LCP INSIGHT CLARITY ADVICE

Volatile financial markets and legislative uncertainty continue to cause significant headaches for pension schemes

LCP Ireland Pensions Accounting Briefing

2019

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We expect the management of risk to become an even more key focus for pension schemes in the coming years. Upcoming legislation will compel trustees to hold written policies on risk management, appoint a risk manager as a key function holder and prepare a thorough Own Risk Assessment.

Conor Daly
Partner

1. Introduction

Pension disclosures are a significant element of many company accounts. By analysing these disclosures, we aim to measure the exposure of companies to pension risks and highlight the steps that companies are taking to address pension issues in these challenging times.

15

Number of companies listed on the ISEQ and other exchanges included in this briefing.

11

Number of semi-state/state-controlled companies included in this briefing.

This briefing covers 15 of the largest companies (by market capitalisation) listed on the Irish Stock Exchange (ISEQ) and other exchanges that have defined benefit pension arrangements in Ireland. All of these companies are required to report under International Accounting Standards (IAS19 for pension costs) in accordance with EU regulations. We have also covered 11 semi-state/state-controlled companies with defined benefit pension schemes that have published pension accounting information for their 2018 financial year. These bodies have reported under IAS19 or the equivalent local standard FRS102.

The information and conclusions in this report are based solely on a detailed analysis of the information companies have disclosed in their annual report and accounts for their 2018 financial year and other publicly available information. We did not approach companies or their advisers for additional information.

2. Executive summary

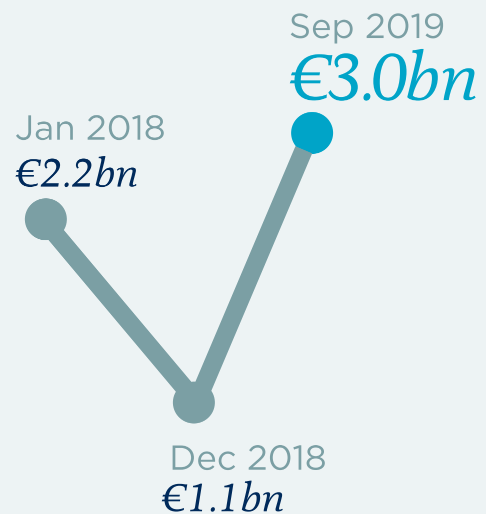
2.1. Pension deficits remain volatile

Pension scheme deficits remained volatile over 2018. We estimate that the combined deficit of the schemes analysed was **€1.1bn** at 31 December 2018. This represents **a decrease of €1.1bn or 50%** in the deficit from the estimated position at the start of 2018.

The decrease in estimated deficits occurred largely due to increases in bond yields and reduction in inflation expectations over 2018, combined with contributions paid to schemes.

Financial markets have been especially volatile in 2019 with sharp falls in yields partially offset by strong equity performance. We estimate that the deficit for companies analysed has **risen to €3.0bn by 30 September 2019** (total estimated assets of €31.8bn compared to total estimated liabilities of €34.8bn). Further information on the volatility in funding levels over 2019 is contained in section 4.

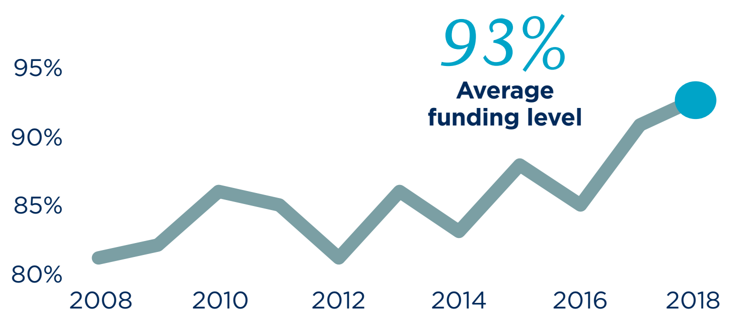
Pension scheme deficits

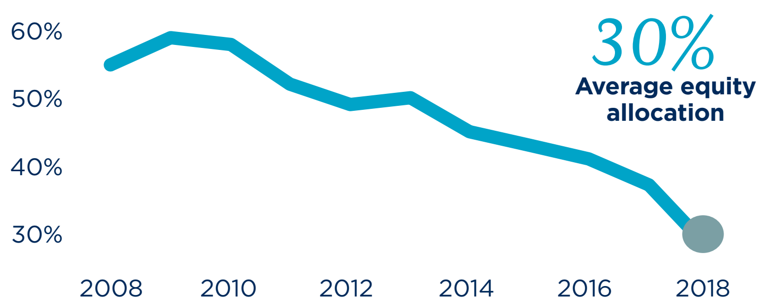


2.2. Long-term trends show an improvement in funding levels and a reduction in risk

An analysis of the trend of funding levels disclosed by companies since the first LCP Ireland Pension Accounting briefing in 2009 shows a generally improving trend. The average funding level disclosed for 2018 in this report is 93% (although this will likely have decreased during 2019).

In addition, the average allocation to equities for the companies analysed has also fallen significantly from a high of 59% disclosed in 2009 to 30% in 2018. This reflects scheme de-risking and a clear move to diversify assets away from more volatile equity holdings.





2.3. Risk and volatility remains high

While the overall trend has been towards a reduction in risk, it is clear from the analysis that considerable risks remain within pension schemes.

In particular, the pension schemes' funding positions remain quite exposed to changes in interest rates and inflation expectations. The analysis indicates that a reduction of 1% in bond yields (discount rates) would result in an average reduction in the funding level of 9%. Further information is contained in section 4.

The Irish government will introduce legislation very soon to transpose the requirements of EU Directive IORP II. IORP II will have a significant impact in the governance obligations for pension schemes, particularly in the areas of risk assessment and risk management. We expect this to become a key focus for Irish defined benefit schemes in the coming years.

2.4. Pension contributions remain a significant cost

The companies analysed paid substantial contributions of €1.0bn to their pension schemes in 2018. This follows contributions of €1.1bn in 2017 and in 2016. It is clear that pensions remain one of the most significant costs for these organisations.

In many cases, the employer contributions were significantly higher than the cost of accrual as attempts continue to eliminate past service deficits.

