

INTRODUCTION



RISK MANAGEMENT

Pensions Risk Survey



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Introduction

Purpose of the survey

- Provide insight into key pension risks
- Capture future plans
- Understand attitudes and concerns
- Monitor changes over time



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Breakdown of responses

Overview

- Responses received for 53 schemes
- Good variation by fund size and maturity
- 47% currently meet the Minimum Funding Standard
- Broad range of industry sectors



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Definitions

Variation by fund size

- Small €0 m to €25 m
- Medium €25 m to €100 m
- Large €100 m to €500 m
- V large Over €500 m

Variation by maturity

- Young (<33% pensioners)
- Ageing (33% to 67% pensioners)
- Mature (> 67% pensioners)



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What did we find?



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Investment risk

Market volatility
Sponsor covenant
Regulation
Rising costs
Low bond yields
Mismatching
Longevity
Pensions Levy
Low returns
Funding standard
Complexity
Funding deficits
Accounting
Cost of annuities
Conflicts of interest
Legal actions

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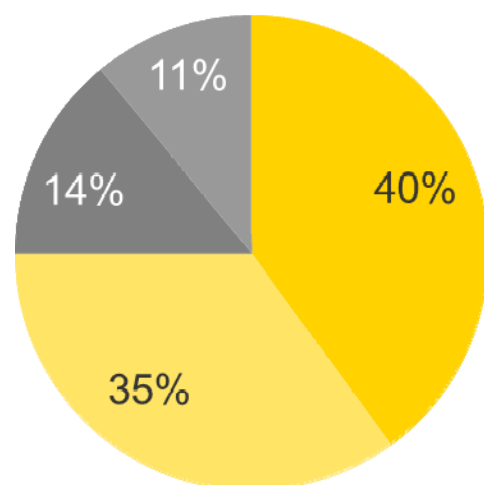
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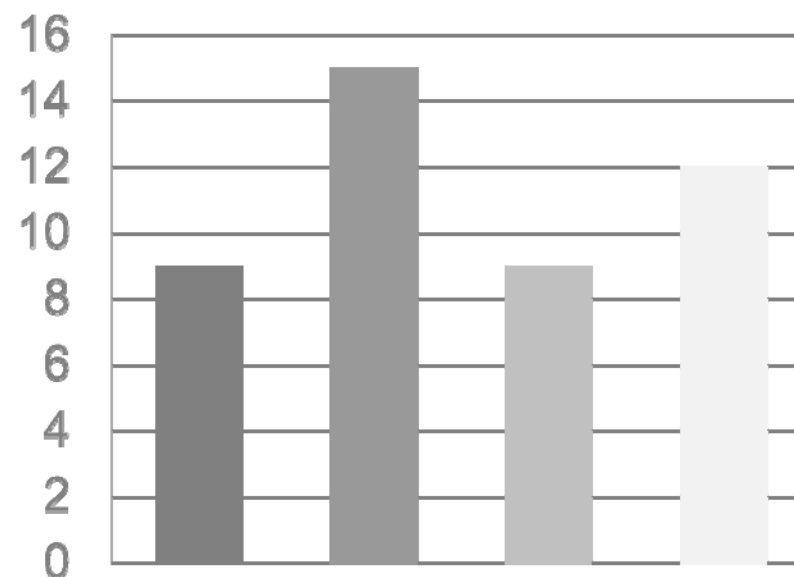
Impact of risk reserve

Reviews of investment policy



- Yes, review is completed
- Yes, review is underway
- No, but under discussion
- No, not discussed

Actions taken

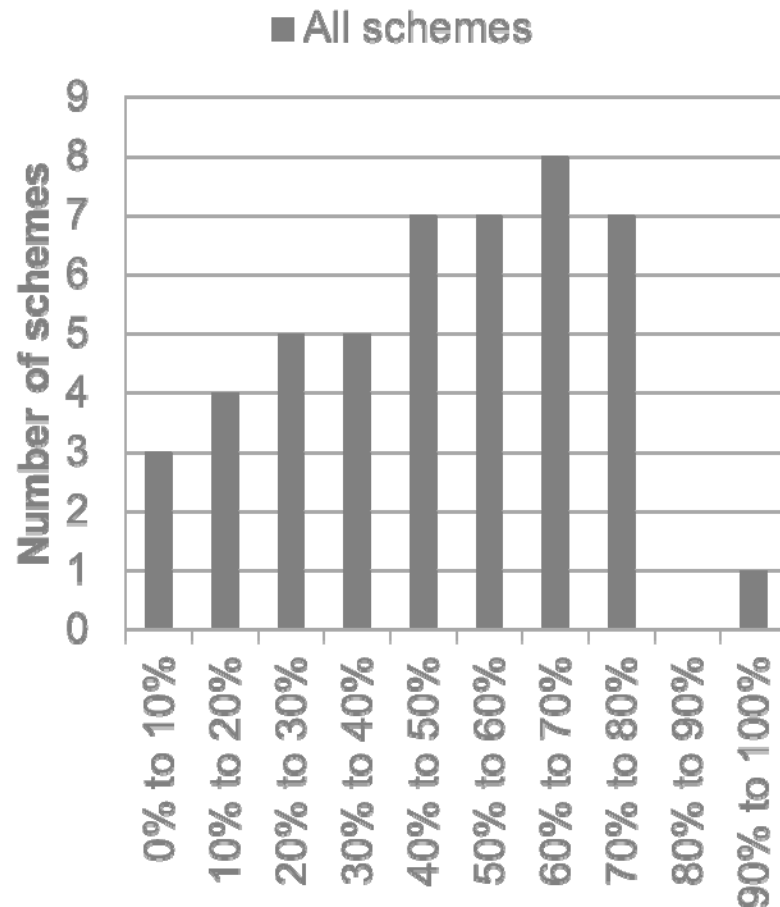


- High level review of invest policy
- Detailed review of invest policy
- Joint review of invest and funding
- Specific investment decisions



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Proportion in return-seeking



