



# Defined Benefit Survey 2008

Mercer survey of DB (defined benefit) pension schemes in Ireland 2008.



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## Defined benefit schemes reduce exposure to risk

The risks associated with DB pension schemes continue to be an area of major focus for employers, with many actively reviewing their options for the future. A new Mercer survey shows that DB trustees and sponsors are continuing to de-risk, both in terms of the benefits being provided to new employees and in approaches to investment strategy.

### Main findings

- 55% of current defined benefit schemes now closed to future joiners.
- Schemes closing tend to be smaller in size - 78% of employees covered by survey are in DB schemes that are still open.
- Employer contribution rates have doubled over the last 8 years, with an average contribution rate now of 18%.
- Employee contribution rates have also increased to an average of 5.5%. Approximately 10% of schemes have increased employee contributions since Mercer's last survey in 2006.
- 22% of schemes have modified benefits in the last two years, generally reducing some form of benefits into the future.
- Funding standard difficulties remain, with one third of schemes still failing the funding standard under the Pensions Act.
- Investment in bonds is increasing as stakeholders seek to reduce risk.

The survey covers DB pension schemes with €13 billion in assets and with nearly 60,000 active members.



## Closing to new employees

Mercer's survey reveals that 55% of defined benefit pension schemes are now closed to new employees. Approximately 10% of the schemes closed to new entrants are also "frozen", i.e., existing employees do not accrue any further benefits.

This represents an increase from a closure level of 38% when our last survey was conducted in 2006. The trend towards closing DB schemes therefore continues. However, there have been some notable exceptions, particularly in the financial services sector, where DB schemes have been re-opened to staff. Also, the schemes that have been closing have tended to be smaller schemes, so that the numbers of employees with access to DB schemes is not declining as quickly as the number of DB schemes themselves. Our survey reveals that, despite the closures, 78% of employees are members of DB schemes that are still open to new employees.

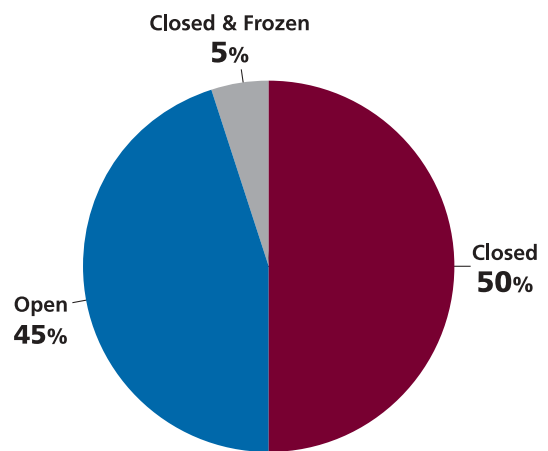
## Contribution rates

On average, employer contribution rates have more than doubled in the past 8 years. The average employer contribution rate to a defined benefit pension scheme is now 18% of pensionable salaries compared to just under 9% eight years ago.

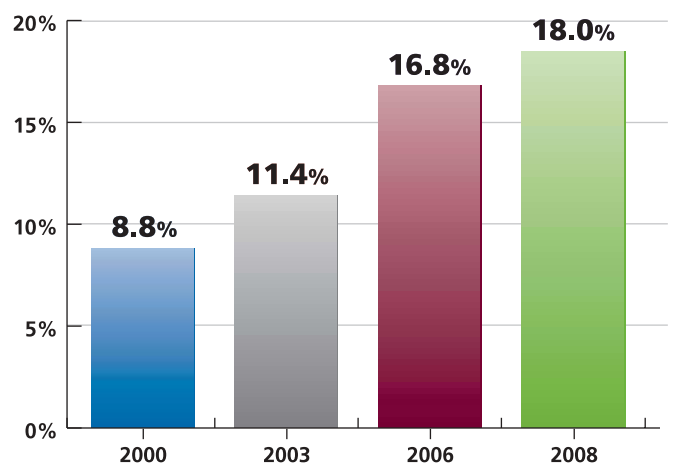
The increase in contributions is attributed to the fact that pensions have become more expensive to provide, mainly due to lower interest rates and people living longer. In fact, in addition to increasing their ongoing contribution rates, many employers have also made special contributions to plug deficits.