Total contributions paid

2016

€1.1bn

2017

€1.1bn

2018

€1.0bn

2.5. Some divergences in assumption setting

The value placed on pension liabilities is highly dependent on market conditions at the valuation date and the assumptions used in the valuation exercise – particularly the discount rate. As pension liabilities tend to be very long term, a small change in the discount rate can have a highly significant impact on the disclosed balance sheet liability.

We have seen evidence of some divergence in the assumptions adopted by companies as different interpretations are taken of the appropriate market yield at the valuation date. Using a higher discount rate will result in an improvement to the balance sheet position disclosed.

The delay in transposing IORP II into Irish legislation is unhelpful for trustees and plan sponsors. It is difficult for pension schemes to plan without detail on their obligations under new legislation.

Roma Burke
Partner

3. Developments in Irish pension provision in 2019

3.1. IORP II legislation delayed

The EU Directive, IORP II will have a very significant impact on the governance obligations of Irish pension schemes. The Directive was due to be transposed into Irish law no later than 13 January 2019. In January 2019, the Department of Employment and Social Protection (DEASP) advised that the Regulations to transpose the Directive were "at an advanced stage" but there is still no known date for the transposition to Irish law.

The delay in the transposition of the Directive is unfair to pension scheme trustees who are working in an environment of uncertainty. It is important that the Government finalises and publishes this important piece of legislation.

The Directive provides for a significant range of new governance requirements concerning pension schemes including:

- Fit and proper standards for trustees;
- A requirement for the appointment of Key Function Holders (KFHs) for risk management, actuarial and internal audit;
- A requirement to prepare written policies on risk management, internal audit, and, where relevant, actuarial and outsourced activities; and
- Additional requirements relating to internal controls, administrative and accounting procedures, contingency plans and remuneration.

While the aims of the Directive are well intentioned and will improve the governance of many pension schemes, it is also likely to result in additional legislative and compliance costs in the operation and management of pension schemes. Indeed, the Pensions Authority have indicated that the increased costs associated with the implementation of the new requirements could result in some smaller pension schemes becoming unviable.

The Pensions Authority also expects that the greatest impact of IORP II for defined benefit schemes will be in the area of risk and for such schemes they expect to see "not only better understanding of risk but a better quantitative analysis of risk".

We expect a significantly increased focus on the identification, measurement, monitoring, management and reporting of the key risks facing pension schemes.

Indeed, the formal appointment of a Risk Manager and the preparation of an Own Risk Assessment will be one of the first tasks undertaken by many pension scheme trustees under the IORP II regime.

3.2. Roadmap for Pensions Reform 2018-2023

The Government published proposals for a significant reform of future State, private and public service pension provision in February 2018. The proposals set out a 5 year plan ("Roadmap for Pensions Reform 2018-2023") for the implementation of some significant amendments:

New automatic enrolment savings scheme

The government proposes to develop and implement a State sponsored supplementary retirement savings system in which workers will be automatically enrolled by 2022. The objective of this scheme will be to help individuals to accumulate sufficient wealth to sustain personal living standards in retirement.

Government subsequently published a "Strawman" proposal for consultation setting how auto-enrolment might work. Key features include:

- All employees in the private sector between age 23 and 60 earning over €20k and without existing private pension provision would be automatically enrolled;
- Mandatory contributions building up to 6% of Salary for employer and 6% of Salary (of net pay) for employees; and
- The tax relief on employee contributions – currently fully deductible at the marginal rate – would be replaced by a State top up of €1 for every €3 of employee contribution. This would be equivalent to an effective 25% tax relief for all employees – significantly lower than the 40% rate enjoyed currently by higher rate earners.

The Minister for Employment Affairs and Social Protection published an update on Auto Enrolment in October 2019 taking into account the findings from the consultation process. The update stated that many of the features of the strawman proposal were confirmed as policy by the government. Some features remain under consideration including the level of tax relief to be provided (the "State financial incentive").

Defined benefit (DB) schemes

The new requirements under IORP II outlined above will have a direct impact on DB schemes. In addition, the Government has stated that it intends to provide improved levels of protection for scheme members and beneficiaries. (This could include, for example, the introduction of a minimum notice period for wind up, as previously proposed but deferred in 2017). The government also intends to introduce more effective oversight of the financial status of DB schemes and hold a consultation with a view to identifying "appropriate and sustainable" funding standard reform options.

State pension

The State pension system is expected to be reformed to "improve its transparency, fairness and sustainability". To meet these objectives, the Government proposes to set a formal benchmark for the State Pension of 34% of average earnings and then develop proposals to index the State Pension in the future.

Tax expenditure

In respect of private/occupational pension schemes, the Roadmap indicates the Government intends to "review the cost of funded supplementary pensions to the Exchequer… this will include an assessment of the economic and social benefits delivered and an evaluation of equity in the distribution of tax expenditure on pensions." Such a review could result in significant changes to the tax system for pension schemes.

3.3. Additional reporting requirements

In 2018, new reporting requirements for pension schemes were introduced by both the European Insurance and Occupational Pensions Authority (EIOPA) and the European Central Bank (ECB).

There is some overlap between the reporting requirements and both reporting requirements require detail on assets, liabilities and membership. The initial reporting date for quarterly reporting was the end of the third quarter of 2019 (although there has been a deferral of some elements of the EIOPA reporting).

These requirements increase further the regulatory burden and operation costs associated with defined benefit schemes.

3.4. GDPR

The new EU General Data Protection Regulation (GDPR) came into force on 25 May 2018. GDPR increased data protection obligations on pension schemes. All pension schemes should now have carried out an analysis of their compliance with GDPR and agreed procedures for dealing with data breaches should they arise.

Volatile financial conditions in 2019 have caused pension liabilities to increase significantly. Sharp falls in bond yields will have put severe strain on schemes with lower levels of matching assets. The recent announcement by the ECB to restart its quantitative easing and continue bond purchases "for as long as necessary" will likely keep downward pressure on bond yields in the short-term.

Martin Haugh
Partner

4. LCP's analysis of pension accounting disclosures

> *The average funding level in 2018 increased to 93% which is the highest in our 11 years of reporting and reflects the continuing effort and commitment by scheme sponsors and trustees in difficult economic circumstances. We expect the focus of many employers to move now to liability management exercises and de-risking of legacy schemes.*
>
> *Fergus Collis, Partner*

4.1. Introduction

We have analysed the financial position of 26 companies' defined benefit pension schemes. A full list of the companies can be found in Appendix 1.

