheme?

Figure 23: Provision of separate Permanent Health Insurance scheme



When PHI is provided, there is an automatic increase in 71% of schemes.

Minimum Funding Standard

Reflecting the strong investment performance over the two years preceding the survey date and the increase in long-term interest rates which has eased pressure in terms of meeting the Standard, 67% of schemes meet the Minimum Funding Standard (MFS).

Of the schemes that fail the MFS, about half are electing to correct the deficit within the standard period of 3½ years (now 3 years) with the other half applying for a longer period. Although larger schemes are less likely to fail the MFS (Source: Pensions Board), not withstanding this, when they do fail they are twice as likely to seek a greater than 3½ year funding proposal period (now 3 years).

As mentioned in this section, larger schemes are more likely to provide discretionary pension increases and this explains the higher percentage of larger schemes which satisfy the funding standard, as discretionary increases are not counted as part of the funding standard. The IAPF has suggested that all pension increases be excluded from the funding standard and this proposal is presently under consideration.

Figure 24: Percentage passing the Funding Standard

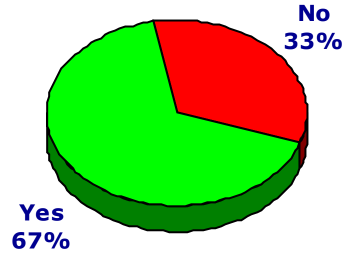
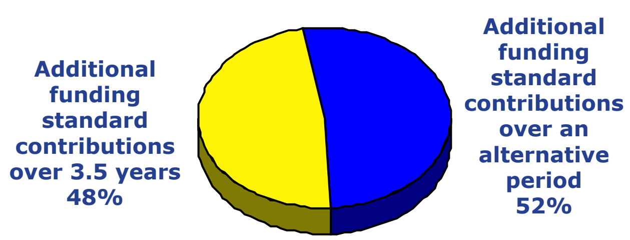
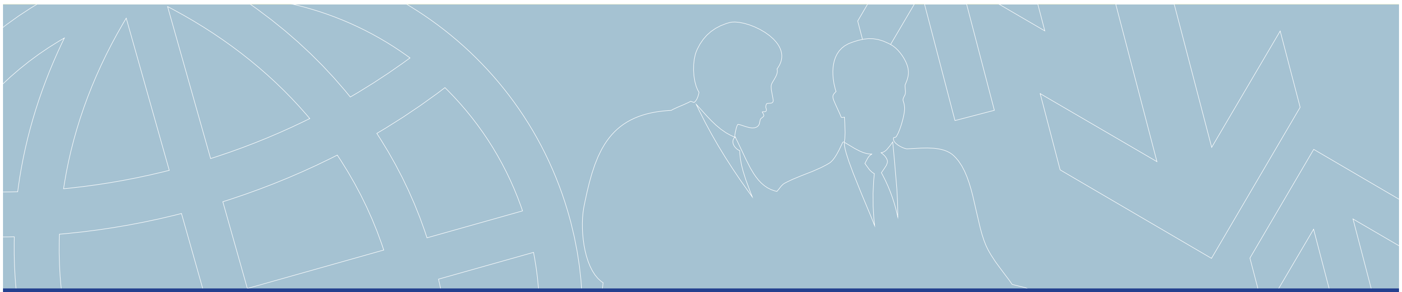


Figure 25: Funding Proposal Requirements



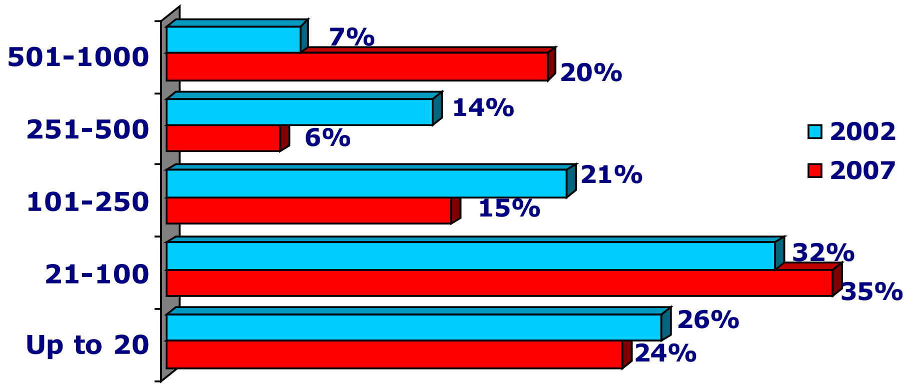
This section of the survey reflects the position of schemes in 2007 and is subject to regular change as investment conditions fluctuate.



SECTION 5: DEFINED CONTRIBUTION PLANS

88% of DC scheme responses were in respect of schemes which commenced since 1990. The increase in large DC schemes returning the survey in 2007 is evident.

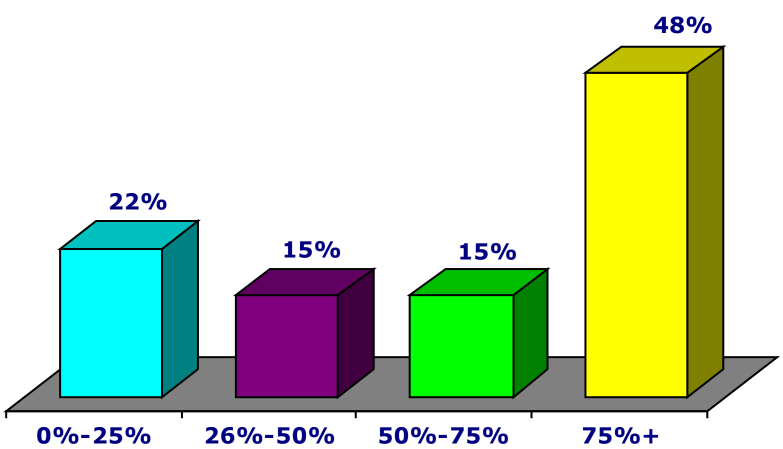
Figure 26: DC Schemes by Member Size



Eligibility in 67% of cases commences at 18 or younger; in 19% of cases 19-21 and in 14% of cases over age 21. Despite the growth in membership, many schemes remain small with just 4% of schemes totalling over €10m of which only one had assets over €25m.

A number of respondents indicated that membership of the main DC scheme was voluntary. In these cases, there was a very mixed level of take up:

Figure 27: Take up of Optional Membership



Of the compulsory schemes, almost one-third indicated that the scheme was previously voluntary during the last three years. Of the voluntary schemes, almost all indicated that they were voluntary during the course of the last three years.

