Oireachtas Joint Committee on Social Protection

15 June 2017

Pensions Authority opening statement

The Pensions Authority welcomes the opportunity to meet with the Joint Committee and to assist in its discussions of occupational pension matters. In this opening statement, we propose to give some information about pensions, focussing on defined benefit pensions. We will then address some proposed changes to the funding rules that the Pensions Authority is currently considering.

The Pensions Authority

The Pensions Authority was established by the Pensions Act 1990. The Authority's responsibilities include the following:

- To oversee the operation of the Pensions Act;
- To provide information and guidance on pensions; and
- To advise the Minister for Social Protection on matters related to pensions generally.

The Pensions Authority is therefore responsible for the regulation of the trustees of occupational pension schemes, both defined benefit and defined contribution.

Pension scheme numbers

The total assets of Irish pension schemes are about €100 billion. These schemes provide for 415,000 current employees and 105,000 retired members receiving pensions. These numbers do not include pension schemes for civil and public servants, which are run on a pay as you go basis and include about 360,000 current employees.

The rest of my statement will deal with defined benefit schemes. Of the €100 billion in total scheme assets, about €58 billion is in respect of funded defined benefit schemes. There are 628 defined benefit schemes – these include about 115,000 active members.. Very few of these are open to new members. Most continue to provide ongoing benefits to members, but significant numbers are closed to further accrual, i.e. the members are no longer accumulating additional benefit entitlements each year.

Both the numbers and membership of funded defined benefit schemes are falling – the numbers of schemes has fallen from 666 to 628 in a year. These numbers have been falling for a long time – in 1992 there were 2,560 defined benefit schemes with over 200,000 active members. It is usual where an employer closes a defined benefit scheme that they replace it with a defined contribution scheme instead.

Defined benefit funding rules

Every year, defined benefit schemes are required to calculate the value of the benefits they have undertaken to provide. The value of these benefits is compared to the total assets of the scheme, and if there are not enough assets, certain steps must be taken.

This yearly assessment must be done in accordance with defined rules. These rules are published by the Pensions Authority and are subject to the approval of the Minister for Social Protection. The guidance sets out the assumptions that can be made in calculating the value of the benefits, in particular, assumptions about how long people are expected to live after retirement and what investment returns the scheme will earn on its assets. There is also an obligation to hold a risk reserve. The calculation rules and the steps that the schemes must take if their assets are not enough are usually referred to as the funding standard.

When a scheme does not have enough assets, the most common outcome is that the scheme trustees and the sponsoring employer agree a recovery plan to eliminate the shortfall over an agreed time period. This recovery plan is known as a funding proposal and must be calculated in accordance with Authority guidance. Usually a funding proposal involves additional contributions by the employer. Sometimes it may involve additional member contributions and sometimes benefits may be cut. However, if no agreement can be reached, the scheme may eventually be wound up. In such a case, if there is a shortfall, there is usually no obligation on the employer to make up the deficit unless the rules of the scheme oblige it to do so.

Proposed changes to the funding standard

The Pensions Authority has been looking at a number of adjustments to the funding standard and has had initial discussions with the Department of Social Protection. The three changes under consideration are as follows:

Changes to the risk reserve calculations

A number of schemes have put in place tailored investment strategies, usually involving derivatives, to match future cashflows and reduce risk. There are concerns that the current risk reserve rules do not give sufficient credit for such initiatives, and we are looking at ways to fine-tune the rules.

Simplified procedures where employer commits to continue/increase funding proposal contributions

Where a funding proposal is off-track (because circumstances turned out worse than expected) but the employer and the trustees agree steps to rectify it (usually by increasing contributions or maintaining them for longer) we intend to simplify the process so that a new application to the Authority isn't required.

Avoid over-statement of annuity costs

Some of the funding standard calculations are based on what it would cost to transfer responsibility for paying pensions to insurance companies. It has been suggested that the annuity costs used in the funding standard calculations are higher than those that would arise in the event of an actual wind-up. The Authority is in discussion with the Society of Actuaries in Ireland to examine whether there are practical ways to improve the accuracy of the current procedures.