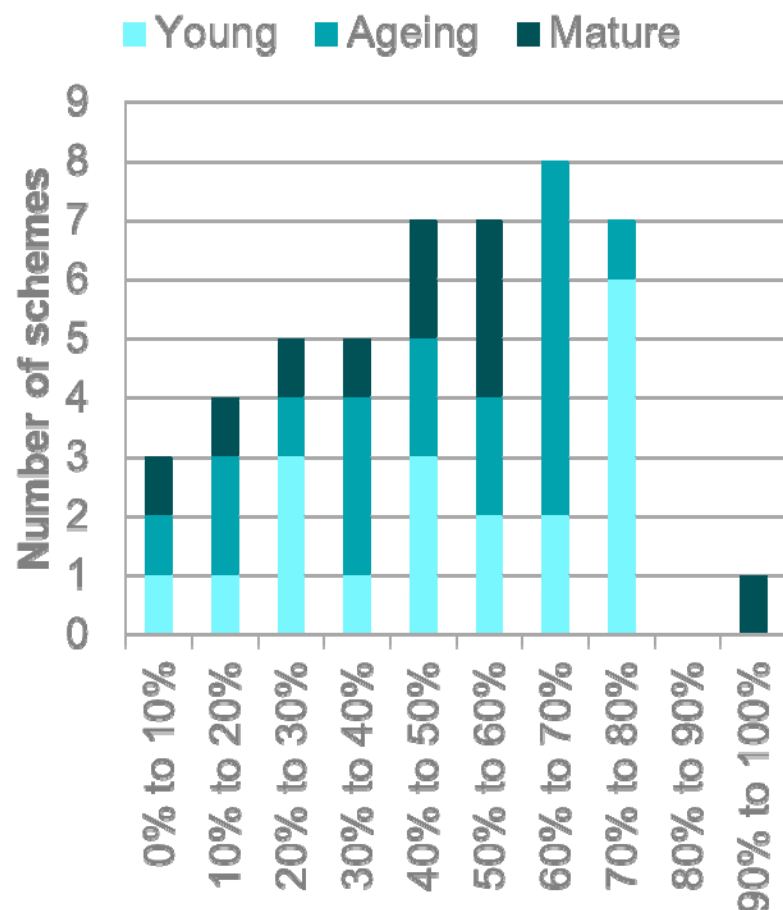
Observations

- Average scheme holding is 47% return-seeking
- There is still a large reliance on growth assets



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Proportion in return-seeking



% return-seeking	Average
Young	50%
Ageing	46%
Mature	43%

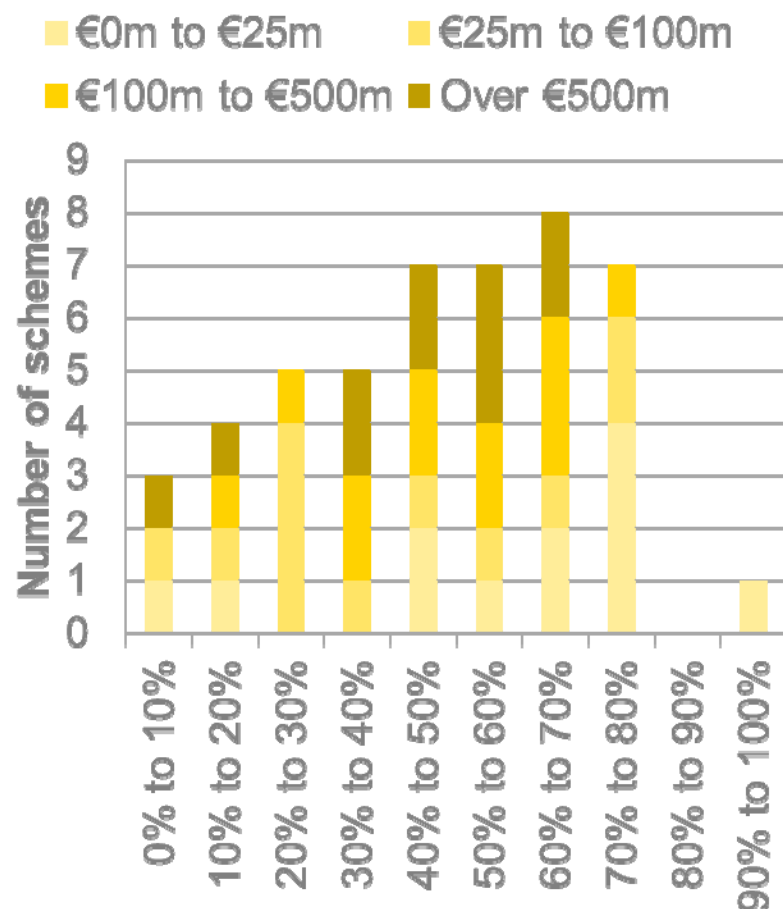
Observations

- Young schemes taking more investment risk
- Mature schemes still look mismatched vs liabilities



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Proportion in return-seeking



% return-seeking

Average

€0m to €100 m	48%
€100m to €500m	48%
Over €500 m	43%

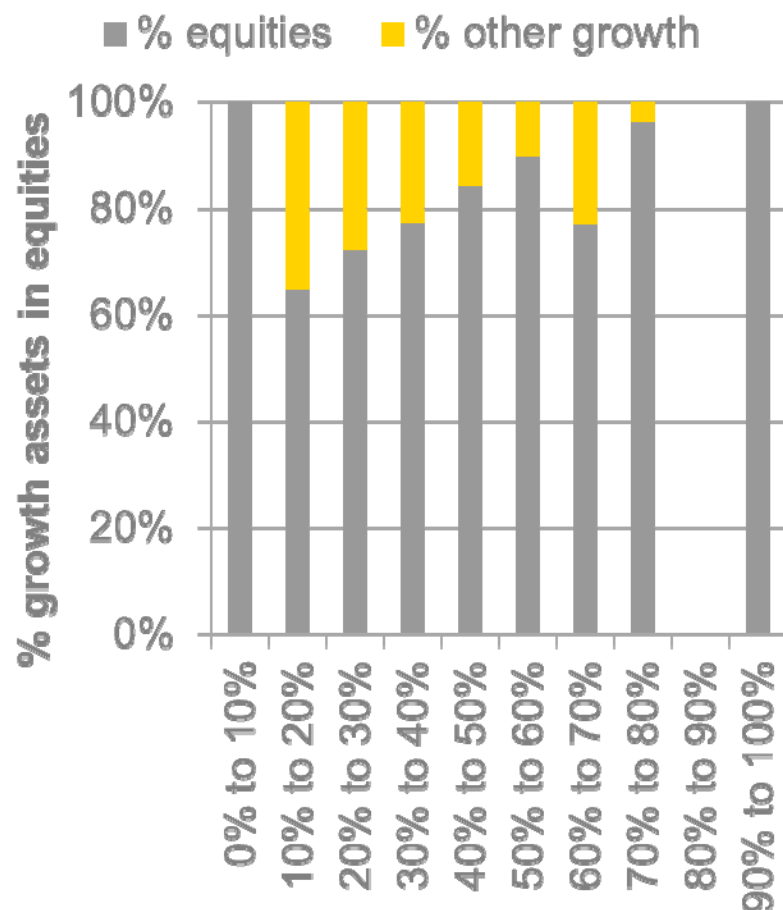
Observations

- Small schemes (< €25 m) taking the most risk
- Average in growth for small schemes was 58%



