The road ahead...

Pension schemes navigate Covid-19 storm well but significant risks remain

LCP Ireland Pensions Accounting Briefing

2020

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We expect the management of risk to become an even greater 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 their 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 Euronext Dublin and other exchanges included in this briefing.

10

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 Euronext Dublin stock exchange (formerly Irish Stock Exchange) 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 10 semi-state/state-controlled companies with defined benefit pension schemes that have published pension accounting information for their 2019 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 an analysis of the information companies have disclosed in their annual report and accounts for their 2019 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 2019. We estimate that the combined deficit of the schemes analysed was **€1.0bn** at 31 December 2019. This represents **an increase of €0.4bn** in the deficit from the estimated position at 31 December 2018.

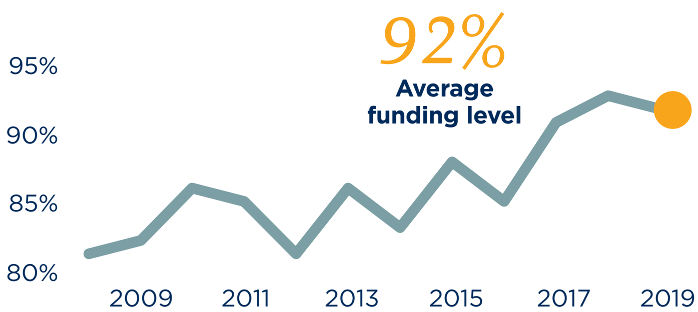
The increase in estimated deficits occurred largely due to decreases in bond yields during 2019. This was offset somewhat by strong equity returns during 2019.

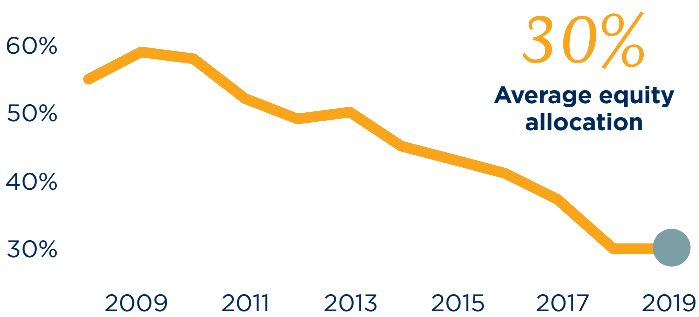
The Covid-19 pandemic has had a significant impact on financial markets during 2020. Equity values fell significantly during Q1 2020 before rebounding since then. A reduction in future inflation expectations has also helped the funding position during 2020. We estimate that the deficit for companies analysed has fallen to **€0.1bn by 30 September 2020**. There has been considerable volatility in funding levels during 2020 and further information is contained in section 4.

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 2019 in this report is 92% (this will likely have increased further during 2020).

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 2019. The average equity holding remained at 30% from 2018 to 2019 but this was during a period of very strong equity performance suggesting a continued de-risking over the period from equities. The trend to diversify assets away from more volatile equity holdings continues.





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.

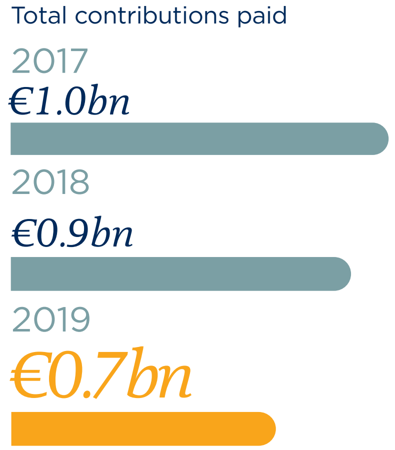
In particular, the pension schemes' funding positions remain quite exposed to changes in interest rates and inflation expectations. The analysis indicates that a reduction of 1% in bond yields (discount rates) would result in an average reduction in the funding level of 10%. Further information is contained 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 on 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, €0.7bn, to their pension schemes in 2019. This follows contributions of €0.9bn in 2018 and €1.0bn in 2017. 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.



2.5. Some divergences in assumption setting

The value placed on pension liabilities is very 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 very 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 continued delay in transposing IORP II into Irish legislation is proving most unhelpful for trustees and plan sponsors. The Pensions Authority has recently stated that "the requirements of the Directive are already clear". Trustees are now being asked to take a proactive approach in order to pre-empt the legal requirements that are likely to be placed on them following the Directive's transposition.