We took the 25 largest companies (by market capitalisation) on the ISEQ and analysed the 11 companies with material defined benefit pension arrangements. The companies analysed are unchanged from last year's report.

In a similar manner to previous years, we have also included **DCC, Grafton, Greencore** and **UDG Healthcare** (these companies are listed on other exchanges, but operate significant defined benefit pension schemes in Ireland) and analysed the largest pension schemes for semi-state/state-controlled companies that publish accounts.

We have reported on the financial position of the defined benefit pension arrangements sponsored by these companies and, where possible, we have excluded liabilities relating to post-retirement healthcare from our analysis. The figures analysed include all defined benefit pension arrangements (including overseas arrangements, if applicable), except where indicated.

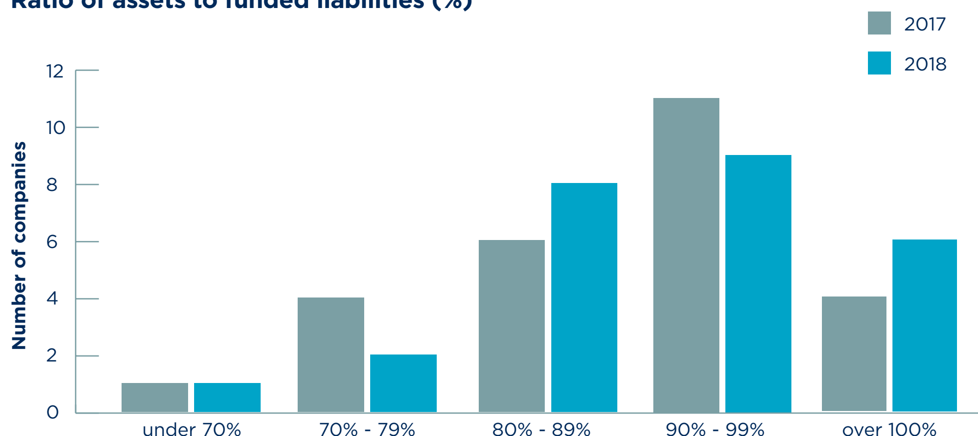
4.2. Reported funding levels

The accounting standards look at the pension scheme assets and funded liabilities at the accounting date. Of the companies analysed in this survey, six reported sufficient assets to meet its funded liabilities (**AIB, C&C Group, DCC, Diageo, Kingspan** and **UDG Healthcare**). This is an increase from 2017 where only four companies reported sufficient assets to meet its funded liabilities.

UDG Healthcare disclosed the highest funding level (124%), while one company (**Central Bank of Ireland**) disclosed a funding level of less than 75%.

The average funding level for the schemes analysed improved from 91% in 2017 to 93% in 2018. The following chart shows how funding levels have changed over the year for the companies analysed.

Ratio of assets to funded liabilities (%)



The relatively modest improvement in funding levels was due largely to a combination of slight increases in bond yields over 2018 and lower future inflation expectations. Company contributions paid during 2018 were another contributory factor. Indeed, the improvement in funding levels over 2018 would have been more significant but for a sharp fall in equity markets in the fourth quarter.

4.3. Development of pension scheme deficits during 2019

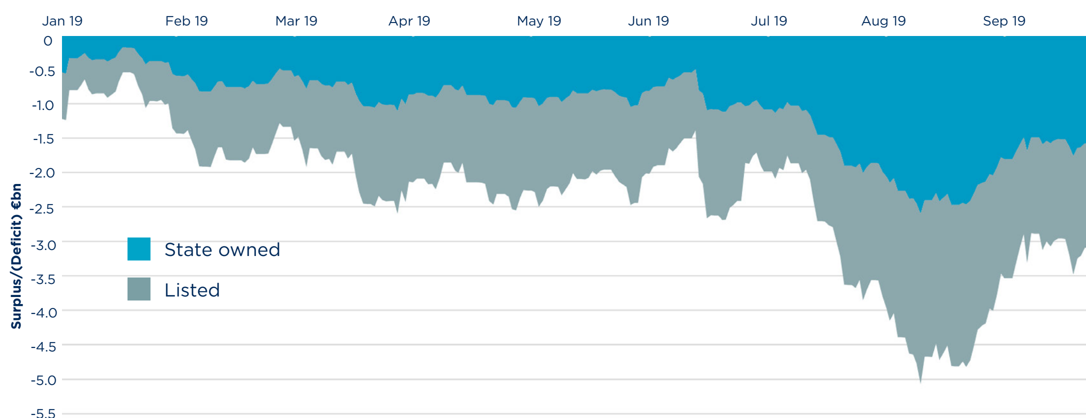
We have also considered the movement in the pension scheme balance sheet positions during the first three quarters of 2019.

Financial markets have been very volatile in 2019. Global equities, as measured by the FTSE World Index, were up approximately 22.9% in 2019 to the end of September but these positive returns have not been spread evenly throughout 2019 with particularly strong returns (18.4%) between January and the end of April 2019.

On the liability side, high quality corporate bond yields as at the end of September 2019 were significantly lower on average than as at the end of 2018. In particular, yields fell significantly in Q3 2019. These lower yields mean that IAS19 liability values have risen significantly during 2019 (as pension scheme liabilities are calculated by reference to these yields for accounting purposes).

LCP estimates that the aggregate pension deficit for the Irish funded schemes of the companies analysed stood at €3.0bn as at 30 September 2019 (total estimated assets of €31.8bn compared to total estimated liabilities of €34.8bn) compared to €1.1bn at 31 December 2018.