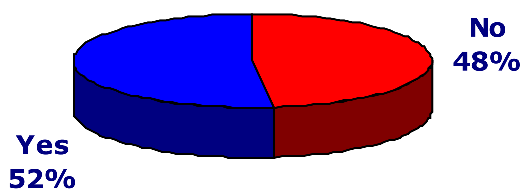
		Has this changed in the past three years or not?	
		Yes	No
Is membership compulsory?	Yes	28%	72%
	No	5%	95%

This is an interesting trend and may indicate that some employers feel that the long-term dangers of poor pension coverage out-weigh the additional costs of making a scheme compulsory.

Investment choices are wider than they were in the previous survey. 37% of schemes now provide a choice involving more than one investment fund compared to 30% five years ago.

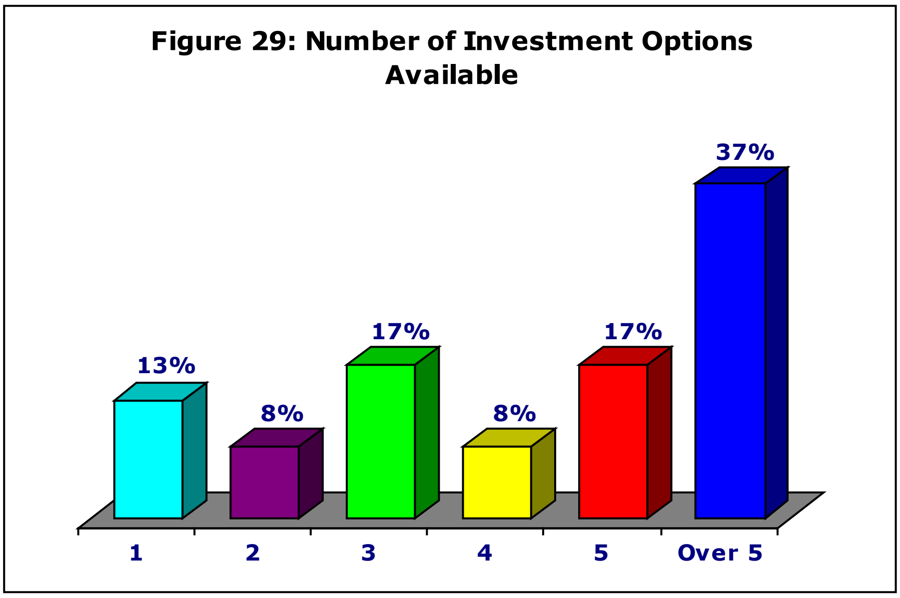
Q. Are members required to actively make an investment choice, or not?

Figure 28: Active Investment Choice

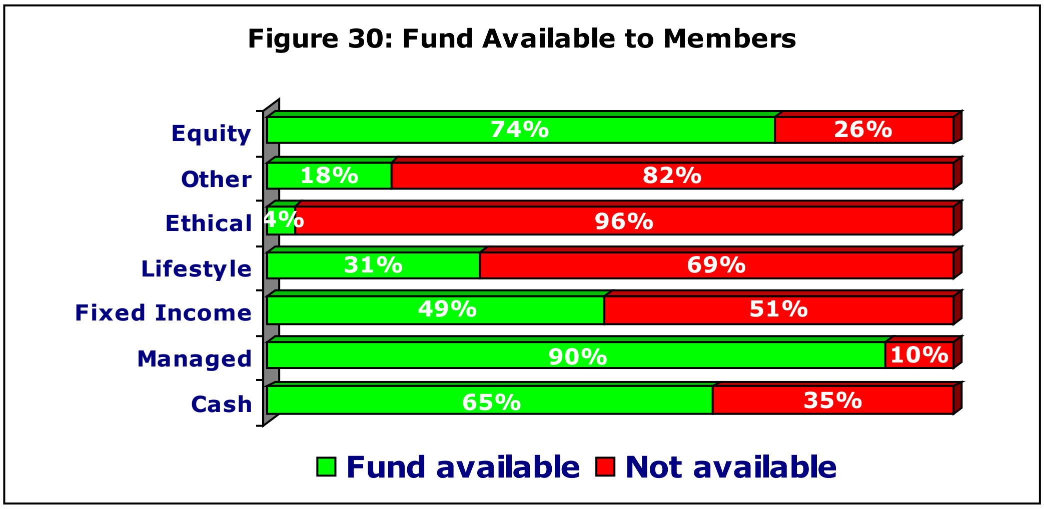


48% of schemes provide a default investment choice.

Q: How many investment options do the members have, if any?



Where no choice was available to members, in most cases the fund available was a managed fund. While a small minority of schemes offer no choice at all, in general a reasonable mix of funds is available to members, as illustrated below:



The most common normal retirement age is 65:

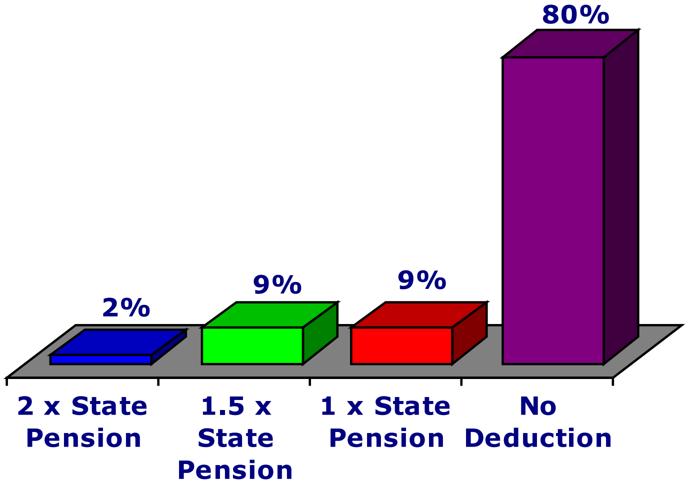
Normal retirement age	%	Previous %
65	73%	64%
61-64	2%	3%
60	25%	31%
Below 60	0%	2%

In most cases, basic pay was used to determine pensionable pay:

Figure 31: Basis of Pensionable pay

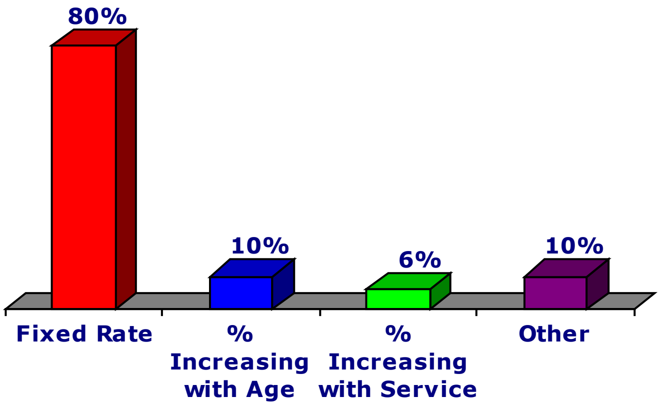
In most cases there was no deduction for the State pension when calculating pensionable pay. This represents a significant contrast with DB schemes and this can benefit low earners.