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Make up of growth portfolio



Observations

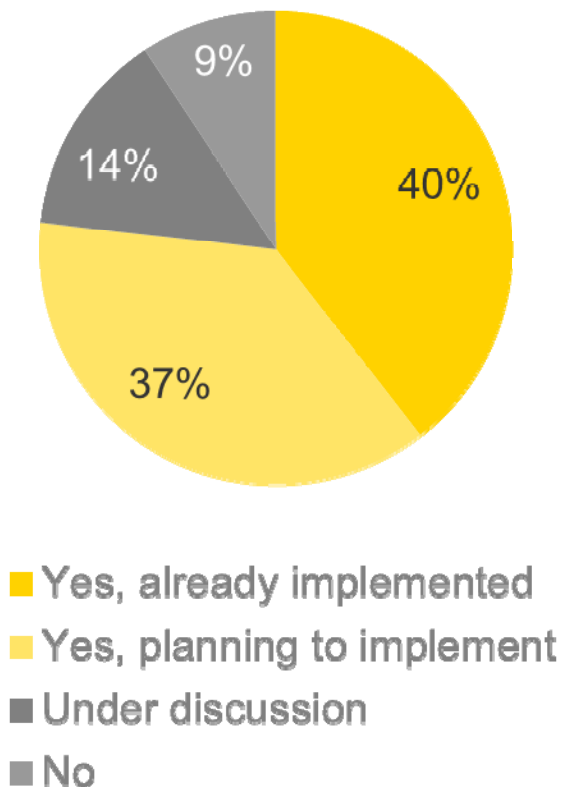
- Average scheme holds 83% of growth portfolio in equity investments
- Average v large scheme (> €500 m) holds 76%
- Average small scheme (< €25 m) holds 92%
- Room for diversification in growth portfolio without harming expected returns



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Plans around bond holding

Plan to increase bond allocation



Observations

- Bonds often considered the best match for pension scheme liabilities
- 37% of schemes planning to increase bond allocation
- This figure rises for mature schemes

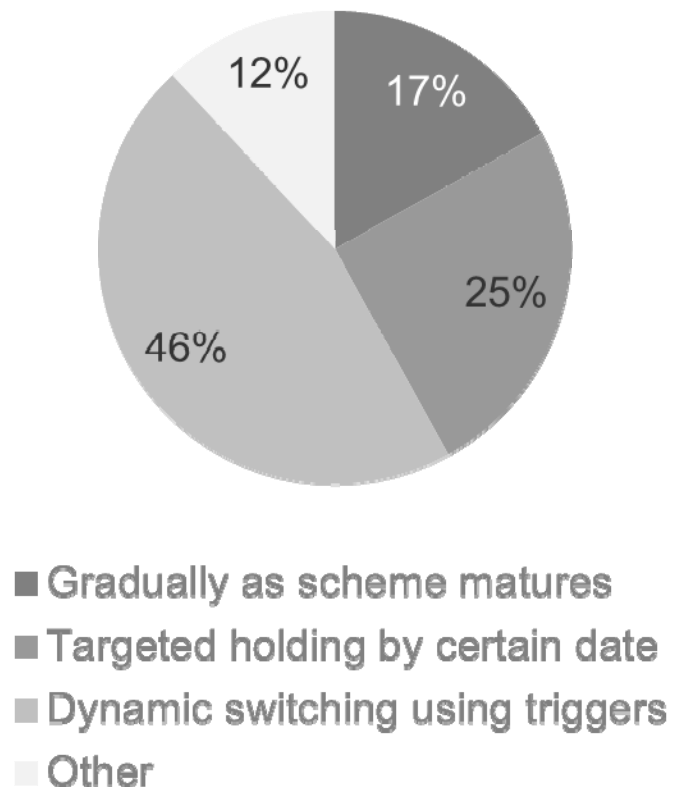


Plans around bond holding

Observations

- Schemes taking different approaches to increasing bond allocations
- Dynamic de-risking approaches becoming increasingly popular
- This is the most popular approach with medium and large schemes (67%)

Implementation approach

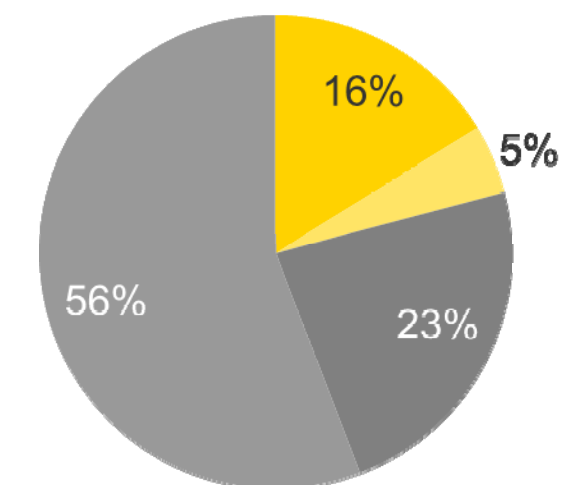




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Use of financial instruments

Use of financial instruments



- Yes, already implemented
- Yes, planning to implement
- Under discussion
- No / Not discussed