Projected aggregate pension deficit



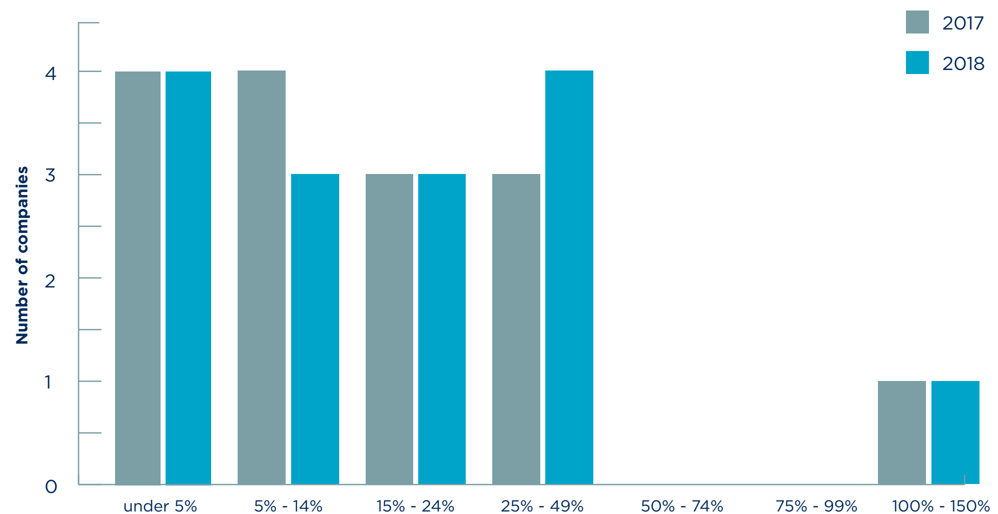
Note: Data is for the Irish funded pension arrangements of the companies analysed and has been estimated from the pension disclosures in their published company accounts[1].

As the graph demonstrates, there can be significant volatility in the level of deficits from month to month as equity values and bond yields fluctuate. There has been considerable variation in the estimated deficits with the estimated deficit being as high as €5.0bn in mid August 2019.

[1] Projected deficits calculated using LCP's daily online scheme monitoring tool LCP Visualise.

4.4. Company exposure to pension schemes

Funded accounting liabilities as a proportion of market capitalisation (%)



25%

The total funded pension scheme liabilities expressed as a proportion of market capitalisation for the companies analysed was 25%.

The chart above shows the size of the pension accounting liabilities relative to market capitalisation for the companies analysed (**AIB** has been excluded from this analysis as its disclosed market capitalisation was distorted by the limited amount of stock actively traded). The total pension liability, expressed as a proportion of market capitalisation, increased over the year (from 20% in 2017 to 25% in 2018).

The following lists the companies with the largest pension scheme liabilities expressed as a percentage of their market capitalisation at their 2018 year-end dates:

- **Bank of Ireland:** 143% (101% in 2017)
- **Greencore:** 43% (43% in 2017)

4.5. Contributions compared to benefits earned

We have analysed how the employer contributions compare with the expected cost of benefits earned:

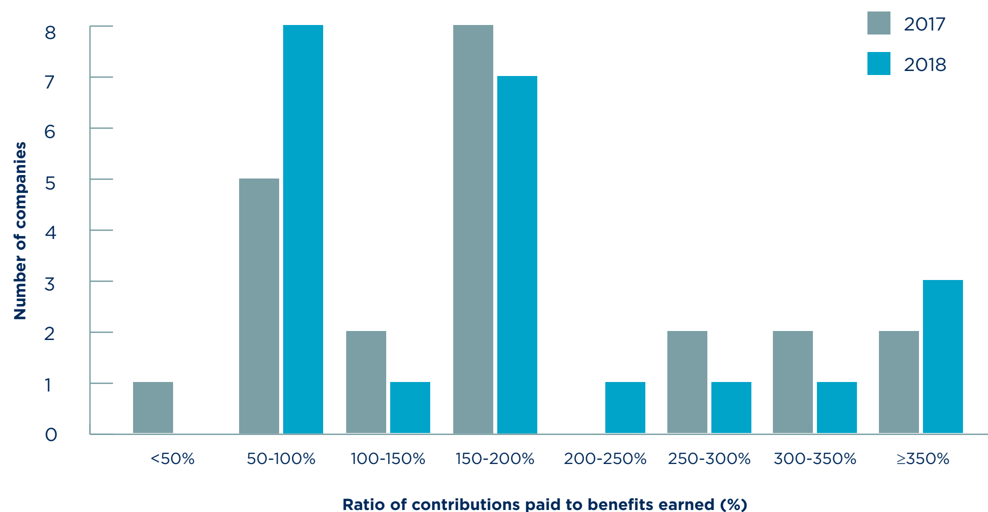
- The cost of benefits earned under IAS19 is determined by the assumptions at the start of the accounting year.
- Typically, employer contributions are set following recommendations by the Scheme Actuary and are designed to ensure that there are sufficient assets to meet benefit payments as they fall due.

Our analysis of the accounting disclosures shows that the majority of companies pay contributions that are in excess of the cost of benefit accrual under IAS19 as attempts are made to reduce past service deficits. On average, companies paid contributions of over 1.8 times (2017: just under 2.0 times) the cost of benefit accrual on the accounting basis.

The contributions made by **Bord na Móna** and **Glanbia** were over four times the cost of benefit accrual under IAS19.

Central Bank of Ireland, CIÉ, Ervia and **NTMA** paid contributions that were less than 75% of the estimated cost to cover benefits earned during the year on the accounting basis.

Employer contributions compared to benefits earned



30%

The average equity allocation for the pension schemes analysed fell during 2018. This is still significantly higher than for comparable pension schemes in other jurisdictions.

As Irish DB schemes' funding positions continue to improve, we are seeing a very welcome de-risking of their investments.

Oliver Kelly
Head of Investment Consulting Ireland

4.6. Trends in asset allocations

We have also analysed the investment strategy of pension funds as disclosed and changes to the strategy over 2018. Where companies disclose a breakdown of their Irish or Eurozone pension scheme asset allocation, this is the one which we have analysed.

The average level of exposure to equities fell from 37% in 2017 to 30% in 2018. The average allocation to bonds increased from 37% to 42% and the allocation to other asset classes increased from 26% to 28%.

We have also analysed the allocation to other asset classes. The majority of companies disclosed an allocation to property assets. The average allocation was 7% in 2018 for those with property assets (unchanged from 2017).

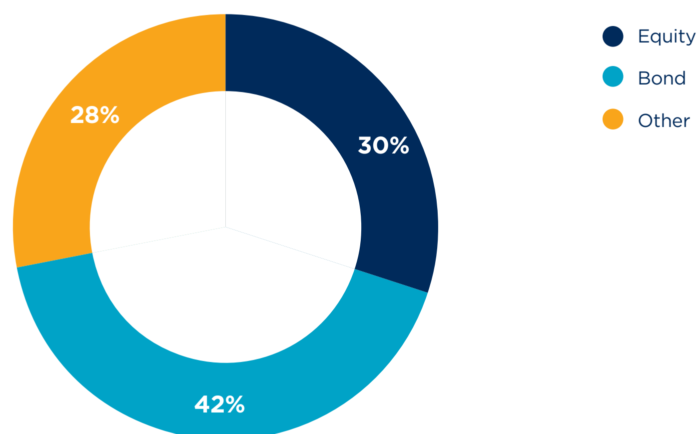
Some companies also disclosed an allocation to cash assets – the average allocation was 6% in 2018 for those with cash assets (5% in 2017).