Figure 32: Integration with State Pension



The contribution basis for most schemes is fixed, with a minority increasing in line with age or service.

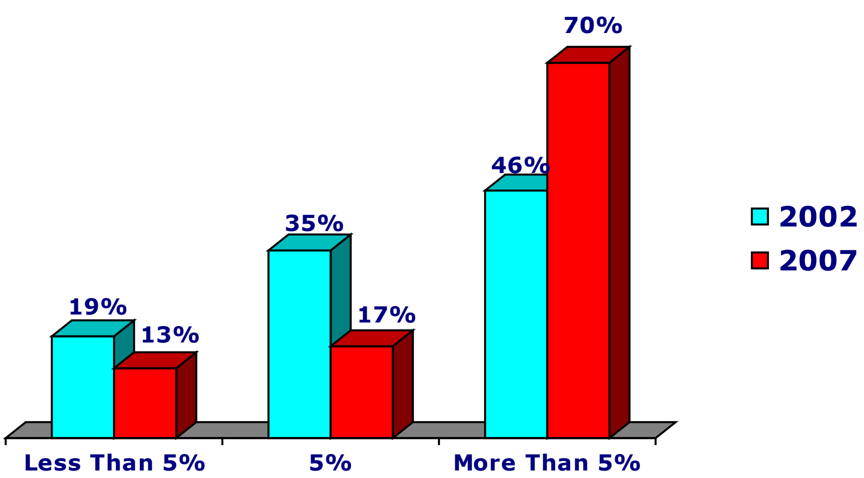
Figure 33: Employer Contribution basis



Care should be taken in the structuring of tiered employer contribution rates to avoid the potential to breach present or potential equality legislation, and advice should be sought if a doubt arises.

A significant number of companies (last three years – 20%) have reviewed their contributions over the last number of years and this has increased the typical contribution profile indicated by the survey.

Figure 34: Employer Contributions



78% of employers also pay the cost of insured benefits in addition to the headline contribution rate.

Furthermore, 13% of employers match employee AVCs up to a certain level. This is seen by some as an efficient way of targeting a limited benefit budget towards those who are most concerned about their pension coverage.

PHI

74% provide separate PHI benefit, with three quarters of those who provide a benefit also providing an increasing benefit.

Life Assurance

The most common level of life assurance indicated was four times salary, with the next most popular three times.

Figure 35: Single Person Life Cover

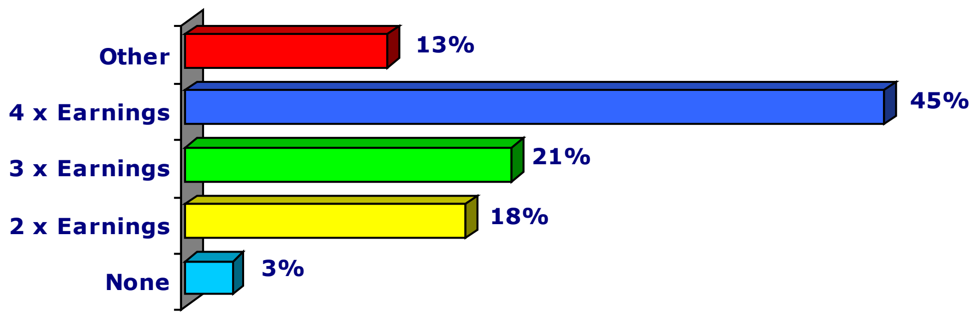
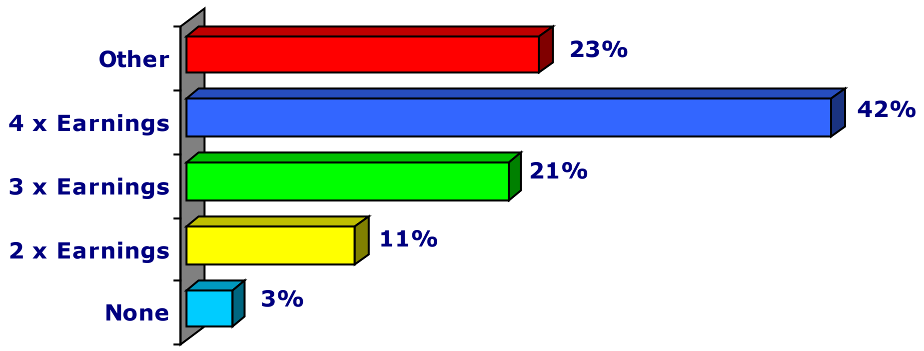


Figure 36: Married Person Life Assurance



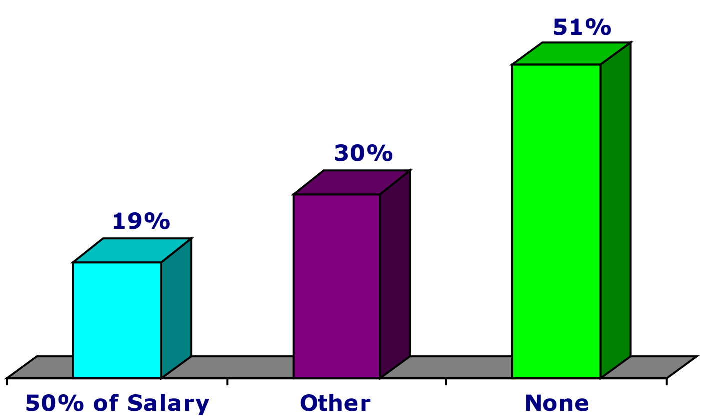
The 'other' responses included schemes with cover ranging from once to ten times earnings.

5% of schemes indicated that they have reviewed the level of life assurance cover during the last three years.

77% return member contributions in addition to the headline level of cover.

51% provide no spouse's pension on death in service:

Figure 37: Spouses Pensions



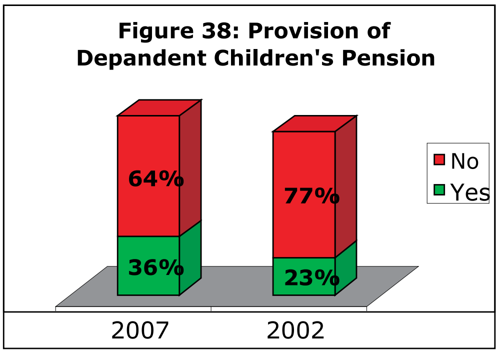
Regarding Figure 37, 'Other' includes cover ranging from 25% to 60% of salary as well as service-related and fund-related benefits.

When allowance is made for the combined life assurance benefits – lump sum and spouse's pensions – benefits are typically less generous than in the case of defined benefit schemes.

Of those schemes that do provide a spouse's pension on death in service, it increases during payment in 68% of cases.

There has been a slight increase in the percentage of schemes providing children's pensions (from a low base) as outlined in Figure 38.

Q: Are pensions provided for dependent children in relation to death in service, or not?