Roma Burke
Partner

3. Developments in Irish pension provision in 2020

3.1. A new approach to supervision of defined benefit pension schemes

The EU Directive, IORP II will have a very significant impact on the governance obligations of Irish pension schemes. Despite an EU deadline of 13 January 2019 for the Irish state to transpose the requirements of IORP II into Irish law, the required legislation has yet to be implemented.

On 8 October 2020, the Pensions Authority announced that it is introducing changes to the way it supervises defined benefit (DB) schemes to take account of the pending changes arising from IORP II.

In particular the Pensions Authority indicated that it is moving to a "risk-based and forward-looking" approach to supervision for DB schemes. A risk-based approach involves considering the long term sustainability of the scheme under prudent assumptions and an analysis of possible scenarios and stresses that can impact on the benefits which a scheme member will receive.

The IORP II legislation will likely result in a requirement for trustees to formally document a range of policies and the area of risk management is one of specific focus for the Pensions Authority. In particular, IORP II legislation will require schemes to adopt strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report key risks to which the scheme is or could be exposed. The new approach to supervision by the Pensions Authority is therefore consistent with the expected requirements under IORP II.

The ongoing delay in implementing the legislation is a frustrating situation for pension scheme trustees and the Pensions Authority is now advocating that trustees should start engaging with and acting upon the IORP II Directive in advance of its transposition, on the basis that the Directive's requirements "are already clear". The most recent announcement from the Pensions Authority makes it clear that it now expects trustees to prepare in advance and understand their changing responsibilities.

It also expects trustees to build knowledge and expertise in the following areas:

- potential risk identification,
- risk quantification and risk management, and
- risk interdependencies and scenario planning

3.2. Risk management function

The legislation transposing IORP II will also require trustees to appoint a risk management function holder. Key function holders will fill important roles in the governance of pension schemes (there will also be a requirement to appoint actuarial and internal audit function holders) and will be subject to a fit and proper test under IORP II.

A key task of the risk manager key function holder will be the delivery of timely, accurate and sufficiently detailed information on a regular basis to enable trustees to identify, measure, monitor, manage and report key risks. The risk manager will also be responsible for ensuring completion of fully comprehensive "Own Risk Assessment" at least once every three years.

The Pensions Authority recommended in the recent announcement that trustees should start identifying who might be their risk management function holder as part of the preparation for IORP II readiness.

LCP has already taken on this role for a number of clients in advance of the transposition of IORP II. The use of an online tool such as **LCP Visualise** can be of significant help in meeting the regular reporting requirements of IORP II.

3.3. Scheme categorisation

The Pensions Authority had previously advised that they would categorise DB schemes in accordance with their analysis of the likelihood of the scheme being in a position to pay all benefits when due. The most recent announcement develops this categorisation by identifying the Authority's priorities with respect to the supervision of each category as follows:

Categories	Scheme Description	Action Required
1	Schemes likely to meet obligations	Monitor to ensure categorisation is maintained
2	Schemes with significant risk, that require change to scheme practices	Secure necessary change to reduce/eliminate relevant risk(s)
3	Schemes which are unlikely to be able to meet their obligations	Reduce benefits or wind up

The Pensions Authority indicated that schemes will be notified of which category they have been assigned to and the level of attention they will subsequently get from the Pensions Authority will depend on their categorisation.

3.4. Deferral of state pension age increase

The State Pension Age was due to increase in 2021 to age 67. Having indicated previously that this increase could be deferred, the 2021 Budget published in October 2020 confirmed that the State Pension Age would remain at age 66. This will require specific legislation to be enacted before 1 January 2021.

The Minister for Social Protection announced the establishment of a Commission on Pensions on 3 November 2020. The Commission will examine sustainability and eligibility issues in respect of State Pension arrangements and will outline options for Government to address issues such as qualifying age, contribution rates, total contributions and eligibility requirements.

We were delighted that our colleague, Roma Burke FSAI (partner in Lane Clark & Peacock Ireland Limited) was appointed as a member of the Pension Commission.

3.5. Automatic enrolment pension "savings scheme"

The new government formed in 2020 confirmed its intention to continue with the establishment of a pension auto-enrolment system. However, the government also noted that it was taking account of "the exceptional strain both employers and employees are now under" and in turn will seek to deliver any such system on a gradual basis.

The key features announced were:

- Matching contributions will be made by both workers and employers and the State will top up contributions (the level of top up or tax relief ultimately available on contributions will be key);
- A phased roll-out over a decade of the contribution made by workers;
- An opt-out provision for those who choose to opt out;
- Workers will have a range of retirement savings products to choose from;
- There will be a charges cap imposed on pension providers.

Prolonged accommodative policies by the ECB arising from the Covid-19 pandemic mean that any sustained rise in bond yields, and hence reduction in scheme liabilities, seems unlikely in the short term.