Five companies disclosed an allocation to "Liability Driven Investment" – with **Kingspan** (47%) and **Bank of Ireland** (31%) disclosing the highest allocations.

Three companies disclosed an allocation to hedge funds – **Diageo** (8%) disclosing the highest allocation.

The average split of assets for the pension schemes analysed is shown in the following chart.

2018 Asset allocation



Companies who reported the highest equity holdings were **Kingspan** (53%), **Kerry Group** (51%), **NTMA** (49%), **Grafton** (41%) and **Ervia** (40%). On the other end of the spectrum, **UDG Healthcare** (12%) and **Bank of Ireland** (12%) disclosed the lowest equity holdings.

The Pensions Authority has commented that investment strategies which rely on equities to outperform bonds in order to meet pension scheme liabilities entail considerable risk, which, in their view, will fall particularly on the younger members. To address this, the Authority has said that it intends to raise this directly with defined benefit pension scheme trustees as part of their programme of increased direct engagement.

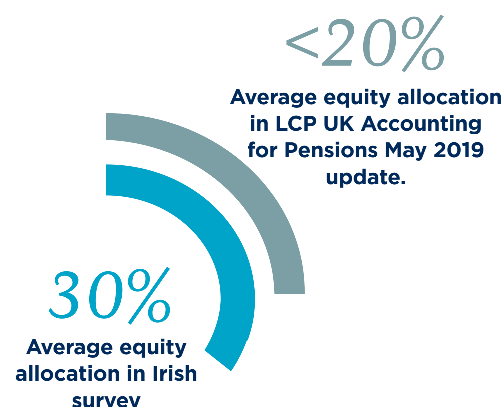
There is evidence that a number of trustee boards are reviewing their investments and in many cases implementing de-risking strategies or altering the mix of their return-seeking portfolios. We expect this trend to continue as many schemes review their asset strategies as part of their funding proposals.

The shift from equities is particularly evident at an individual company level with some accounts showing significant reductions in equity allocations with increases in bond allocations during 2018:

- **An Post**: equity holding reduced from 48% to 26% and bond holding increased from 32% to 49%
- **UDG Healthcare**: equity holding reduced from 34% to 12% and bond holding increased from 40% to 56%
- **VHI**: equity holding reduced from 44% to 23% and bond holding increased from 25% to 39%.

Some companies reported increases in equity holdings. For example, **Kingspan** reported an increase in its equity holdings of 7%.

In previous years we reported that Irish pension schemes had higher than average allocations to equities when compared to other jurisdictions. Our current analysis would continue to support this assertion. For example, in the UK, less than 20%[2] of FTSE 100 pension scheme assets were allocated to equities at the 2018 year-end compared with 30% for the Irish scheme assets in this report.



Some companies reported reductions in bond holdings. For example, **Aryzta** (6%) and **DCC** (4%) reported reductions in bond holdings.

Aryzta and **Total Produce** reported the highest property holdings:

- **Aryzta**: property holding increased from 26% to 30%
- **Total Produce:** property holding decreased from 19% to 17%.

The highest reported cash holdings were **UDG Healthcare** (30%) and **Grafton** (16%).

[2] LCP UK Accounting for Pensions May 2019

4.7. Other risk metrics

The riskiness or otherwise of a defined benefit pension scheme can be assessed by considering some key metrics as outlined above (the funding position, the size of the scheme relative to the company, the investment strategy, etc.). As outlined above, IORP II will significantly increase the focus on risk and in particular the identification, measurement, monitoring, management and reporting of the key risks facing pension schemes.

The Pensions Authority's expectation that there would be an increased quantitative analysis of risk will also lead to more monitoring of risk measures.

One such measure is the Value at Risk (VAR). A 95% VAR considers a 1-in-20 year event and the impact on the funding position of a pension scheme having regard to the liabilities and investment strategy. A review of the pension schemes analysed for this report would suggest an estimated 95% VAR of €3.4bn (or an average reduction in the funding position of more than 12%).

Another measure of risk is to consider the sensitivity of the pension scheme funding level to a market shock – e.g. a sharp fall in bond yields. For the pension schemes analysed, we have estimated that, at 31 December 2018, a decrease of 1% in bond yields would reduce the average funding level by 9%.

4.8. Do pension schemes receive a fair share of available cash?

We have compared the dividends paid to shareholders against the contributions paid to and the deficits of pension schemes.

Whilst employer contributions have remained broadly steady – which could be interpreted as a sign that sponsors are standing firmly behind their pension promises – the listed companies analysed paid dividends in 2018 of over five times the level of contributions into their DB pension schemes.

The total IAS19 pension deficit for the 11 listed companies that disclosed a deficit in 2018 was €1.7 billion. Those same companies paid dividends totalling €1.4 billion – only 18% less than the total deficits. Interestingly, for the same 11 listed companies, the payment of the 2018 dividends as a contribution to the pension schemes would have fully eliminated the 2018 deficit for seven of these schemes.

These headline statistics disguise some significant differences between companies. It is critical to go beyond a headline statistic in drawing any meaningful conclusions. It depends on the extent of any deficits, the security provided by the sponsor covenant and other sources, and the level of investment risk amongst other things.

4.9. Key assumptions

We consider below the various assumptions used to place a value on pension benefits for accounting purposes. Where a company operates pension schemes in more than one country, we have considered the assumptions used for Ireland or the Eurozone (if available). Where a company has disclosed a range of assumptions, we have used our judgement to estimate the relevant point in the range for the Irish pension scheme.