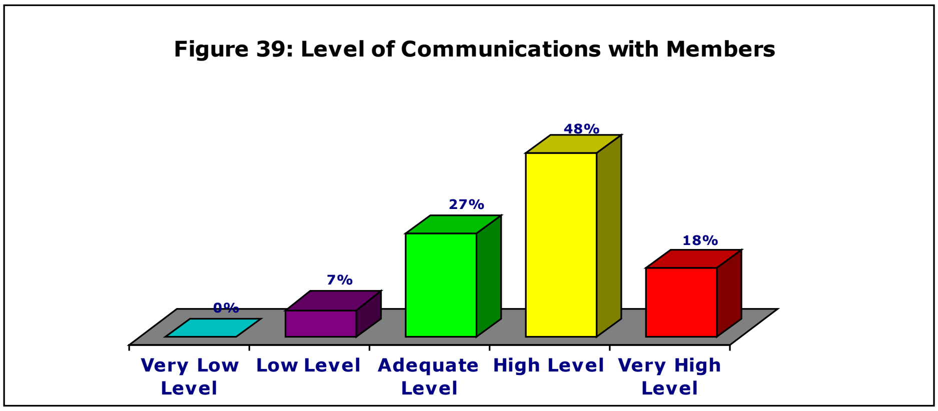


Most schemes follow the statutory vesting requirements:

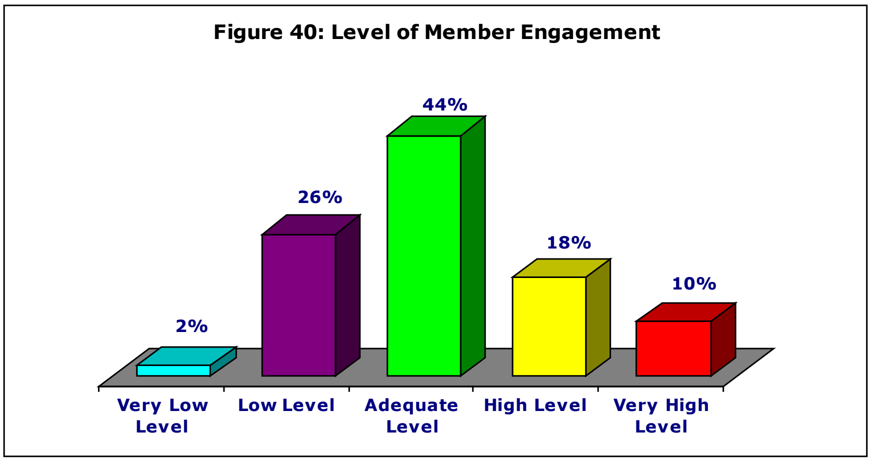
Vesting	%
Immediate	25%
2 years	75%

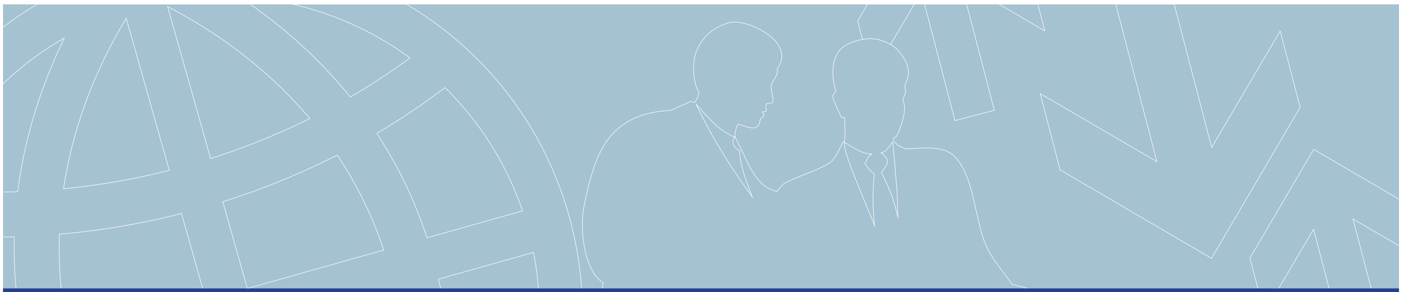
Scheme sponsors detect a lack of engagement among scheme members. Most (93%) feel that they are providing adequate communication to members but a reasonable proportion (28%) indicated that the members are not engaging sufficiently:

Q: Rate the level of communications, which is in place to assist members in understanding how the pension arrangement operates?



Q: Rate the level at which you consider members are engaging with the scheme?





SECTION 6: MAIN CHANGES

Defined Benefit

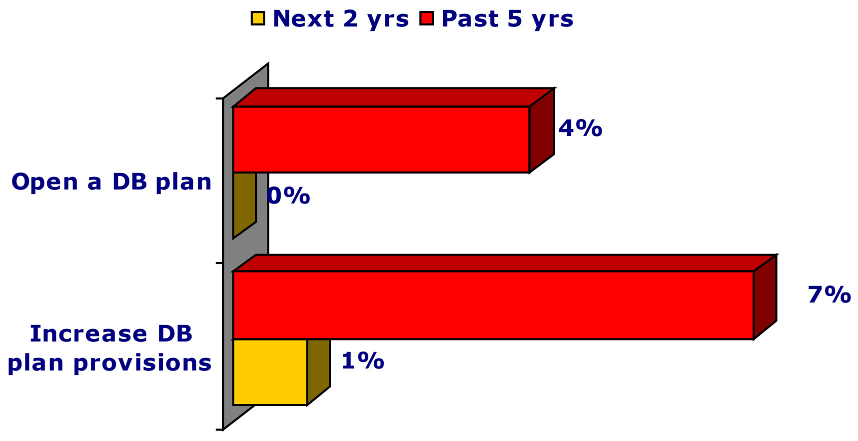
Despite the financial pressure which defined benefit schemes have been under for the past number of years, 4% of respondents indicated that they have opened a defined benefit plan over the last five years and 7% indicated that there have been benefit improvements.

Most respondents do not expect improvements over the coming years.

The historic improvements may partly reflect the implementation of improvements agreed with the workforce prior to the extent of the financial pressure on schemes becoming fully known.

Q: Which of the following changes if any, have been made to your organisation's pension provision in the past 5 years?
Q: Which of the following changes, if any, are under consideration for your organisation's pension provision in the next two years?