Martin Haugh
Partner

4. LCP's analysis of pension accounting disclosures

4.1. Introduction

We have analysed the financial position of 25 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 Euronext Dublin stock exchange and analysed the 10 companies with material defined benefit pension arrangements.

In a similar manner to previous years, we have also included **C&C Group, 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

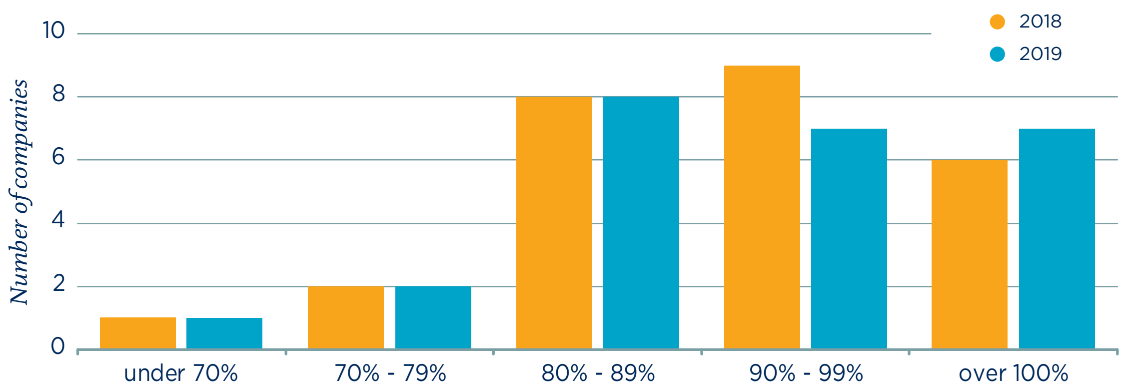
The accounting standards look at the pension scheme assets and funded liabilities at the accounting date. Of the companies analysed in this survey, seven reported sufficient assets to meet its funded liabilities (**AIB, DCC, Diageo, Irish Continental Group, Kerry Group, Kingspan** and **UDG Healthcare**). This is an increase from 2018 where only six companies reported sufficient assets to meet its funded liabilities.

92%

The average funding level (assets as a proportion of funded liabilities) for the companies analysed was 92% in 2019.

The average funding level for the schemes analysed worsened slightly from 93% in 2018 to 92% in 2019. The following chart shows how funding levels have changed over the year for the companies analysed.

Ratio of assets to funded liabilities (%)



The modest decrease in funding levels was due largely to offsetting factors. Bond yields fell during 2019 which increased the liabilities but this was offset by equity returns and company contributions paid. The funding positions would have deteriorated further but for strong equity returns and the increase in yields in Q4 2019.

4.3 Development of pension scheme deficits during 2020

We have also considered the movement in the pension scheme balance sheet positions during the first 3 quarters of 2020.

Financial markets have been very volatile in 2020. Global equities, as measured by the FTSE World Index, were down approximately 3.0% in 2020 to the end of September. However, these negative returns occurred mostly during Q1 2020 with stock market falls of 20% between January and end March 2020 before rebounding since then.

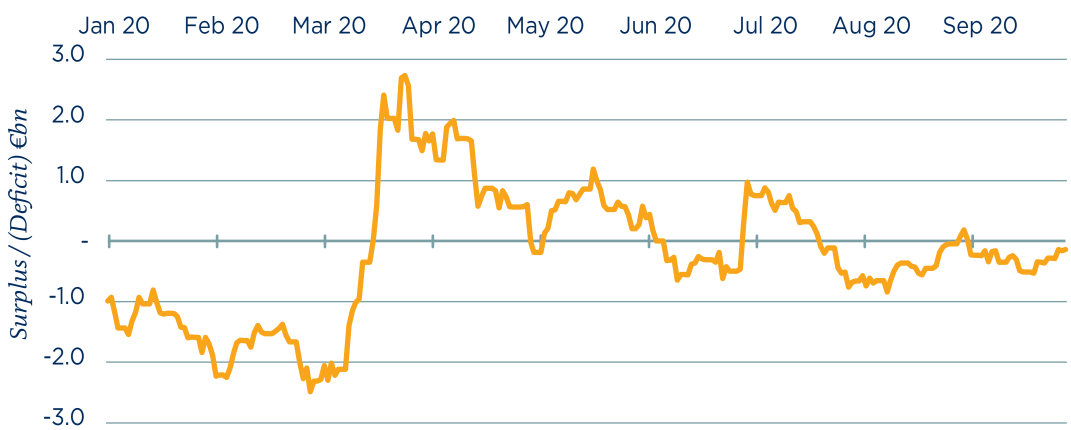
On the liability side, corporate bond yields increased significantly during March 2020 due to global concerns about the Covid-19 pandemic before reducing again. As pension scheme liabilities are calculated by discounting future benefit payments using the prevailing level of AA corporate bonds, the spike in corporate bond yields experienced in March 2020 resulted in a fall in disclosed liabilities. Future inflation expectations also fell significantly in March 2020 further reducing liability values.