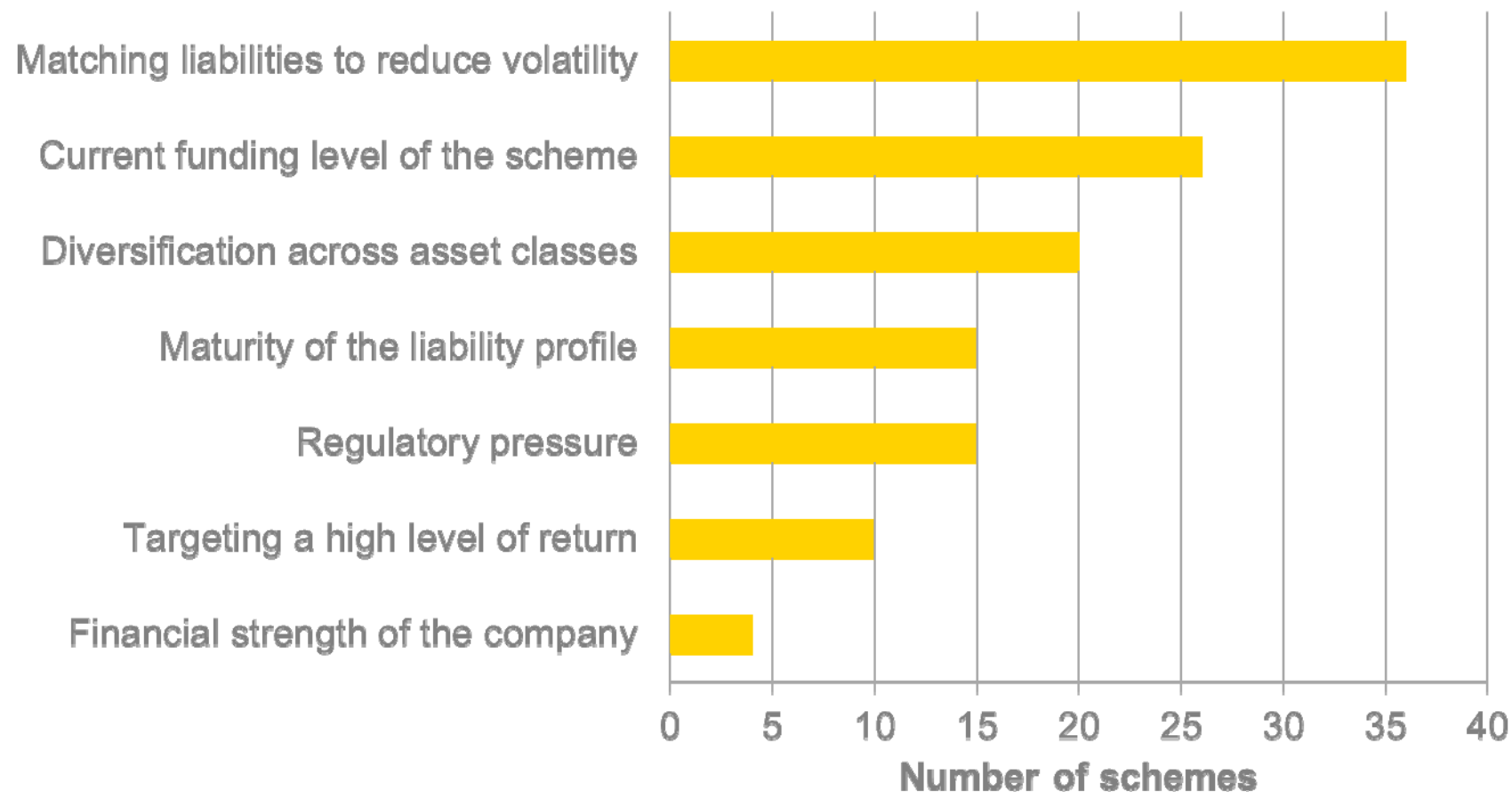
Observations

- 44% of schemes are using or have considered using
- Current use is mainly by the large schemes
- For very large schemes:
 - 18% plan to implement
 - 45% under discussion
- Instruments: interest rate swaps and options, equity options, CDS, repos



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Most important factors





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Insurance

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Sponsor covenant
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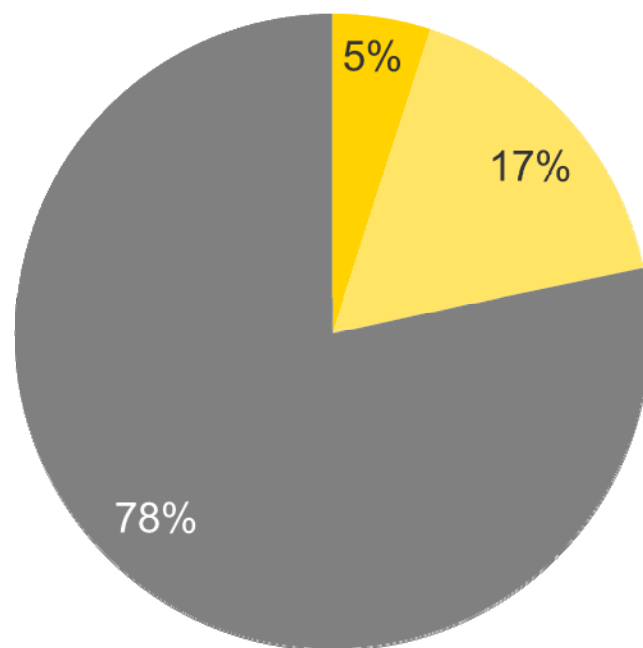
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Current use of insurance

% pensioner liabilities



■ 25% to 50% ■ Less than 25% ■ None

Observations

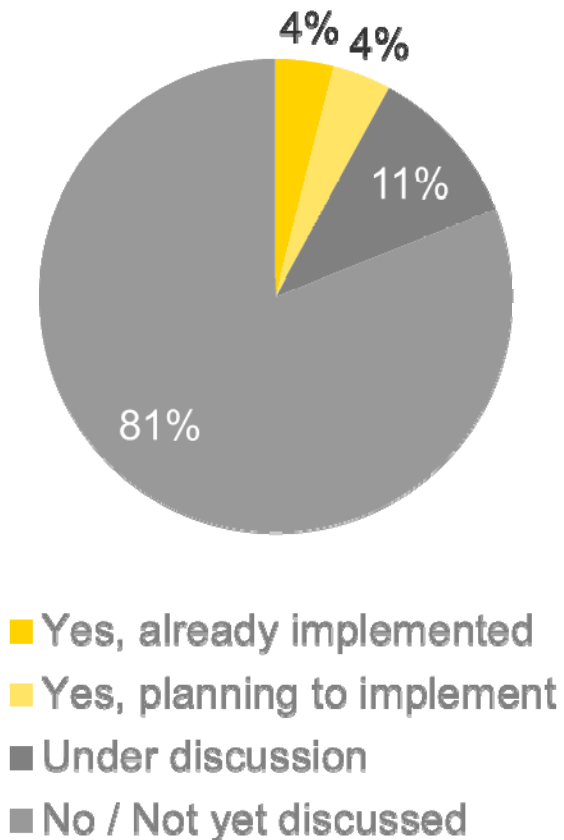
- Few schemes making use of insurance solutions
- Only 5% of schemes had insured more than 25% of the pensioner liabilities



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Plans to use insurance

Future plans to insure



Observations

- Few schemes planning to use insurance solutions
- Over 80% did not plan to use or had not discussed
- Results similar for buy-in and buy-out strategies
- Barriers likely to be cost and current annuity pricing
- Is growth in the Sovereign Annuity market is slowing?