Figure 41: DB Changes over last 5 years and planned changes over next 2 years

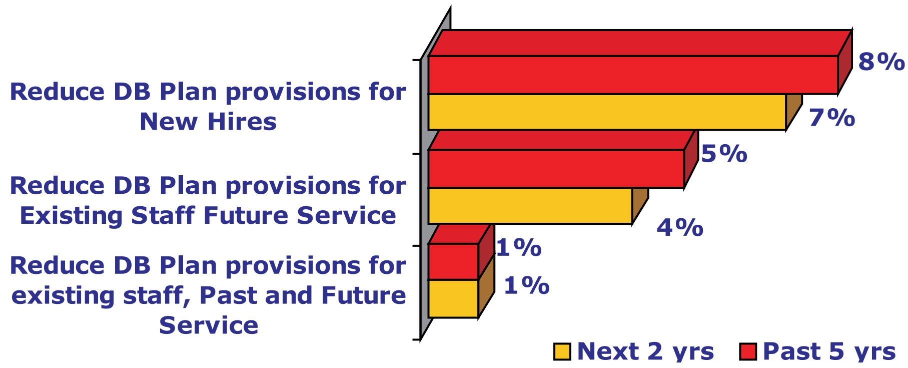


Of course for many employers, the cost of operating their defined benefit plan would have increased significantly over the last number of years, and markedly from the expected contribution level at the time the scheme commenced.

Reflecting the increased cost, and risk, a number of employers indicated reductions in entitlements in the future.

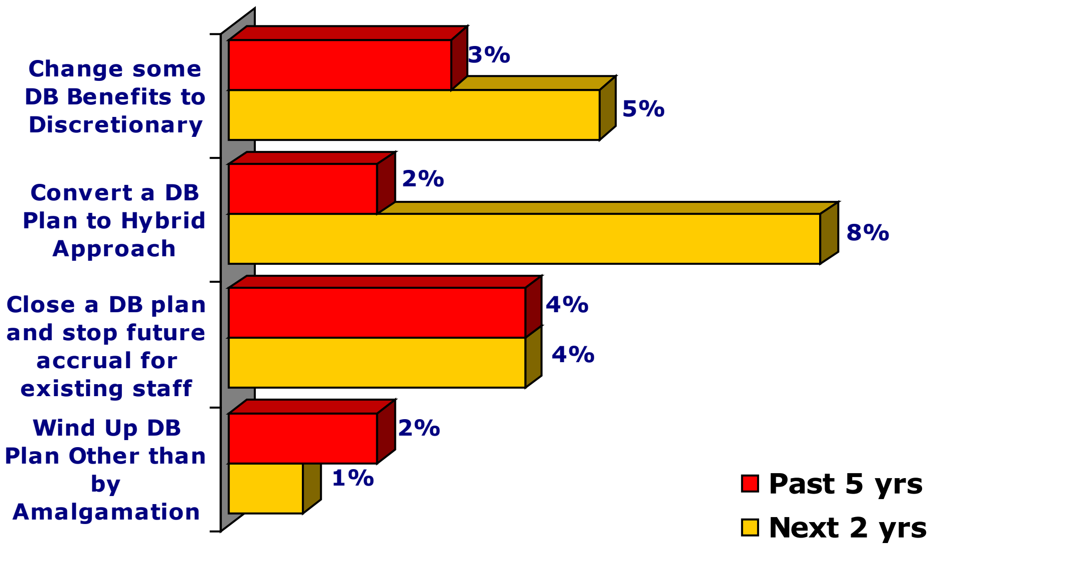
Q: Which of the following changes, if any, have been made to your organisation's pension provision in the past 5 years?
Q: Which of the following changes, if any, are under consideration for your organisation's pension provision in the next two years?

Figure 42: Changes Made or under Consideration to Employee Benefits by Member



In terms of how these changes will be effected, a range of solutions are being given consideration:

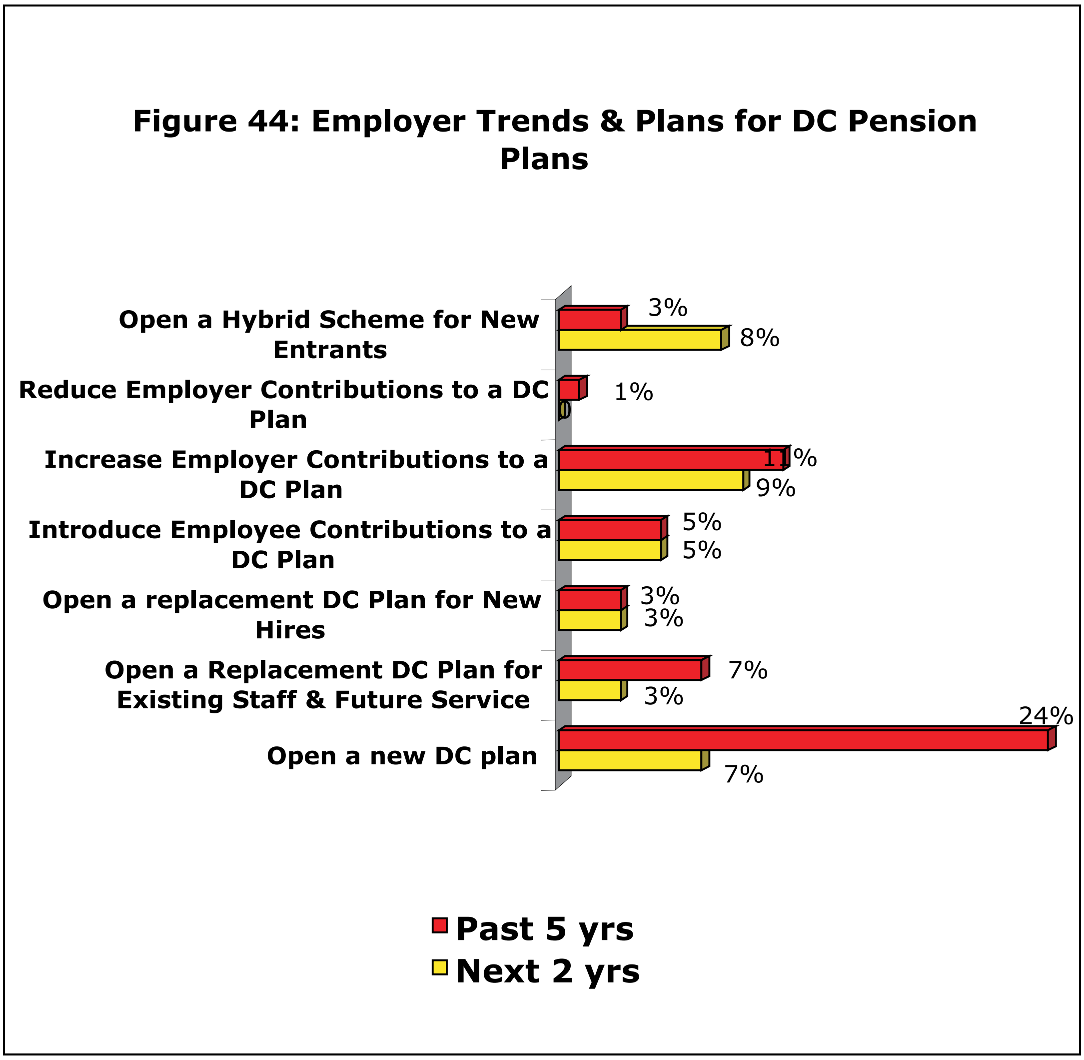
Figure 43: How Benefits have Changed or may Change in Future