The fall in liability values in March 2020 in many cases exceeded the fall in asset values experienced at the same time. This resulted in a somewhat counterintuitive improvement in the disclosed funding levels of many pension schemes during a time of market turmoil.

The position has reversed since Q1 2020 with corporate bond yields falling back from the March 2020 highs and asset values recovering over Q2 2020 and Q3 2020 from the March 2020 market falls. The graph below highlights the very considerable volatility over the first 9 months of 2020. LCP estimates that the aggregate pension deficit for the Irish funded schemes of the companies analysed stood at €0.1bn as at 30 September 2020 compared to €1.0bn at 31 December 2019. However, during a 4 week period from end of February 2020 to late Match 2020 the estimated aggregate funding position swung from a deficit of €2.5bn to a surplus of €2.7bn.

It is these significant swings in the funding position that many employers and trustees are seeking to minimise with de-risking measures and enhanced risk reporting.

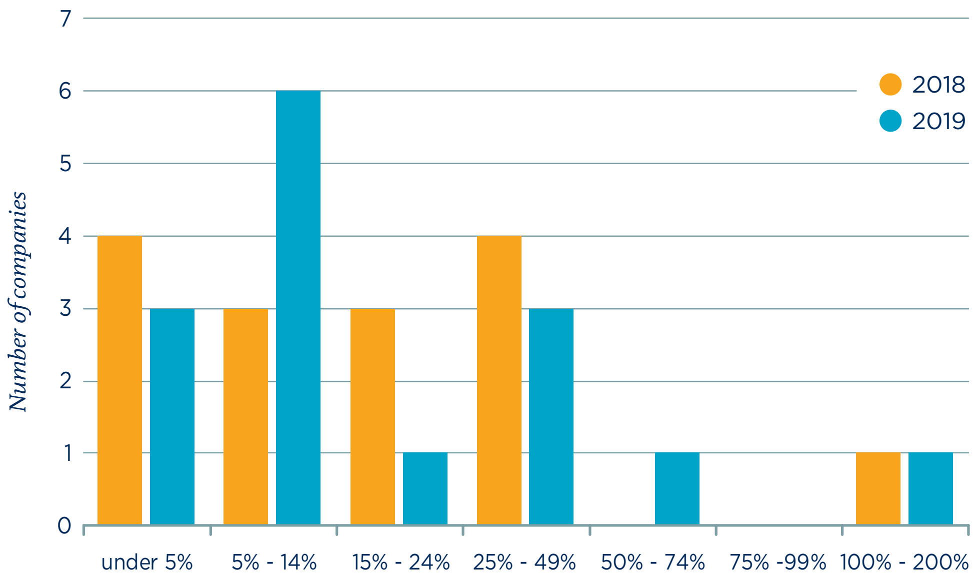
Projected aggregate pension deficit



[1] 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. 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 (%)



The chart above shows the size of the pension accounting liabilities relative to market capitalisations 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 average funded pension liability expressed as a proportion of market capitalisation increased over the year (from 25% in 2018 to 27% in 2019).

The following lists the companies with the largest pension scheme liabilities expressed as a percentage of their market capitalisation at their 2019 year-end dates:

- **Bank of Ireland:** 161% (143% in 2018)
- **Greencore:** 62% (43% in 2018)

27%

The average funded pension scheme liabilities expressed as a proportion of market capitalisation for the companies analysed was 27%.