Discount rates

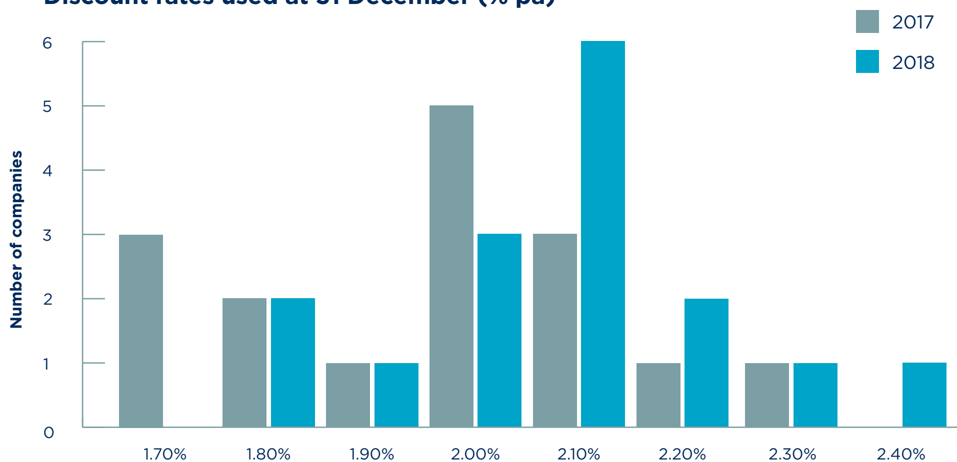
The discount rate is the key assumption used to value pension liabilities. Under IAS19 and FRS102, this assumption is based on the yields available on long-dated high quality (typically AA-rated) corporate bonds in the currency of the liability at the valuation date. The yields on high quality corporate bonds, and hence the discount rates, will fluctuate from day to day in line with market conditions.

2.1% pa

The average discount rate adopted by the companies in this report increased from 2.0% in 2017 to 2.1% in 2018.

In the following chart, we have analysed companies reporting with December 2018 year-ends. As this shows, there was an increase in the discount rates disclosed in 2018 compared to 2017.

Discount rates used at 31 December (% pa)



The majority of the companies with December 2018 year-ends disclosed a discount rate in the range 2.0% - 2.2% pa.

The average discount rate for companies reporting at 31 December 2018 was 2.1% pa – an increase from the average discount rate of 2.0% pa as at 31 December 2017 and reflecting the commensurate rise observed in corporate bond yields over 2018. The highest discount rate was disclosed by **NTMA** (2.4%). Most schemes reported a small increase in the discount rate.

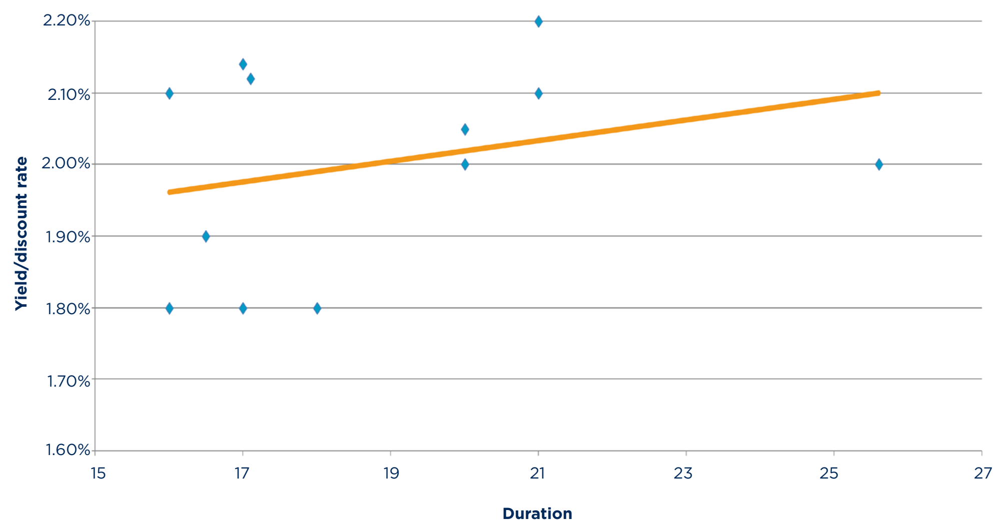
The accounting standard (IAS19) requires that the discount rate used is determined by reference to market yields at the end of the reporting period on high quality corporate bonds of a currency and term consistent with the currency and term of the pension scheme liabilities. This is generally interpreted as a discount rate in line with AA-rated corporate bonds of appropriate duration.

While in theory, pension schemes with similar durations should be valued using similar discount rates at a particular point in time, in practice, the lack of a deep market in long duration corporate bonds can result in different modelling techniques and some divergences in discount rates.

As pension schemes tend to be long duration, a small change in the discount rate can have a very large impact on the balance sheet position. For example, **Kerry Group** reported that a decrease of 0.5% pa in the discount rate would increase the scheme liabilities by 10.8% at the accounting date. Similarly, **Ervia** reported a decrease of 0.25% in the discount rate would increase the pension scheme liabilities by approximately 5.4%.

The discount rates used as at 31 December 2018 have been charted against the disclosed durations below for the 12 companies with such disclosures and a year-end at 31 December 2018 and clearly shows some divergences in approach. We have used the duration for the Irish pension scheme when this is separately identified.

Discount rates used at 31 December 2018 by duration

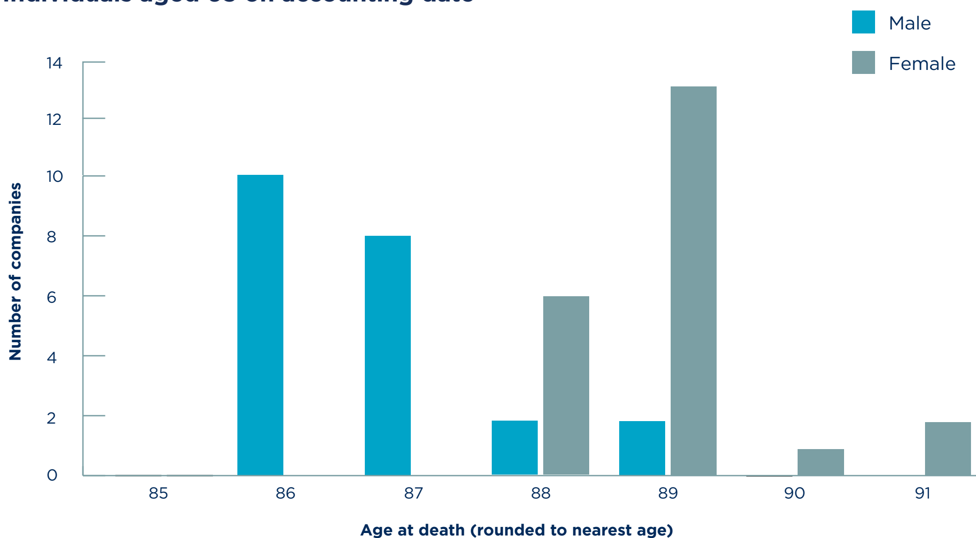


Life expectancy

All of the companies analysed have disclosed some information about their life expectancy assumption.