In order to meet some of this increase in cost, employee contribution rates have also increased in 10% of schemes over the past two years to bring the overall average to 5.5% of pensionable salaries. Where employee contributions have increased since 2006, the extra contributions required have averaged 3% of pensionable salary.

Closing DB to new employees



Average employer contribution rate



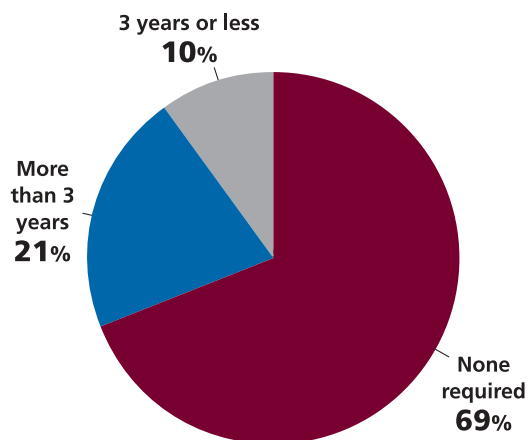


## Funding standard

Just over 2/3rds of schemes met the funding standard over the course of 2007. However, we believe that many of these pension schemes will find it difficult to meet the funding standard in 2008 if recent falls in asset values are sustained.

Of the schemes that did not meet the funding standard, funding proposals were put in place for an average period of 7 years. The average employer contribution rate where there is a funding proposal in place is 23% of pensionable salaries.

### Funding proposal periods



## Structural changes for existing employees

Mercer's survey reveals that 25% of schemes have modified benefits in the last two years, generally reducing some form of benefits into the future. Increasing the contribution rate and closing to new employees have been the most

common responses of employers to the increased cost of providing defined benefit pension schemes. Other common changes have been the removal of escalation for future-service pensions and the capping of pensionable salaries.

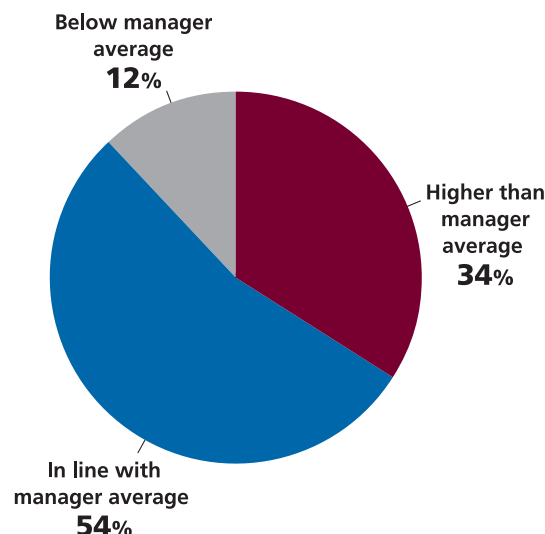
## Investment

Mercer's survey indicates that 33% of defined benefit pension schemes have changed their investment strategy over the past two years and that many have increased the amount of bonds they hold. This trend of increasing the amount of bonds held has been caused by stakeholders aiming to limit volatility in the contribution rate and the solvency level in future years. These companies and trustees are willing to forgo the possibility of extra returns in return for reduced risk.

There has also been some evidence of increased use of indexed funds, which are designed to match stock market movements rather than to out-perform them.

The survey reveals that 54% of schemes have a bond strategy that is broadly in line with the average managed fund while 34% of schemes have a bond strategy higher than the average managed fund (the average manager bond weighting at 31 December 2007 was 14% of portfolios).

### Bond weightings





Argentina	Malaysia
Australia	Mexico
Austria	Netherlands
Belgium	New Zealand
Brazil	Norway
Canada	Philippines
Chile	Poland
China	Portugal
Colombia	Singapore
Czech Republic	South Korea
Denmark	Spain
Finland	Sweden
France	Switzerland
Germany	Taiwan
Hong Kong	Thailand
Hungary	Turkey
India	United Arab Emirates
Indonesia	United Kingdom
Ireland	United States
Italy	Venezuela
Japan	

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