4.5. Contributions compared to benefits earned

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

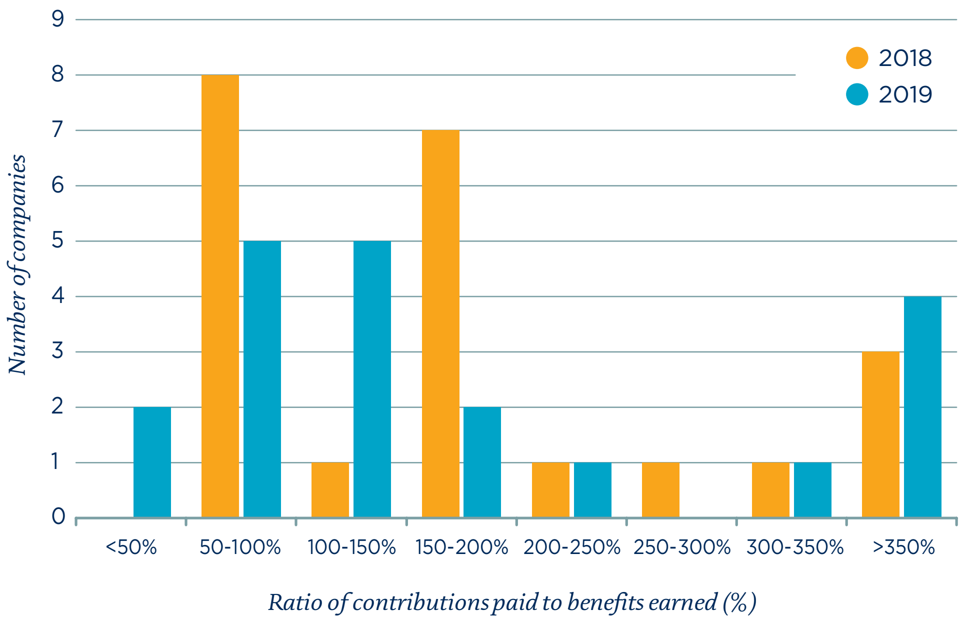
- The cost of benefits earned under IAS19 is determined by the assumptions at the start of the accounting year.
- Typically, employer contributions are set following recommendations by the Scheme Actuary and are designed to ensure that there are sufficient assets to meet benefit payments as they fall 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 2.0 times (2018: 1.8 times) the cost of benefit accrual on the accounting basis.

The contributions made by **Glanbia** and **Kerry Group** were over five times the cost of benefit accrual under IAS19.

C&C Group, Central Bank of Ireland, Ervia and **UDG Healthcare** 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



4.6. Trends in asset allocations

We have also analysed the investment strategy of pension funds as disclosed and changes to the strategy over 2019. Where companies disclose a breakdown of their Irish or Eurozone pension scheme asset allocation, this is the one which we have analysed.

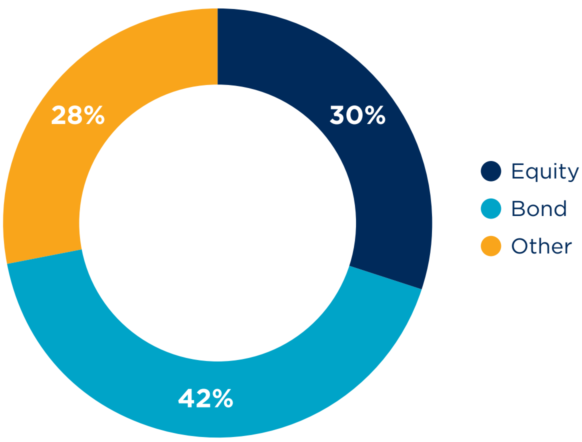
The average level of exposure to equities was 30% in 2019 (unchanged from 2018). The average allocation to bonds and to other asset classes also remained unchanged at 42% and 28% respectively.

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 2019 for those with property assets (unchanged from 2018). Some companies also disclosed an allocation to cash assets – the average allocation was 6% in 2019 for those with cash assets (unchanged from 2018).

Six companies disclosed an allocation to Liability Driven Investment – with **Kingspan** (58%) and **Bank of Ireland** (37%) disclosing the highest allocations.

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

2019 Asset allocation



Companies who reported the highest equity holdings were **Kerry Group** (51%), **NTMA** (46%), **Central Bank of Ireland** (43%) and **Grafton** (43%). On the other end of the spectrum, **UDG Healthcare** (10%) and **Bank of Ireland** (12%) disclosed the lowest equity holdings.

30%

The average level of exposure to equities was 30% in 2019 (unchanged from 2018)

Many employers are looking to develop plans for the removal of defined benefit liabilities from their balance sheet. Volatile bond markets can present short-term opportunities for de-risking and companies that are prepared in advance will be able to take advantage of opportunities as they arise.

Oliver Kelly
Head of Investment Consulting Ireland

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 continuing to actively review their investments and in many cases implement de-risking strategies or alter 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.

Whilst the overall asset class allocations remain broadly unchanged from 2018, there are shifts at an individual company level.

- **Kingspan:** equity holding reduced from 53% to 41%
- **DCC:** equity holding reduced from 30% to 25% with bond holding increase from 55% to 60%
- **Ornua:** bond holding increased from 25% to 34%

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 pension scheme assets were allocated to equities at the 2019 year-end compared with 30% for the Irish scheme assets in this report.

