News Release: 7 December 2010

Ó Cuív – *New investment initiative for Irish pension schemes to be made available in January 2011*

Minister for Social Protection, Éamon Ó Cuív TD has said that the Government has agreed a new initiative, - as signalled this afternoon (7 December 2010) by the Minister for Finance – which involves new bonds and sovereign annuities. These will be available for investors and pension schemes from January 2011. This initiative stems from proposals originally put forward by the Irish Association of Pension Funds and the Society of Actuaries in Ireland.

Minister Ó Cuív said today that: "The vast majority of Irish pension funds invest in bonds that are non-Irish bonds. This leads to an outflow of money from this State – money which would be better invested in Ireland. There are two major advantages to this proposal firstly, it allows for the retention of Irish funds for investment in Ireland and secondly it provides a higher rate of return for pension schemes. This will be particularly attractive for defined benefit schemes that are currently struggling with pension deficits and unable to meet the funding standard."

The National Treasury Management Agency will issue bonds which will facilitate the creation of sovereign annuities; both bonds and sovereign annuities may be purchased by pension scheme trustees and other investors. The Minister said that: "It was important to ensure that the widest range of options was available to pension scheme trustees." He gave assurances that that this initiative is voluntary and it is up to pension scheme trustees to decide whether or not to avail of the options available for their schemes.

This proposal fits into the longer-term aims of pension policy as outlined in the *National Pensions Framework* as it will help to address the existing deficits in defined benefit schemes and also assist those who wish to transition to the new defined benefit model, currently being developed. It also supports a move away from the reliance on higher risk equity investments by pension schemes. The funding standard will be amended to enable pension schemes that purchase bonds or sovereign annuities to re-price their liabilities. "I believe this is a good development," said Minister Ó Cuív. "Investing in bonds enables schemes to move away from equities where they have experienced losses and puts pension schemes on a more secure footing.

"I am aware that pension scheme trustees need to be fully informed about the proposals being developed in relation to a new model for defined benefit pension schemes and when the bonds and sovereign annuities are made available in January 2011, full details of the new defined benefit proposals and related changes to the funding standard will also be made available," said Minister Ó Cuív. The *National Pensions Framework* agreed by Government in March 2010 recognised the difficulties with the current design of defined benefit schemes and proposed an alternative approach which the Minister previously announced would be expedited.

Minister Ó Cuív also said: "People may say that investing in Irish bonds is risky but there is absolutely no risk of Ireland defaulting on its sovereign debt. The Government has stated this on many occasions and I want to be absolutely clear about this – it simply will not happen. In fact, moving from equities to bonds puts schemes on a more secure footing and minimises the risk of losses and over reliance on equities which they've experienced in the past."

The Minister also welcomed the fact that this proposal will assist the Irish Exchequer by bringing pension funds back into the country. Irish pension funds hold less than 5% of their assets in Irish Government bonds, a very low percentage by EU standards.

The Minister for Social Protection also announced that on the basis of this decision made by the Government, and the forthcoming publication of the new defined benefit model, the Pensions Regulator will announce the final deadline for funding proposals in January 2011.

ENDS

Editor's Note: Pensions Information

1. **Number of schemes and members (Pensions Board Annual Report 2009)**

Defined Contribution pension schemes

- 82,939 schemes with 266,909 employee members

Defined Benefit pension schemes

- 1,212 schemes with 254,325 employee members and approximately 65,991pensioners (subject to the funding standard)
- 95 schemes with 332,163 employee members (not subject to the funding standard)

Personal Savings Retirement Accounts (PRSAs)

- 170,862 Accounts at end 2009 with asset value of €2.05 billion

2. Pension Coverage (CSO Quarterly National Household Survey Q1 2008)

- 54% of those at work
- 61% of those aged over 30 at work

3. Assets of pension schemes (End of 2009 - IAPF survey)

- Total Assets €72 billion
  - Defined benefit €48 billion 67%
  - Defined contribution €24 billion 33%

4. Typical investment of pension schemes (End of 2009 – IAPF survey)

Defined Benefit		Monetary Amount
Equities	64.3%	€31.1 billion
Bonds	24.0%	€12.1 billion
Property	3.5%	€1.7 billion
Cash	4.2%	€2.1 billion
Alternatives	2.8%	€1.4 billion

Defined Contribution		Monetary Amount
Equities	58.7%	€14 billion
Bonds	22.5%	€5.3 billion
Property	4.9%	€1.1 billion
Cash	12.5%	€3.0 billion
Alternatives	1.3%	€0.3 billion

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