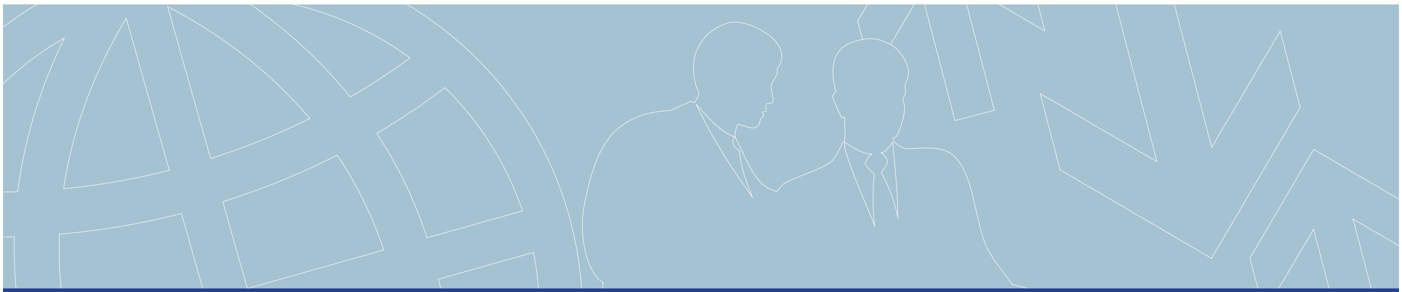


Main changes – Defined Contribution

To date the biggest change in the defined contribution arena is the extension of defined contribution schemes to more employees with 24% of employers having opened a new defined contribution plan in the last five years.

The other key trends are that employers will continue to consider increasing defined contribution levels and many more employers will review the hybrid option in the future than have taken this approach to date.



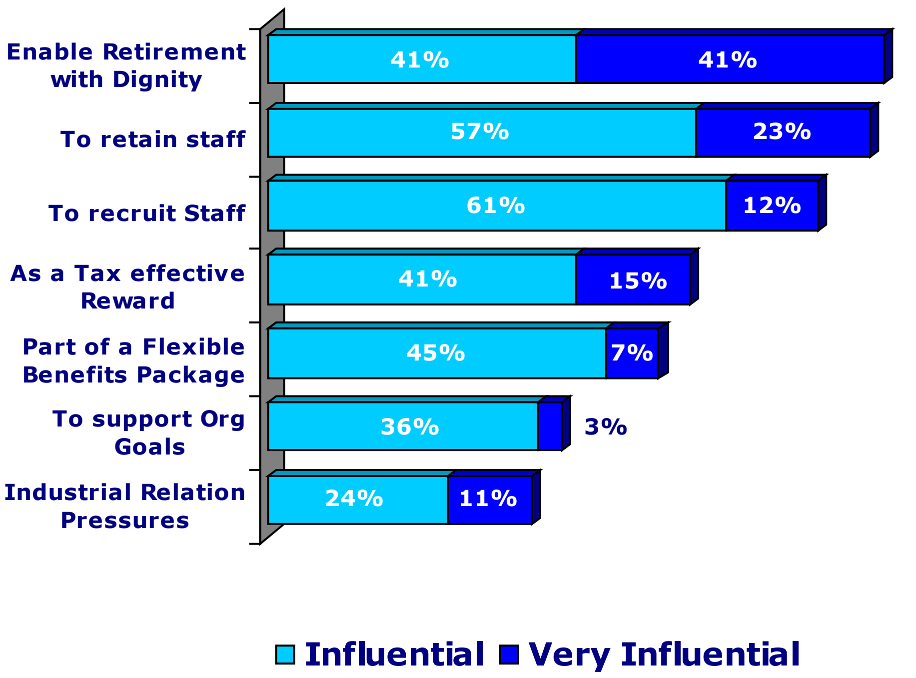


SECTION 7: OPINIONS OF IAPF MEMBERS

This new section of the survey adds depth to our understanding of the key drivers for pension change over the coming years. Employers are subject to a diverse range of pressures which influence their benefit decisions and this opinion section gives us an insight into the decision drivers.

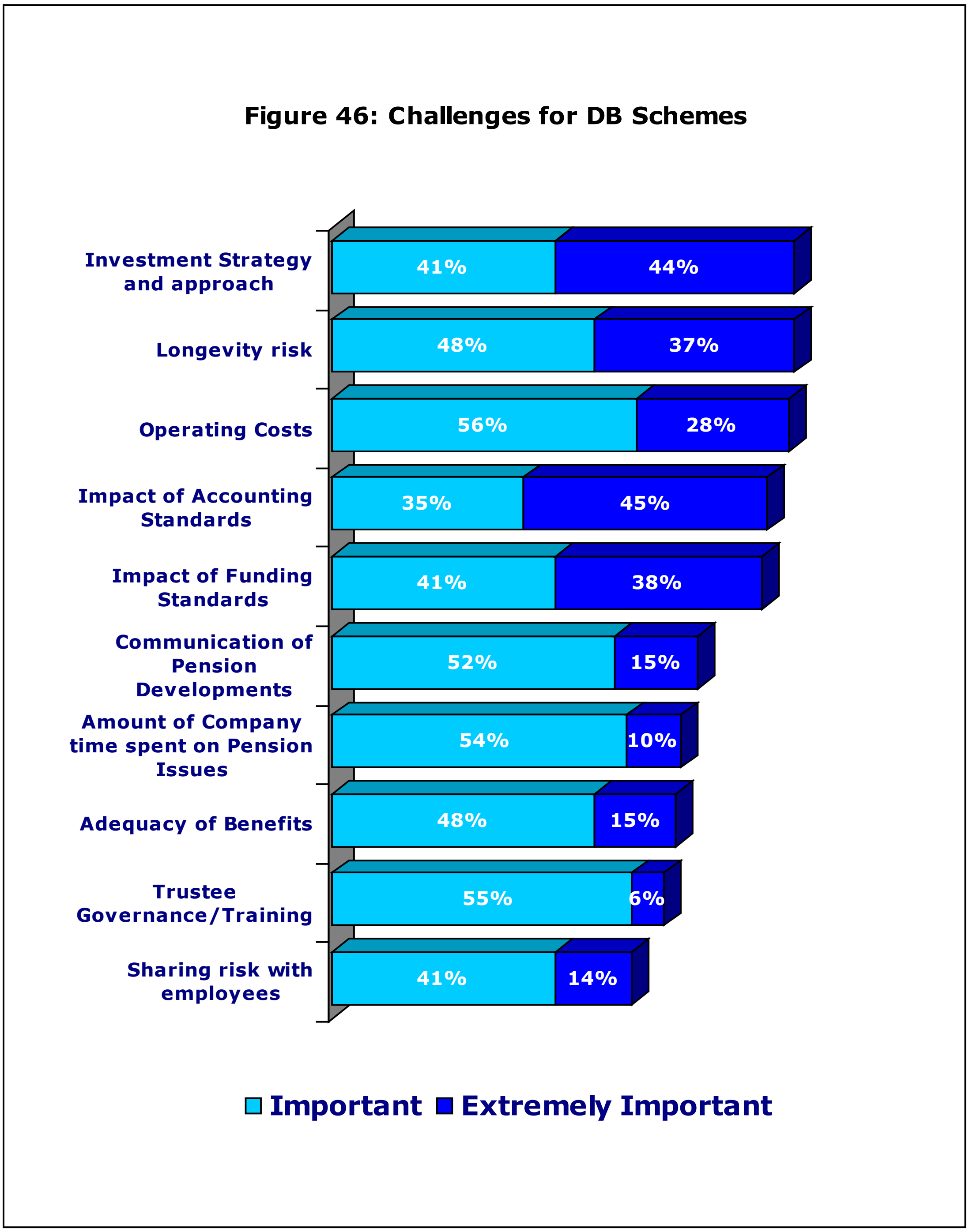
Q: How influential are the following factors in your decision to provide a workplace pension arrangement for your employees?