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

- **Aryzta:** property holding decreased from 30% to 29%
- **Total Produce:** property holding decreased from 17% to 15%.

The highest reported cash holdings were **UDG Healthcare** (27%) and **Bank of Ireland** (10%).

[2] LCP Accounting for Pensions May 2020

4.7. Other risk metrics

The riskiness or otherwise of a defined benefit pension scheme can be determined 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 standard 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 10%).

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 2019, a decrease of 1% in bond yields would reduce the average funding level by 10%.

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

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

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 2019 of over six times the level of contributions into their DB pension schemes (five times in 2018).

The total IAS19 pension deficit for the 11 listed companies that disclosed a deficit in 2019 was €1.7 billion. Those same companies paid dividends totalling €1.6 billion – only 8% less than the total deficits. Interestingly, for the same 11 listed companies, the payment of the 2019 dividends as a contribution to the pension schemes would have fully eliminated the 2019 deficit for eight 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 and consider also the extent of any deficits, the security provided by the sponsor covenant and other sources, and the level of investment risk amongst other things.

1.3% pa

The average discount rate adopted by the companies in this report decreased from 2.1% in 2018 to 1.3% in 2019

Government bond yields have fallen significantly in recent years. However, the yields on corporate bonds have taken a much more volatile path. This was particularly noticeable during Q1 2020. A company with a year end date of 31 March 2020 would have used a discount rate approximately 0.6% pa higher than a company with a year end date of 31 December 2019.

Fergus Collis, Partner

4.9. Key assumptions

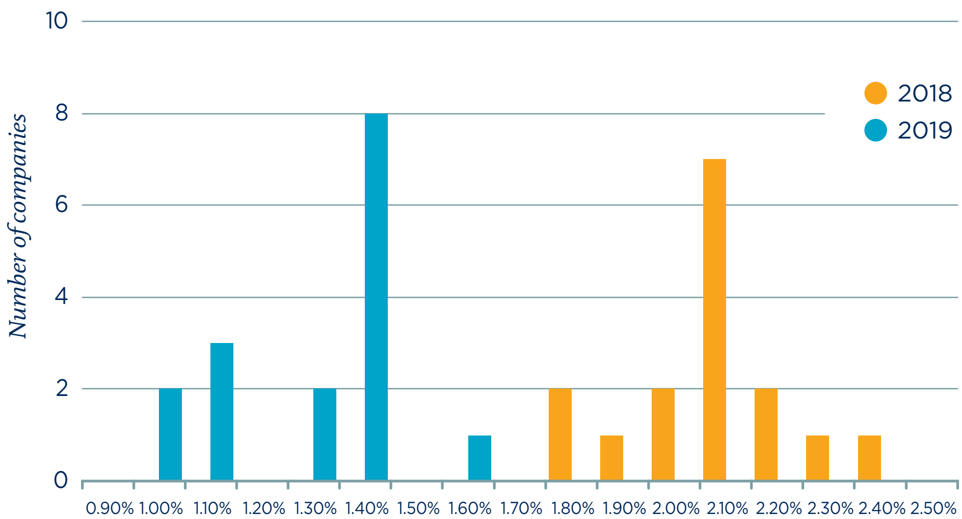
We consider below the various assumptions used to place a value on pension benefits for accounting purposes. Where a company operates pension schemes in more than one country, we have considered the assumptions used for Ireland or the Eurozone (if available). Where a company has disclosed a range of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

In the following chart, we have analysed companies reporting with December 2019 year-ends. As this shows, there was a decrease in the discount rates disclosed compared to last year.

Discount rates used at 31 December (% pa)



The majority of the companies with December 2019 year-ends disclosed a discount rate in the range 1.3% - 1.4% pa.

The average discount rate for companies reporting at 31 December 2019 was 1.3% pa – a decrease from the average discount rate of 2.1% pa as at 31 December 2018 and reflecting the commensurate fall observed in corporate bond yields over 2019. The highest discount rate was disclosed by **NTMA** (1.6%).

