An Roinn Coimirce Sóisialaí
Department of Social Protec

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Detailed Information

A. Funding Standard

The existing Funding Standard will be restored initially which will give underfunded schemes 3 years in which to restore their funding levels to the current standard. The Pension Board will announce the details shortly.

After this 3 year period, the revised Funding Standard will apply to schemes. When the Funding Standard is amended, all funded defined benefit pension schemes will be required to hold additional assets in excess of those currently required by the Funding Standard as a risk reserve, to provide an additional level of protection for the benefits of scheme members against future volatility in financial markets. Schemes will have an approximate maximum period of 11 years (until 2022) to meet the new Funding Standard.

It is estimated that the provision of risk reserves will add a further 10% to the scheme funding requirements. However, schemes can consider a number of measures to adjust their asset base to satisfy the risk reserve requirements, as follows:

- Schemes that move away from investing in equities towards bonds would be credited under the Funding Standard; and

- The purchase of sovereign annuities will ease the funding liabilities on schemes and therefore reduce the level of risk reserves required;

Also, where an employer is willing to provide a guarantee (which can be enforced), the possibility of accepting this as alternative is being considered.

B. Revaluation of Scheme Benefits

Defined benefit pension schemes apply a revaluation rate (annual increase) to deferred members (people who have left the scheme and are no longer contributing) at a rate which can give rise to the benefits of deferred members being revalued at a more favourable rate than that applied to the active scheme members (those who are still contributing to the scheme). The

Pensions Act will be amended to change the revaluation rate to provide for greater equity in the accrual of pension rights between active and deferred scheme members.

C. Power to wind-up a scheme

The Pensions Board will be given powers to require the trustees of a scheme to wind up the scheme in certain limited circumstances, such as where a scheme is underfunded and the trustees and employer are not in a position to adopt a funding proposal, and where it is clear that the position will continue to deteriorate.

D. Change to Pension Scheme Wind-up Priority

The Pensions Act sets out the order in which the assets of a pension scheme must be applied in the event of a scheme wind-up. The statutory order of priority is of no consequence where a scheme winds up with sufficient assets to meet all of its liabilities. In a wind–up situation, all pensioner benefits except provision for post retirement increases are given the highest priority after wind-up expenses and additional voluntary contributions made by individuals. Any remaining assets are then divided according to the accrued liabilities amongst active and deferred scheme members.

If a scheme is under-funded, the assets remaining after the distribution of assets in respect of payment to pensioners may not be sufficient to meet the liabilities of the active and deferred members. In some cases, they may receive much less than the promised benefit after the commitments to existing pensioners have been satisfied. These provisions can give rise to significant inequities in the distribution of assets where an underfunded scheme is being wound-up.

The Pensions Act will be amended to provide for a more equitable outcome for all scheme members who have contributed to the pension fund. This amendment to the Pensions Act will be subject to detailed drafting considerations:

- Continue to prioritise existing pensioners and ensure that they receive their benefits, but only up to a level of €30,000 (two and half times the State pension) or 75% of expected benefits whichever is the lower.

- Assets in the scheme would then be distributed among active and deferred members to the same limits.

- Pensioners would then get priority in the distribution of the remaining assets before any further assets are distributed to active and deferred scheme members

The approach that will be adopted will ensure that in the unusual event of a scheme winding up in deficit, the current balance will be tilted so that active and deferred members will receive a greater proportion of their expected benefit than they would otherwise , while ensuring that pensioners are still protected.

E. Sovereign Annuities

A sovereign annuity is new type of annuity product where payments under the policy will be directly linked to the proceeds of Euro denominated bonds issued by any EU Member States. Legislation was introduced to allow scheme trustees to use such annuities to meet their obligations to scheme pensioners. The Pensions Board will certify sovereign annuity products. The certification process will ensure that the annuity products for pensioners are allowable for pension purposes under the Pensions Act. The guidelines for providers have been published on the Pensions Board website.

This initiative widens the options available to the trustees of defined benefit (DB) schemes. If they choose to buy sovereign annuities and continue to pay the pensions from the fund, it will have the effect of reducing their pensioner liabilities under the funding standard. However, where sovereign annuities are purchased in the pensioner's name (rather than the scheme name) payments will be made directly to the pensioner by the insurance company, and there will be no further link to the scheme. Any potential risk is passed from the scheme to the pensioners.

Where scheme trustees buy sovereign annuities, the payment of those annuities will be linked directly to the bonds underpinning the annuity. In the case of sovereign annuities linked to Irish bonds, these bonds are guaranteed by the Irish Government. Because sovereign annuities are likely to be less expensive than other pension products, the purchase of these annuities would make additional assets available to secure the benefits of active and deferred scheme members.