Figure 45: Factors Influencing Provision of Workplace Pension



Adding the influential and very influential responses results in two very different influences being almost equally as important to employers – enabling retirement with dignity (82%) and the more bottom-line focused retaining staff (80%).

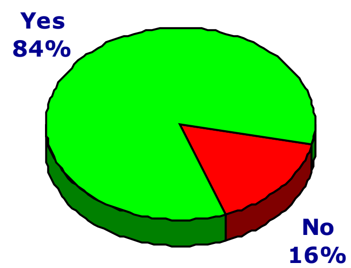
Employers recognise quite a number of challenges for the future of defined benefit schemes:



Participants were asked if the nature of retirement needs to be reviewed, specifically if the concept of a staggered retirement requires consideration.

Q: Do you believe there should be a facility for defined contribution members to stagger their retirement date by perhaps taking different parts of their benefits at different stages?

Figure 47: Should Staggered Retirement dates be permitted?



84% believe that defined contribution members should be given more flexibility in their retirement by in the first instance being given the option to stagger the draw down of their retirement benefits.

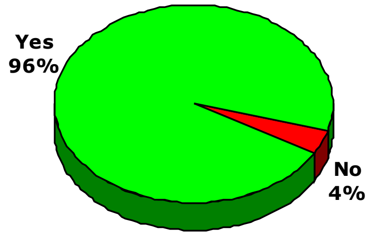
Approved Retirement Funds

Additionally, 96% believe that the current situation whereby defined contribution members must buy an annuity at retirement should be changed.

Q: Propriety directors, PRSA holders and the self-employed have the option of investing in an Approved Retirement Fund (ARF). This option is currently unavailable to the members of DC Schemes. Do you think the "ARF" option should be extended to Defined Contribution Schemes?

As mentioned in the key trends section, the IAPF has been campaigning for this change for some time and this survey result has confirmed this is a key issue.

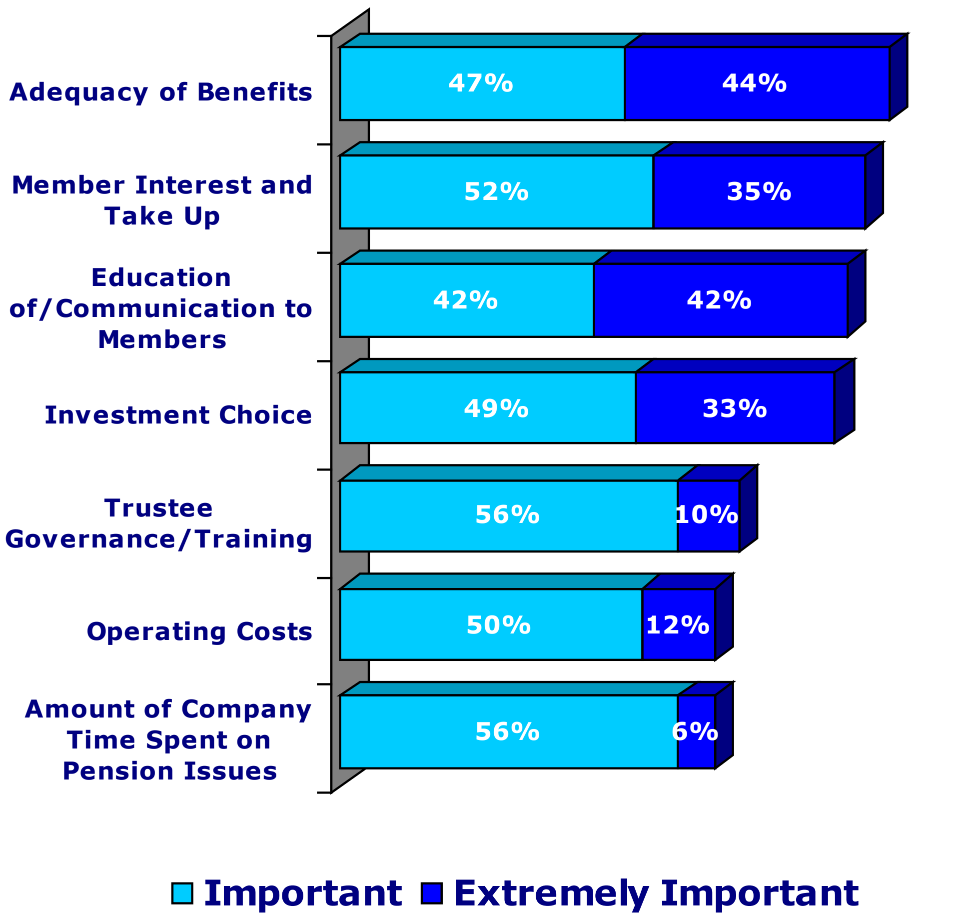
Figure 48: Should ARF's be made available to Occupational DC scheme members?