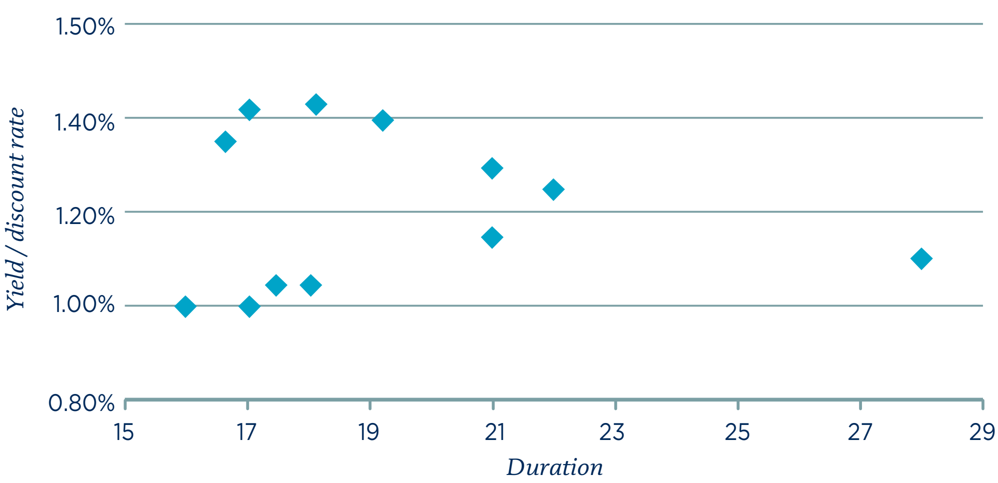
The accounting standard (IAS19) requires that the discount rate used is determined by reference to market yields at the end of the reporting period on high quality corporate bonds of a currency and term consistent with the currency and term of the pension scheme liabilities. This is generally interpreted 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 have a long time horizon, a small change in the discount rate can have a very large impact on the balance sheet position. For example, **Kerry Group** reported that an increase of 0.5% pa in the discount rate would decrease the scheme liabilities by 11.2% at the accounting date. Similarly, **Ervia** reported that an increase of 0.25% in the discount rate would decrease the pension scheme liabilities by approximately 5.3%.

The discount rates used as at 31 December 2019 have been charted against the disclosed durations below for the 12 companies with such disclosures and a year-end at 31 December 2019 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 2019 by duration



During an 11 day period in March 2020, corporate bond yields increased sharply which very significantly reduced pension liabilities. Despite equity markets plunging over the same period, the balance sheet positions for the schemes analysed improved by €4.5bn.

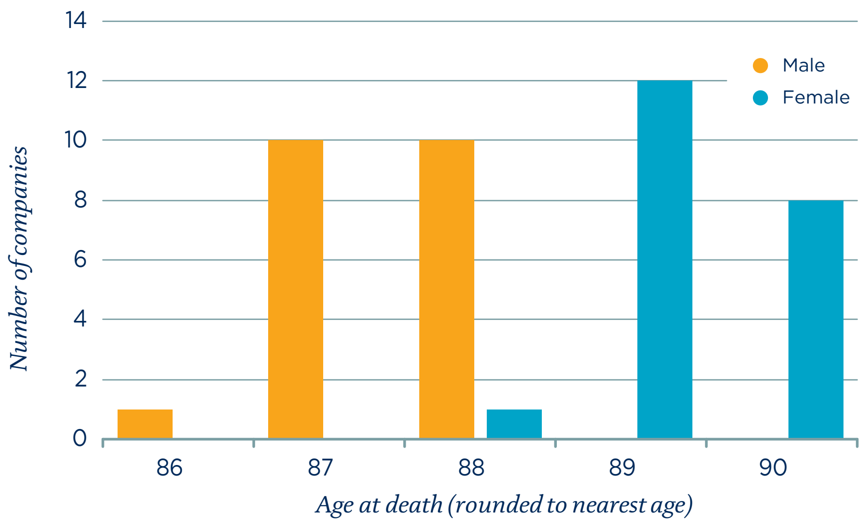
Tomás Kirrane,
Senior Consultant

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 2019.

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. **CRH** increased the life expectancy for a male aged 65 by 0.6 years. In contrast, **Ornua** and **NTMA** reduced the life expectancy for a male aged 65 by 1 year and 0.7 years respectively.

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.

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

Future improvements in life expectancy

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

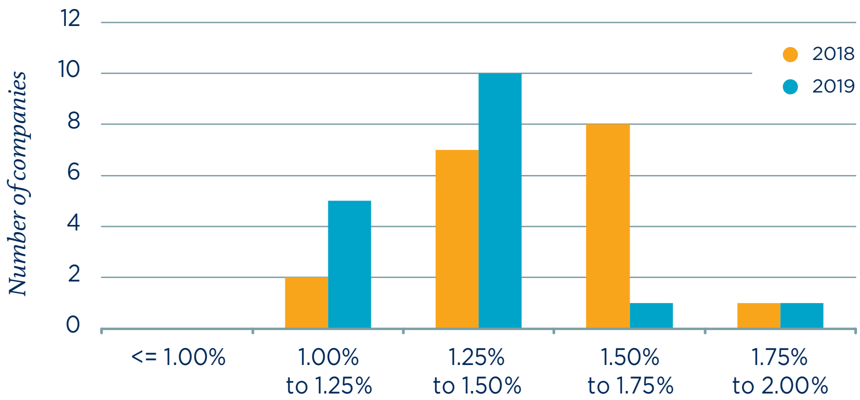
Allowing for future improvements will increase pension scheme liabilities and, as a result, deficits on the balance sheet. The majority of companies analysed disclosed sufficient information in their accounts to determine the allowance they were making for future improvements in mortality.