The following chart shows the range of life expectancies for males and females assumed by the companies analysed for members retiring at age 65 at the balance sheet date in 2018.

Life expectancy assumption
Individuals aged 65 on accounting date



The average assumption was that male members at age 65 at the accounting date would live to age 87.2 (89.3 for females). These are unchanged from last year.

However, this overall average hides some changes where some companies increased their assumed life expectancy and others decreased their assumption. **Glanbia** increased the life expectancy for a male aged 65 by 0.8 of a year (from 85.6 to 86.4). In contrast, **C&C Group** have reduced the life expectancy for a male aged 65 by 1.4 years (from 88.8 to 87.4).

An increase in the assumed life expectancy will result in an increase in the value of the liabilities. An increase of 1 year will broadly lead to an increase of approximately 3% in companies' disclosed pension liabilities.

Future improvements in life expectancy

As well as setting assumptions to estimate how long current pensioners will live, companies must also decide how quickly life expectancies for future pensioners will increase as a result of improvements in mortality.

Allowing for future improvements will increase pension scheme liabilities and, as a result, deficits on the balance sheet. The majority of companies analysed disclosed sufficient information in their accounts to determine the allowance they were making for future improvements in mortality.

On average, the companies analysed are assuming that, over the next 20 years, the life expectancy of male retirees will increase by approximately 2.2 years. This represents a slight increase to the assumptions made by the companies last year (2.1 in 2017).

Long term inflation

While there are some uncertainties when setting the inflation assumption and a number of approaches are available, the average inflation assumption disclosed by companies reporting at 31 December 2018 was 1.6% (1.7% at 31 December 2017).

Many employers are now looking at the future and developing plans for the removal of defined benefit liabilities from their balance sheet. There will be opportunities and only the best prepared will be able to take advantage of them.

John Lynch
Partner

5. Appendices

Appendix 1 - Accounting disclosure listing

Appendix 2 - Accounting risk measures

Appendix 1 - Accounting disclosure listing

This table shows the key disclosures made by the companies included in our analysis. The source of the data is each company's annual report and accounts for the accounting period ending in 2018. The market value of assets and surplus/(deficit) figures relate to the worldwide position of each company, not just the Irish schemes. All figures are rounded to the nearest million Euros. The assumptions for the discount rate and price inflation refer to those disclosed for the companies' main Irish or Eurozone schemes where available. We have excluded from our survey companies who had no evidence of significant defined benefit provision. Some companies' 2017 figures may have been restated. The surplus/(deficit) figures allow for any asset ceiling applied.

	2018						2017		
Irish Companies	**Year-end**	**Market value of assets €m**	**Total Surplus/ (Deficit) €m**	**Funded schemes Surplus/(Deficit) €m**	**Discount rate % pa**	**Inflation % pa**	**Market value of assets €m**	**Total Surplus/ (Deficit) €m**	**Funded schemes Surplus/(Deficit) €m**
Aryzta	Jul	58	(7)	(5)	0.98%	not stated	59	(7)	(5)
Bank of Ireland	Dec	7,247	(228)	(228)	2.00%	1.35%	7,248	(478)	(478)
C&C Group	Feb	187	1	1	1.9%-2.2%	1.50%	189	(18)	(18)
CRH	Dec	2,913	(424)	(113)	2.12%	1.65%	2,622	(377)	(175)
DCC	Mar	102	0	0	2.10%	1.75%	119	0	0
Diageo	Jun	10,517	71	386	1.70%	1.80%	10,506	(558)	(239)
Glanbia	Dec	186	(39)	(39)	1.80%	1.30%-1.40%	186	(42)	(42)
Grafton	Dec	257	(22)	(22)	1.80%	1.20%	269	(26)	(26)
Greencore	Sep	532	(100)	(100)	1.60%	1.60%	543	(142)	(142)
Irish Continental Group	Dec	264	(2)	(2)	1.80%	1.50%	283	5	5
Kerry Group	Dec	1,227	(53)	(34)	2.20%	1.60%	1,353	(124)	(94)
Kingspan	Dec	71	(13)	7	1.2%-2.8%	1.5%-3.2%	77	(14)	8
Smurfit Kappa	Dec	1,831	(804)	(315)	1.90%	1.70%	1,953	(848)	(331)
Total Produce	Dec	169	(11)	(11)	2.10%	1.60%	175	(17)	(17)
UDG Healthcare	Sep	57	11	11	2.00%	1.60%	57	8	8

State-controlled bodies	2018						2017		
	Year-end	Market value of assets €m	Total Surplus/ (Deficit) €m	Funded schemes €m	Discount rate % pa	Inflation % pa	Market value of assets €m	Total Surplus/ (Deficit) €m	Funded schemes Surplus/(Deficit) €m
AIB	Dec	6,136	192	192	2.14%	1.25%	6,328	96	96
An Post	Dec	3,064	(48)	(48)	2.10%	1.75%	3,116	(55)	(55)
Bord na Móna	Mar	334	(13)	(9)	1.60%	1.50%	333	(16)	(12)
Central Bank of Ireland	Dec	679	(364)	(364)	2.00%	1.90%	688	(306)	(306)
CIÉ	Dec	2,125	(547)	(527)	2.05%	1.50%	2,093	(784)	(762)
Coillte	Dec	300	(55)	(55)	2.10%	1.50%	306	(76)	(76)
Ervia	Dec	417	(98)	(98)	2.10%	1.50%	430	(128)	(128)
Irish Aviation Authority	Dec	535	(74)	(74)	2.20%	1.50%	541	(85)	(85)
NTMA	Dec	155	(47)	(47)	2.40%	1.75%	153	(34)	(34)
Ornua	Dec	127	(42)	(42)	2.20%	1.65%	137	(41)	(41)
VHI	Dec	281	(41)	(41)	2.30%	1.60%	267	(40)	(40)

This briefing analyses 11 companies of the largest 25 companies on the ISEQ with defined benefit pension arrangements. Company size has been determined by the weighting on the ISEQ benchmark index at 31 December 2018. The briefing also analyses the most significant state-owned/controlled companies/bodies (where accounts were available) and four public companies that are listed on other exchanges but who operate significant defined benefit pension schemes in Ireland (DCC, Grafton, Greencore and UDG Healthcare). The 2018 figures are as at the end of the accounting periods ending in 2018. The 2017 figures are as at the start of the accounting period. All figures shown were taken from pensions accounting disclosures.