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Controlling pension costs



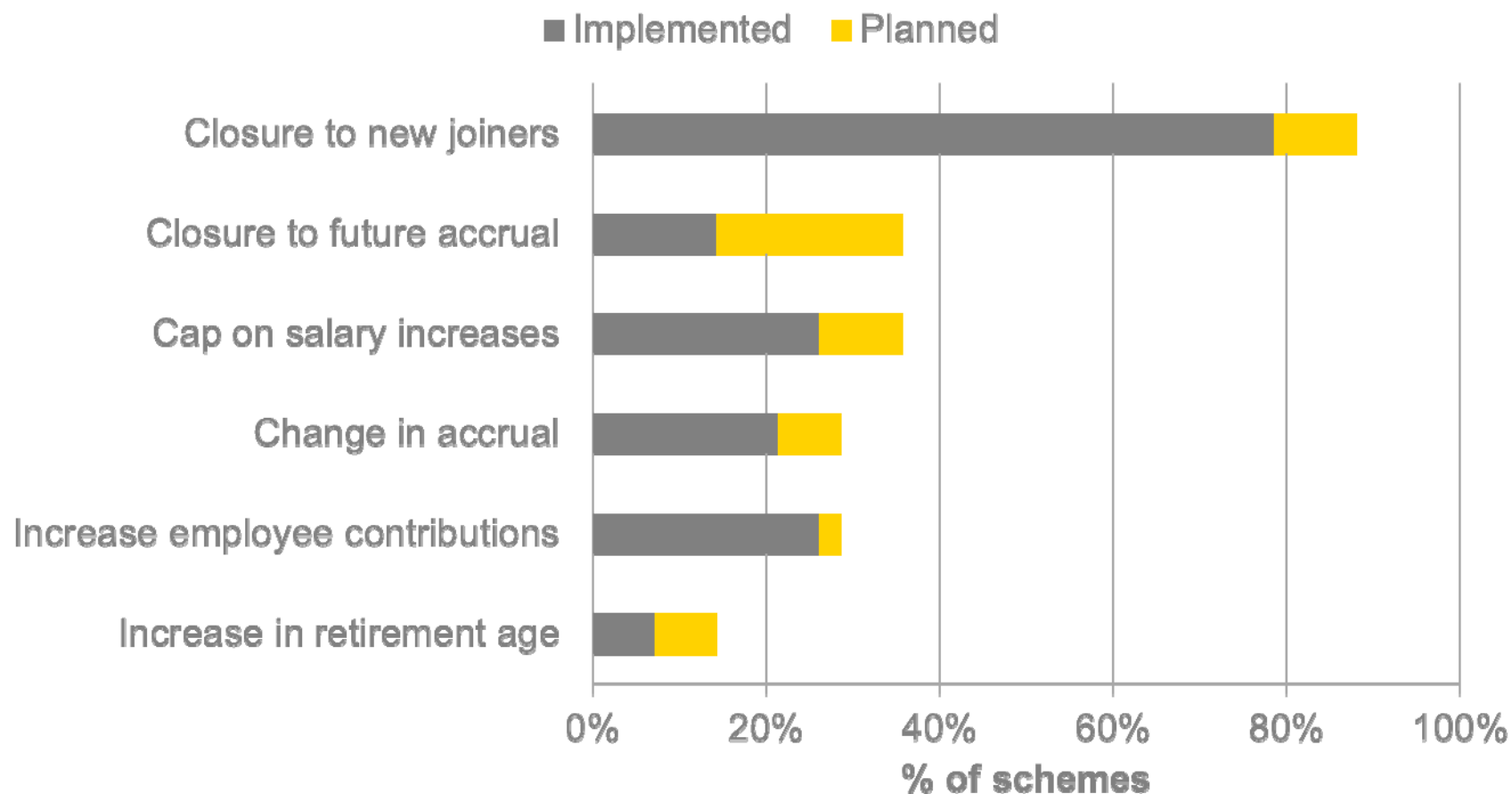
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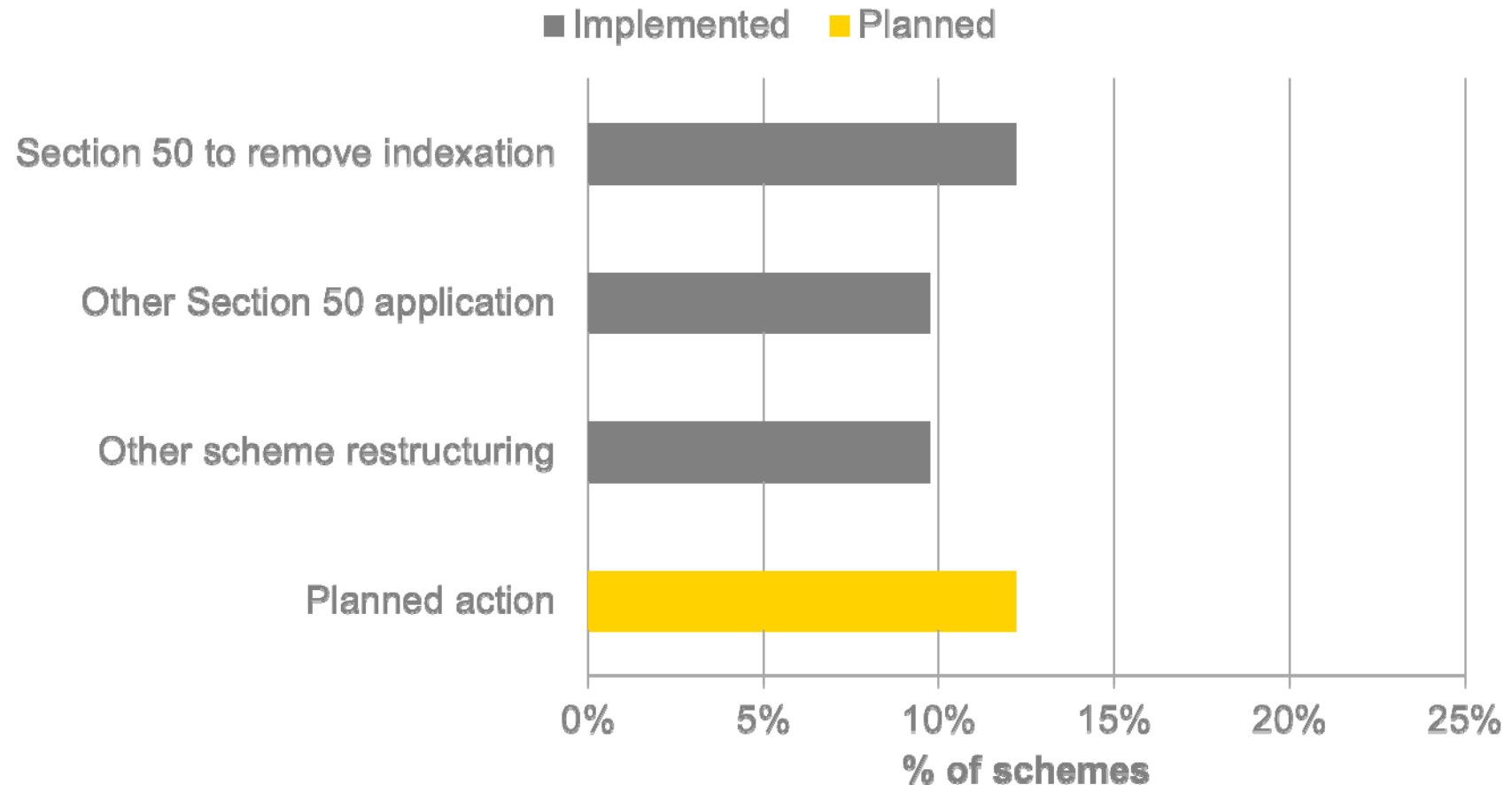
Controlling future costs





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Managing past liabilities





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Governance

Word cloud illustrating factors influencing Governance:

- Market volatility
- Sponsor covenant
- Regulation
- Low bond yields
- Rising costs
- Mismatching
- Longevity
- Pensions Levy
- Low returns
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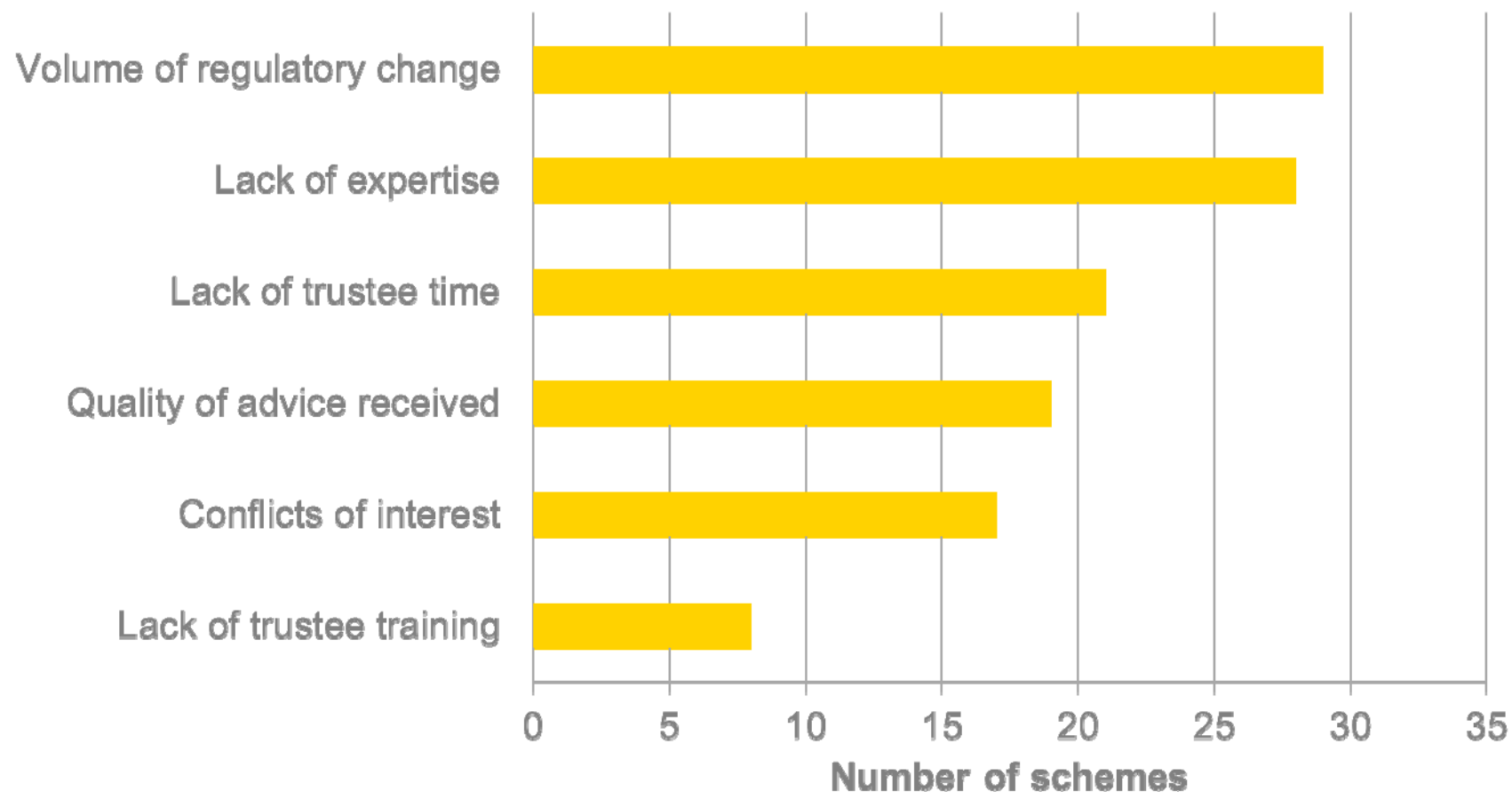
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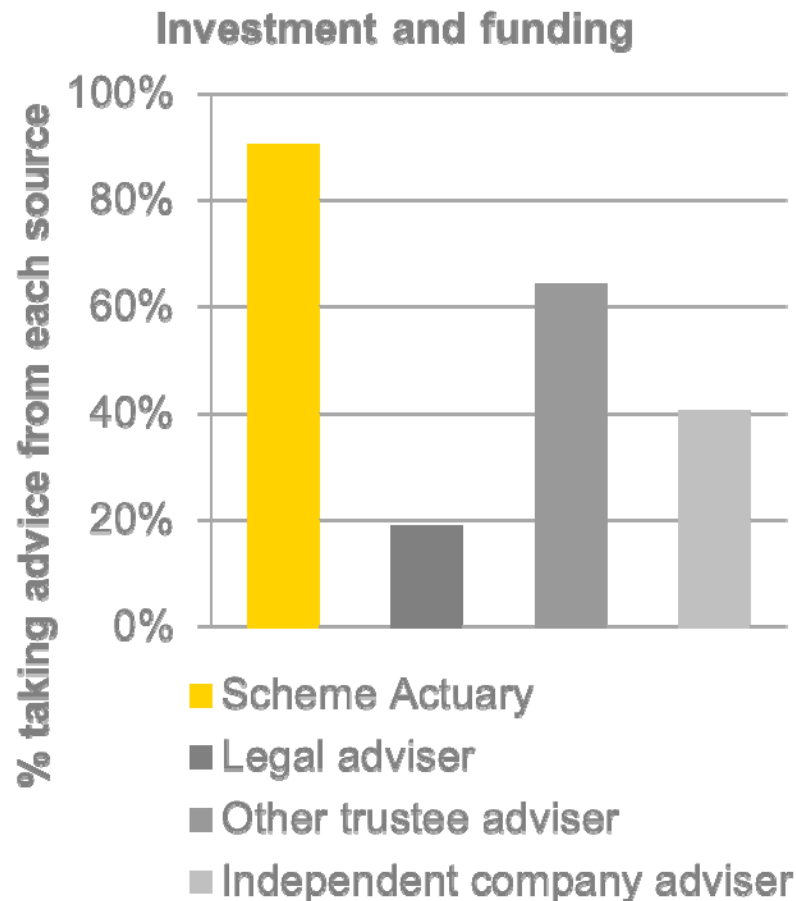
Biggest governance risks





