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## Defined Benefit schemes

### Review of 2021 statistics

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#### Introduction and commentary

Trustees of defined benefit (DB) schemes subject to the funding standard provisions of the Pensions Act, 1990, as amended (the Act) are required to submit an Annual Actuarial Data Return (AADR) to the Pensions Authority within 9 months of a scheme's year end. Each year the Pensions Authority (the Authority) publishes a summary of AADR data.

Owing to the wide spread of effective dates of AADRs making up the data, it is difficult to discern clear patterns. Based on the data presented below, we can say that the average fund available predefined benefit member increased by 7%. Looking ahead, funding measures might be expected to be volatile, owing to the market movements we have seen in 2022 H1, both on the asset and liability side. While increases in interest rates will impact on the asset side particularly on bond holdings, the impact on liabilities, particularly pensioner liabilities, is likely to be even greater.

It has been a feature of these reports that the number of schemes reported as not meeting the funding standard has been in steady decline, reaching 36 in this report. This low figure presumably reflects the relatively benign investment markets of 2020 and 2022, as well as the risk management actions of trustees and increased financial contributions by employers, where they were required.

#### Schemes subject to the funding standard

This report is based on an analysis of 540 AADR returns which have been submitted to the Pensions Authority by 31 March 2022. The table below shows the breakdown of these schemes into three categories:

- 'current' - active scheme members are continuing to accrue benefits,
- 'frozen' - scheme provides benefits only for members whose service has terminated; or continuing service in employment does not entitle members to long service benefits and no new members are admitted<sup>1</sup>, and

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<sup>1</sup> Where a DB scheme is closed to new members and closed to the future accrual of pensionable service, but a final salary link remains in calculating pension benefits, the scheme would not be considered to be 'frozen' but would be categorised as 'current'; however, if the final salary link has been broken, the scheme would be categorised as 'frozen'.

- 'in wind-up' - a decision has been taken to wind-up the scheme, but this process has not been completed, and some liabilities and assets remain.

	2021	2020
Status current	343	374
Status frozen	183	184
<b>Continuing schemes</b>	<b>526</b>	<b>558</b>
Schemes in wind-up	14	2
<b>Schemes subject to funding standard</b>	<b>540</b>	<b>560</b>

#### AADR data received

This report focuses only on the 525 'continuing DB schemes' (current and frozen schemes), excluding one large scheme subject to the funding standard in which members build up retirement funds exclusively on a defined contribution basis.

The effective date of each AADR is the end date of the relevant scheme year. Because different schemes have different scheme year-end dates, there is no single return date for the data. The effective dates are spread over the 2020 and 2021 calendar years. The average return date was February 2021. For simplicity, the data in this report is referred to as the '2021 data'. No adjustments have been made to the data to allow for the different reporting dates, e.g., total assets reported have not been adjusted to estimate what might have been the asset value at a particular date.

#### Membership and funding standard liabilities

The table below shows the membership breakdown and the breakdown of the funding standard liabilities provided for in section 44(1) of the Act for the continuing DB schemes. Note that for frozen schemes, all non-pensioners have been classified as deferred members, even where some may still be in service with the sponsoring employer.

	Membership	Section 44(1) liabilities
Pensioners	106,177	€38.5 bn.
Actives	68,265	€10.9 bn.



Deferreds	127,982	€12.2 bn.
Wind-up cost estimates		€0.3 bn.
<b>Totals</b>	<b>302,424</b>	<b>€ 61.9 bn.</b>
<b>Section 44(2) liabilities (funding standard reserve)</b>		<b>€ 3.1 bn.</b>
<b>Total funding standard related liabilities</b>		<b>€ 65.0 bn.</b>

Although pensioners now account for 35% of the membership total, scheme liabilities for pensions in payment make up 62% of the aggregate funding standard liabilities (2020: 60%). The number of pensioners increased by 2% since last year, while there was a reduction of 4% and 6% in the number of active and deferred members respectively.

### Analysis of assets and liabilities allowing for funding standard status

Of the 525 schemes in the analysis, 36 of these did not satisfy the funding standard provided for in section 44(1) of the Act at the effective date of their most recent AADR (7% compared to 11% in 2020).

	Number of schemes	Total s44(1) liabilities (incl. wind-up cost)	Total assets	Surplus/ (Deficit)
Schemes meeting the funding standard	489	€50.6 bn.	€63.7 bn.	€13.1 bn.
Schemes not meeting the funding standard	36	€11.3 bn.	€10.0 bn.	(€1.3 bn).
<b>Totals 2021</b>	<b>525</b>	<b>€61.9 bn.</b>	<b>€73.7 bn.</b>	<b>€11.8 bn.</b>
<b>Totals 2020</b>	<b>556</b>	<b>€61.0 bn.</b>	<b>€70.5 bn.</b>	<b>€9.5 bn.</b>

### Funding standard reserve

The funding standard reserve provided for in section 44(2) of the Act (the FSR) sets out the additional resources schemes must hold, broadly described as 10% of 'unmatched'

FS liabilities plus the net effect of a 0.5% fall in interest rates. Total FSR liabilities of the 525 continuing schemes was €3.1bn, bringing total funding standard related liabilities to €65.0 bn.

Regarding continuing DB schemes, 11% of these did not hold sufficient additional resources to satisfy the FSR at the effective date of their most recent AADR (60 of 525 schemes). Of the 489 continuing schemes that satisfied the funding standard, 465 held sufficient resources to satisfy the FSR. FSR liabilities of up to 17% of funding standard liabilities were reported, and 154 schemes reported a FSR liability of less than 1% of funding standard liabilities.

## Assets

The AADR provides data on the asset allocation of scheme funds. Aggregating the euro amounts for all continuing schemes gives the following:

Asset class	Percentage holding 2021	Percentage holding 2020
Equities	23.8%	24.5%
EU sovereign bonds	33.7%	35.3%
Other bonds	11.9%	9.8%
Property	4.2%	4.4%
Cash	3.2%	2.7%
Net current assets	0.0%	0.1%
With profit insurance policies	0.02%	0.0%
Other*	23.3%	23.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

\*The AADR form requires the actuary to include a description for assets recorded under the classification "other". Descriptions of 'other' assets included "Private equity", "LDI", "Absolute Return Funds", "Diversified Growth Funds", "Alternatives, including infrastructure", "Secured income", "Hedge Funds", "Commodities", "Derivatives" and "Annuities".



### **Sovereign annuities**

Legislation facilitating the introduction of sovereign annuities was introduced in the Social Welfare and Pensions Act, 2011. A sovereign annuity is an annuity contract issued by insurance companies where the annual income payment is linked directly to payments under bonds issued by Ireland or any other EU Member State (known as reference bonds).

No new sovereign annuity contracts were issued during 2021.