We have converted the figures provided in pounds sterling in the DCC, Diageo, Grafton and Greencore accounts and US dollars in the UDG Healthcare accounts using the Euro conversion rate applicable at each company's year-end (DCC: 1.1369 at 31 March 2018 (2017: 1.1717), Diageo: 1.1297 at 30 June 2018 (2017: 1.1387), Grafton: 1.1139 at 31 December 2018 (2017: 1.1254), Greencore: 1.1230 at 28 September 2018 (2017: 1.1342) and UDG Healthcare: 0.8613 at 30 September 2018 (2017: 0.8464)).

Appendix 2 - Accounting risk measures

The tables show the key results of analysis of the 2018 accounting disclosures made by the largest companies on the Irish Stock Exchange, the largest state-controlled companies/bodies with defined benefit pension arrangements and four other companies who operate significant defined benefit pension schemes in Ireland (DCC, Grafton, Greencore and UDG Healthcare). The pension figures relate to the worldwide position of each company (not just their Irish pension schemes) but exclude healthcare and defined contribution pension arrangements where possible. Equity allocations are based on Irish or Eurozone schemes where disclosed.

The source of the data is each company's annual report and accounts for the accounting period ending in 2018. Figures provided in company accounts in sterling or US dollars have been converted to Euro using the conversion rates outlined in Appendix 1.

The assets and liabilities in these tables are as outlined in the accounting disclosures before any adjustment for any asset ceiling. The surplus/(deficit) figures allow for any asset ceiling applied. The surplus/(deficit) figures are before allowing for deferred tax.

Traditionally some companies with overseas pension schemes do not fund them via an external scheme, instead backing the pension scheme with company assets, which may result in a larger total deficit (when including unfunded arrangements) being disclosed.

The source of market capitalisation figures is the ISEQ weightings as at the companies' year-ends.

All figures shown have been calculated using unrounded numbers. Therefore some metrics shown may differ from those calculated using the rounded figures.

Largest funded liabilities

Company	2018 Liabilities €m	2017 Liabilities €m
Diageo	10,127	10,745
Bank of Ireland	7,475	7,726
AIB	5,323	5,694
An Post	3,111	3,171
CRH	3,026	2,797

Largest funded deficits

Company	2018 Deficits €m	2017 Deficits €m
CIÉ	527	762
Central Bank of Ireland	364	306
Smurfit Kappa	315	331
Bank of Ireland	228	478
CRH	113	175

Largest funded liabilities compared to market capitalisation

Company	Liabilities €m	Market cap €m	2018 Liabilities/ Market cap %
Bank of Ireland	7,475	5,243	143%
Greencore	632	1,460	43%
Smurfit Kappa	2,145	5,518	39%
Irish Continental Group	266	809	33%
Total Produce	180	549	33%

Largest funded deficits compared to market capitalisation

Company	Deficits €m	Market cap €m	2018 Deficits/ Market cap %
Greencore	100	1,460	7%
Smurfit Kappa	315	5,518	6%
Bank of Ireland	228	5,243	4%
Total Produce	11	549	2%
Grafton	22	1,703	1%

Highest equity allocation

Company	2018 Equity allocation %	2017 Equity allocation %
Kingspan	53%	46%
Kerry Group	51%	60%
NTMA	49%	56%
Grafton	41%	47%
Ervia	40%	45%

Lowest equity allocation

Company	2018 Equity allocation %	2017 Equity allocation %
UDG Healthcare	12%	34%
Bank of Ireland	12%	24%
Diageo	18%	22%
Total Produce	19%	19%
C&C Group	20%	28%

Highest (funded) funding level

Company	2018 Assets €m	2018 Liabilities €m	2018 Assets/ Liabilities %	2017 Assets/ Liabilities %
UDG Healthcare	57	46	124%	116%
AIB	6,136	5,323	115%	111%
Kingspan	71	64	112%	111%
Diageo	10,517	10,127	104%	98%
C&C Group	187	186	101%	91%

Lowest (funded) funding level

Company	2018 Assets €m	2018 Liabilities €m	2018 Assets/ Liabilities %	2017 Assets/ Liabilities %
Central Bank of Ireland	679	1,043	65%	69%
Ornua	127	169	75%	77%
NTMA	155	202	77%	82%
CIÉ	2,125	2,653	80%	73%
Ervia	417	515	81%	77%

Largest employer contributions

Company	2018 Contributions €m	2017 Contributions €m
Diageo	217	251
Bank of Ireland	212	217
CRH	118	123
AIB	72	64
Smurfit Kappa	69	75

Largest service cost

Company	2018 Service cost €m	2017 Service cost €m
Diageo	139	151
Bank of Ireland	109	117
CIÉ	81	73
CRH	64	62
An Post	47	49

Largest employer contributions compared to service cost				
Company	Contributions €m	Service cost €m	2018 Contributions/ Current service cost %	2017 Contributions/ Current service cost %
Glanbia	8.3	1.8	461%	257%
Bord na Móna	9.0	2.0	448%	425%
VHI	24.0	6.8	353%	295%
Kerry Group	23.8	6.9	345%	620%
Smurfit Kappa	69.0	25.0	276%	313%

Largest increase in funding level			
Company	2018 Funding level %	2017 Funding level %	Increase in Funding level %
C&C Group	101%	91%	10%
CIÉ	80%	73%	9%
UDG Healthcare	124%	116%	7%
Diageo	104%	98%	6%
Greencore	84%	79%	6%

Largest decrease in funding level			
Company	2018 Funding level %	2017 Funding level %	Decrease in Funding level %
NTMA	77%	82%	-6%
Central Bank of Ireland	65%	69%	-6%
Irish Continental Group	99%	102%	-2%
Ornua	75%	77%	-2%
Aryzta	92%	93%	-1%

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