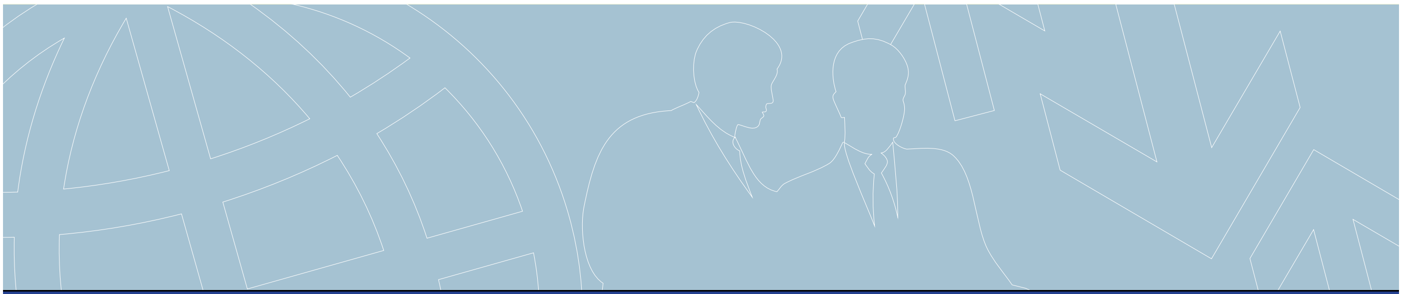


In terms of the challenges facing defined contribution schemes, the survey respondents don't feel that it is 'plain sailing' for those schemes either indicating that there are challenges in the areas of:

- adequacy
- member interest and take up
- education/communication to members
- investment choice
- trustee governance/training
- cost

Figure 49: Challenges facing DC Schemes





SECTION 8: SURVEY DETAILS & RESPONDENT PROFILE

The primary objective of the survey was to:

i. Investigate the characteristics of a representative sample of the Irish pensions market and to identify the current level of benefits provided within that sample;
ii. Identify topical Pension issues, with a view to gaining an insight into organisations' opinions on pensions, in order for the IAPF to effectively represent its members.

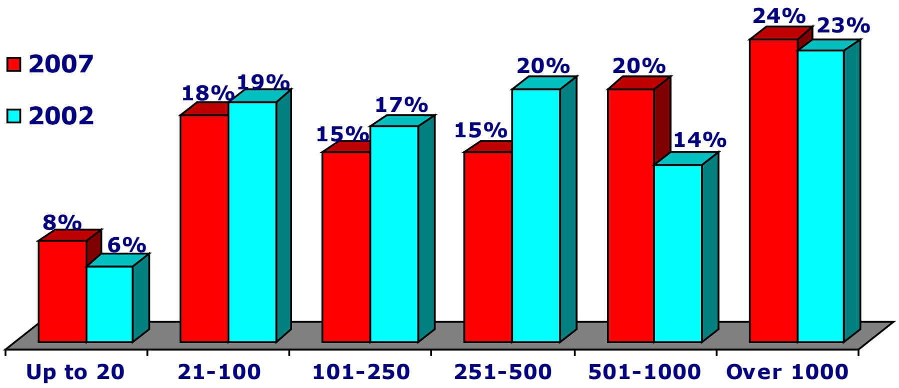
Approach

- In order to realise the primary objective, a postal survey was carried out;
- These surveys were sent to 340 IAPF member companies plus an additional 160 (approx) surveys were distributed to non-member companies through their pension providers;
- These surveys were posted in February 2007 and follow-up calls were carried out in order to encourage a higher participation rate;
- Companies were given eight weeks to return their surveys;
- In total, 132 companies participated in the survey.

The profile of survey participants is represented by the following two survey responses:

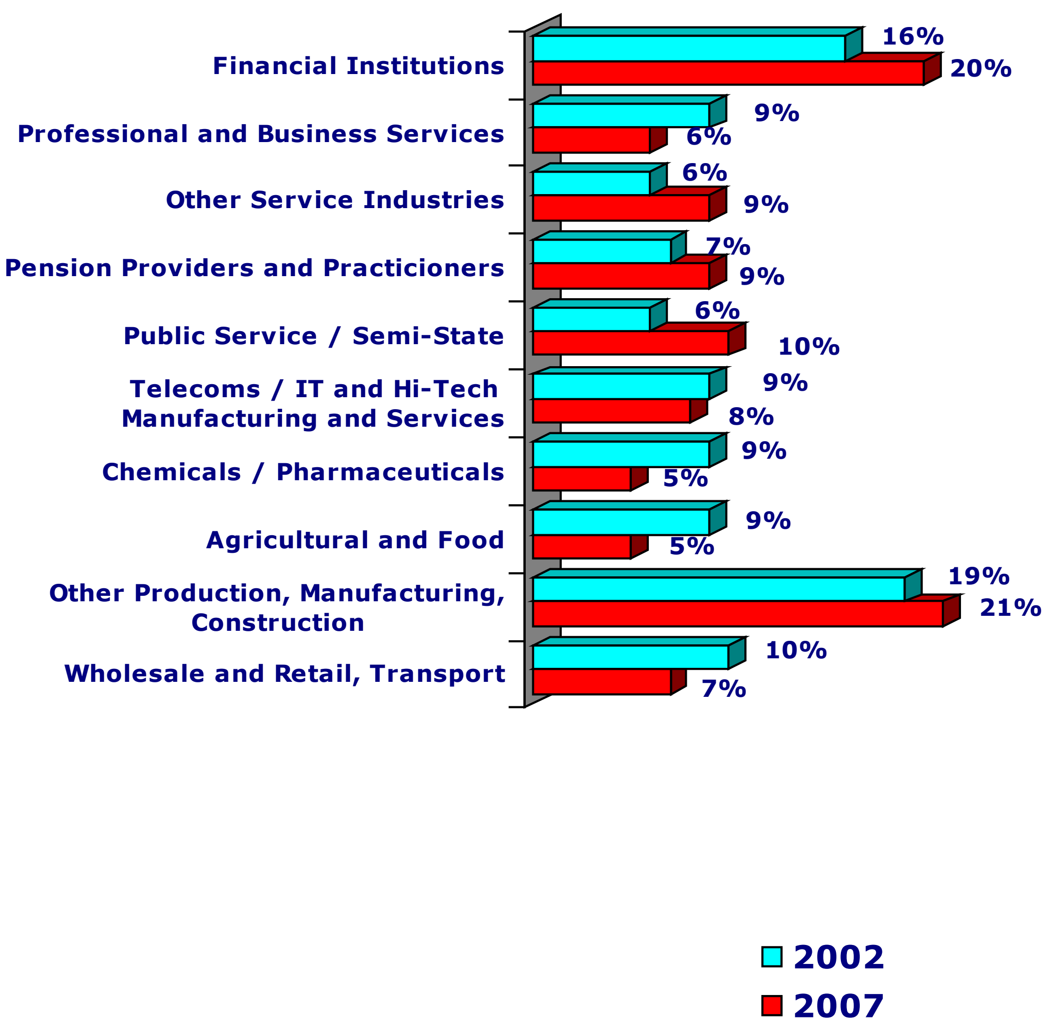
Approximately, how many people are employed in Ireland by your company/group?

Figure 50: Employee numbers by responent company



Which of the following sectors best describes your organisation's main activity, i.e. accounts for the largest proportion of turnover?

Figure 51: Main Business activitiy of Respondents



For further information:
Irish Association of Pension Funds
Suite 2, Slane House,
25 Lower Mount Street,
Dublin 2
Phone: +353 1 661 2427

E-mail: info@iapf.ie
Website: www.iapf.ie