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Where schemes take advice



Observations

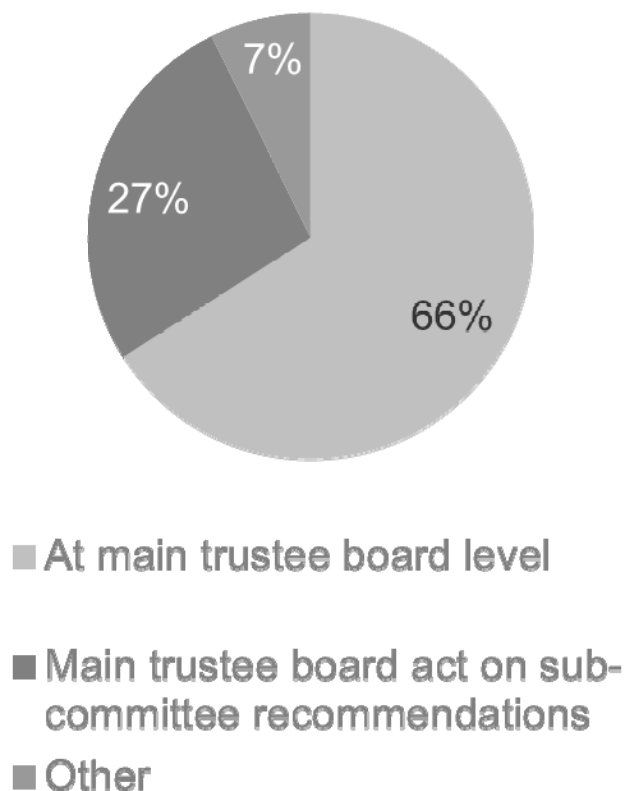
- Scheme Actuary still key source of advice on funding and investment
- Increase in independent company advice
- Particularly advice on benefit design matters
- Few schemes take advice on sponsor covenant



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Making investment decisions

Where decisions are made



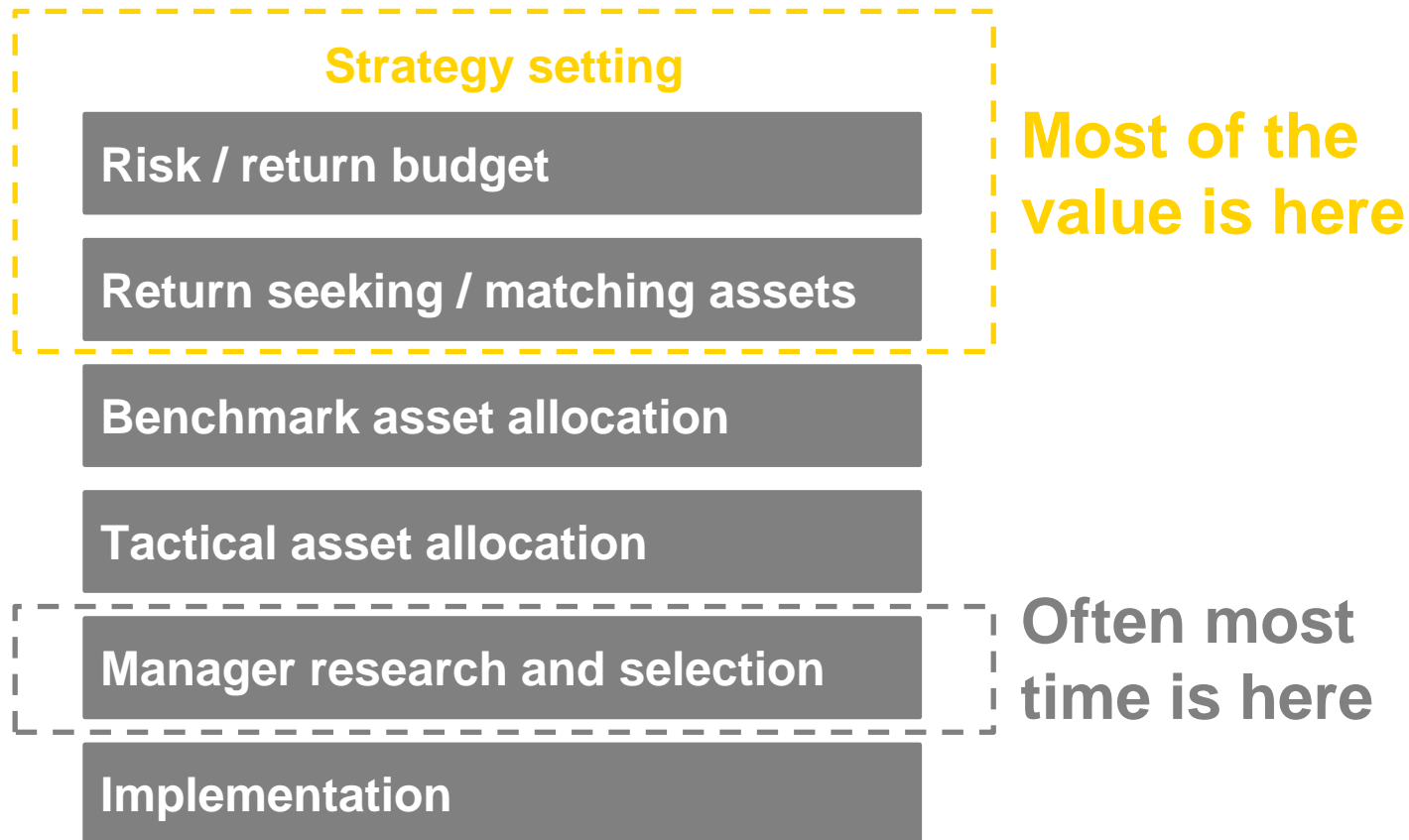
Observations

- Most investment decisions taken at the full board level
- Around 50% of large or very large schemes use a sub-committee structure
- Sub-committees not used at the small and medium sized scheme level
- Even with sub-committees, need main board approval



