**Ó Cuív launches new Sovereign Annuities Initiative 'to provide greater opportunities for Irish Pension Schemes'**

The **Minister for Social Protection, Éamon Ó Cuív T.D.** said this morning (17 December 2010) that Ireland is unusual in the EU in that Irish pension funds have a large amount of assets under management, but hold relatively small amounts in Irish Government Bonds. "In other words," said the Minister, "where they do invest in bonds, Irish pension funds tend to invest in non-Irish bonds. This means that there is money flowing from the State which would be better invested in our country."

The Minister made his comments when launching a new initiative for Irish pension schemes which involves new bonds which will provide greater opportunities for Irish pension schemes to invest, not just in Irish bonds but in Ireland.

Speaking at the launch of the initiative, Minister Ó Cuív said: "There are two major advantages to this new proposal, firstly, it allows for the retention of Irish funds for investment in Ireland and secondly it allows pension schemes to benefit from higher yields than are available to them at present. This will be particularly attractive for defined benefit schemes that are currently struggling with pension deficits and unable to meet the funding standard."

The Minister said: "The Irish Association of Pension Funds and the Society of Actuaries in Ireland, representing the pensions industry, made proposals to Government which would allow Irish pension funds to invest in Irish bonds through a vehicle referred to as 'sovereign annuities.'

"The Government has given these proposals very detailed consideration over a number of months and as I outlined in my speech on the Social Welfare Bill this week in the Dáil and Seanad, the Government has agreed to introduce this new initiative based on these proposals whereby new bonds - which will facilitate a sovereign annuity - will be available for pension schemes from January 2011. The legislation to facilitate this will be passed by the Houses of the Oireachtas today."

The National Treasury Management Agency will issue the bonds and will decide what interest rate should apply in the light of prevailing market conditions. The Minister added: "Any investor, including pension funds, may buy the bonds. In doing so, they would benefit from higher yields than are currently available from the French or German markets."

The Minister said that the new initiative will provide greater opportunities for Irish pension schemes to invest, not just in Irish bonds but in Ireland - and benefit from this investment. "This is something that we should all be doing anyway – now more than ever. We want people to buy Irish goods and to use Irish services. Investing in Irish bonds is no different. This type of investment in ourselves is vital to our national recovery," he said.

The Minister also added that: "It is important to ensure that the widest range of options is available to pension scheme trustees." He gave assurances 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.

The sovereign annuities proposal outlined today 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 make the 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 to the extent that they actually purchase these bonds or annuities. "I believe this is a good development," said Minister Ó Cuív.

The Minister for Finance, Brian Lenihan TD commented that: "The Government wants to give domestic investors, including pension funds, every opportunity to invest in Ireland. For pension funds which choose to take up the offer, this initiative provides a real chance to re-balance their assets and get access to good and secure rates of return."

Minister Ó Cuív also said he was 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 the changes to the Minimum Funding Standard and so full details will be made available shortly."

Minister Ó Cuív is his concluding remarks said: "I want to say that there is absolutely no risk of Ireland defaulting on its sovereign debt. The Government has stated on many occasions that this 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 initiative 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. The Minister said that once all of these measures are in place, the Government does not envisage continuing to revisit policy in relation to defined benefit schemes.

**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 |

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| **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 |

**ENDS**