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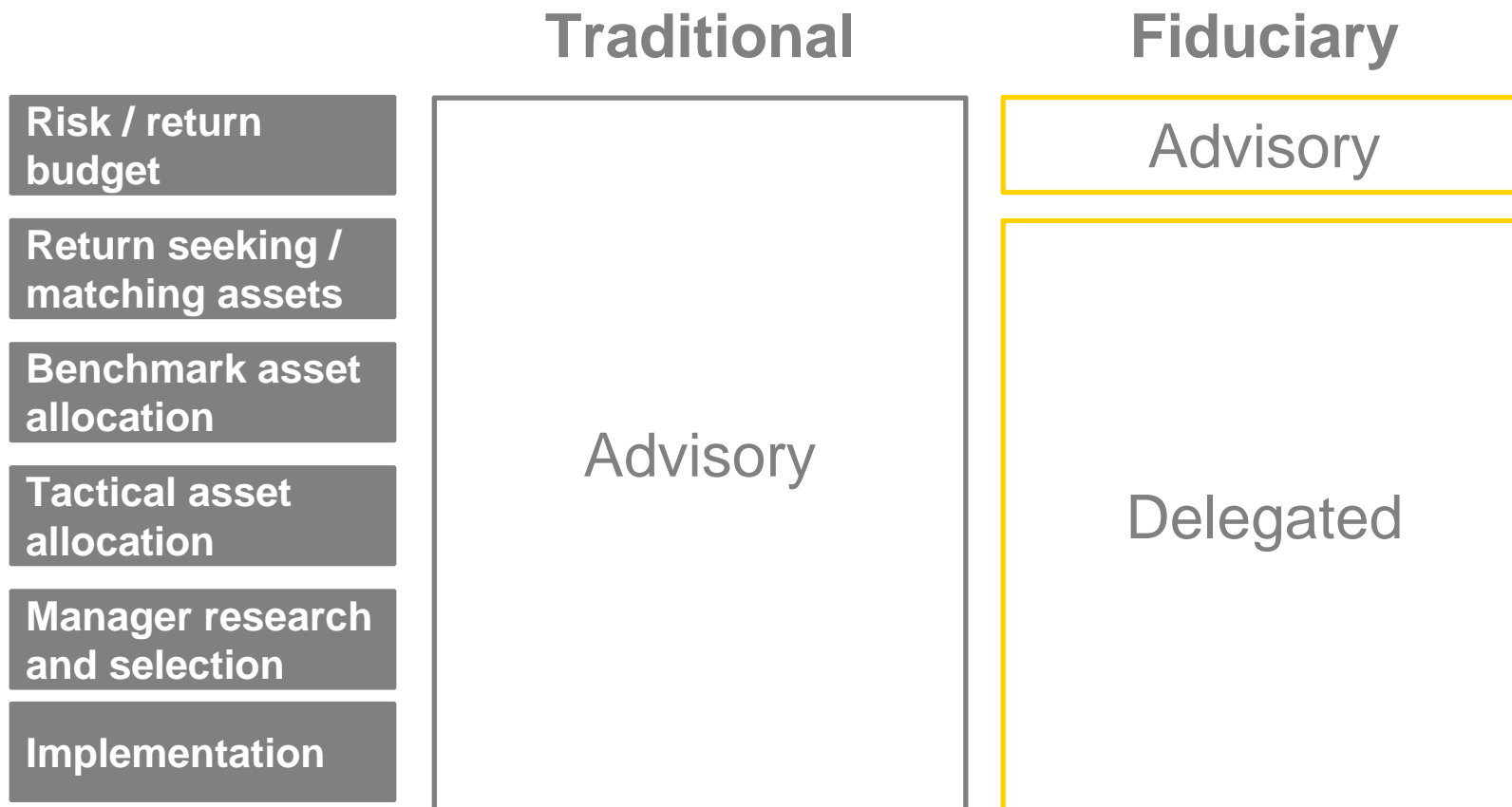
Setting investment strategy





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Traditional vs fiduciary model

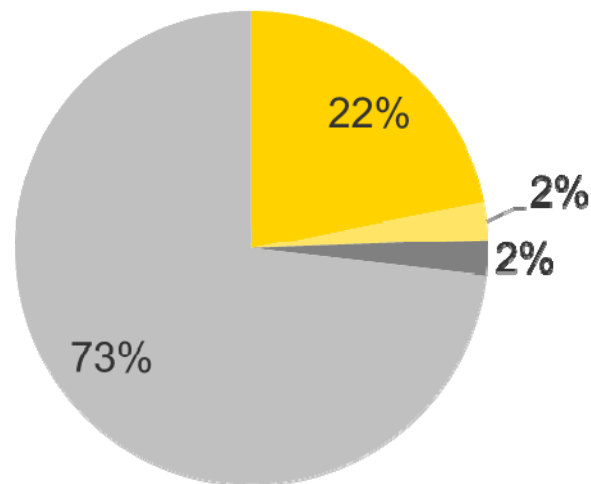




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Use of fiduciary managers

FM appointments



- Yes, already appointed
- Yes, planning to appoint
- Under discussion
- No

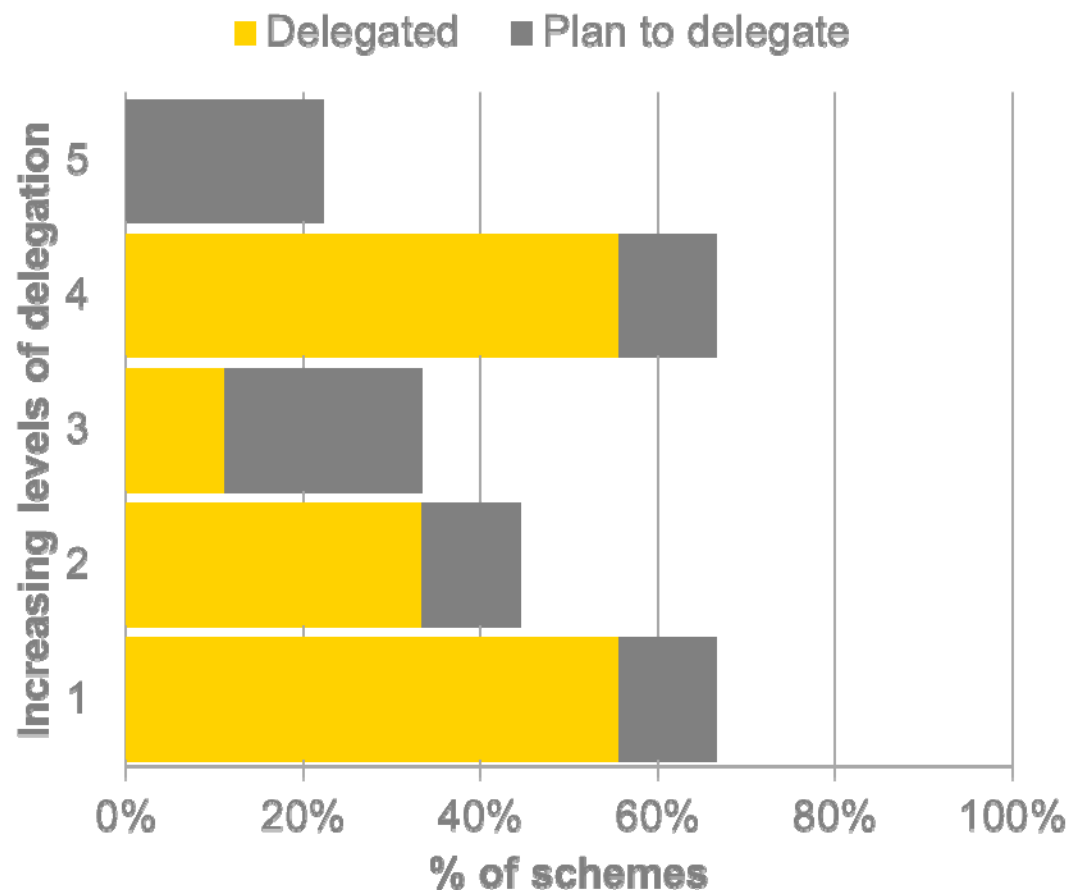
Observations

- Growth in the use of fiduciary management
- Mostly used by medium and some large schemes
- Graph includes schemes using dynamic de-risking



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Levels of delegation



5. Growth / matching split
4. Dynamic de-risking
3. Allocate growth / matching
2. Tactical asset allocations
1. Changing fund managers



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Final thoughts

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Thank you

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Wait for roving mic then state your name and company



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