On average, the companies analysed are assuming that, over the next 20 years, the life expectancy of male retirees will increase by approximately 2.1 years. This represents a slight decrease to the assumptions made by the companies last year (2.2 in 2018).

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 2019 was 1.4% (1.6% at 31 December 2018).

Inflation assumption used at 31 December (% pa)



Market expectations for future inflation fell during 2020 and in particular following market volatility concerning Covid-19. The average inflation disclosed at 31 December 2019 (1.4%) would have fallen considerably and this will have improved the balance sheet position disclosed in company accounts.

Pension scheme liabilities in Ireland are generally linked to Irish inflation. International accounting standards require that assumptions should be set by reference to market expectations. There is no deep market in Irish inflation-linked assets and there is therefore no single correct method for estimating future Irish inflation. As a consequence, expectations for future inflation are often derived from non-Irish high quality inflation-linked bonds. Different methods used will naturally lead to different inflation assumptions. There may also be significant divergences between actual Irish inflation and that assumed in the liability estimates.

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 2019. 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 euro. 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' 2018 figures may have been restated. The surplus/(deficit) figures allow for any asset ceiling applied.

2019							2018		
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	63	(10)	(7)	0.43%	not stated	58	(7)	(5)
Bank of Ireland	Dec	8,356	(139)	(139)	1.30%	1.25%	7,247	(228)	(228)
C&C Group	Feb	186	(3)	(3)	1.8%-2.1%	1.6%-1.7%	187	1	1
CRH	Dec	2,682	(427)	(98)	1.43%	1.50%	2,913	(424)	(113)
DCC	Mar	107	2	2	1.75%	1.75%	102	0	0
Diageo	Jun	10,849	239	573	1.20%	1.30%	10,517	71	386
Glanbia	Dec	207	(46)	(46)	1.00%	1.10%-1.20%	186	(39)	(39)
Grafton	Dec	295	(25)	(25)	1.05%	1.10%	257	(22)	(22)
Greencore	Sep	590	(104)	(104)	0.85%	1.50%	532	(100)	(100)
Irish Continental Group	Dec	298	9	9	1.00%	1.30%	264	(2)	(2)
Kerry Group	Dec	1,430	(12)	8	1.15%-1.50%	1.50%	1,227	(53)	(34)
Kingspan	Dec	81	(15)	9	0.7%-2.0%	1.5%-2.65%	71	(13)	7
Smurfit Kappa	Dec	2,109	(899)	(365)	1.05%	1.45%	1,831	(804)	(315)
Total Produce	Dec	192	(11)	(11)	1.40%	1.40%	169	(11)	(11)
UDG Healthcare	Sep	62	7	7	0.85%	1.25%	57	11	11

State controlled bodies	2019 Year-end	2019 Market value of assets €m	2019 Total Surplus/ (Deficit) €m	2019 Funded schemes Surplus/ (Deficit) €m	2019 Discount rate % pa	2019 Inflation % pa	2018 Market value of assets €m	2018 Total Surplus/ (Deficit) €m	2018 Funded schemes Surplus/ (Deficit) €m
AIB	Dec	6,474	(21)	(21)	1.42%	1.05%	6,136	192	192
An Post	Dec	3,538	(28)	(28)	1.35%	1.60%	3,064	(48)	(48)
Bord na Móna	Mar	337	(14)	(11)	1.25%	1.10%	334	(13)	(9)
Central Bank of Ireland	Dec	784	(610)	(610)	1.10%	1.90%	679	(364)	(364)
Coillte	Dec	334	(50)	(50)	1.40%	1.30%	300	(55)	(55)
Ervia	Dec	474	(147)	(147)	1.25%	1.40%	417	(98)	(98)
Irish Aviation Authority	Dec	588	(110)	(110)	1.40%	1.25%	535	(74)	(74)
NTMA	Dec	191	(70)	(70)	1.60%	1.50%	155	(47)	(47)
Ornua	Dec	135	(25)	(25)	1.40%	1.40%	127	(42)	(42)
VHI	Dec	322	(64)	(64)	1.40%	1.40%	281	(41)	(41)

This briefing analyses 10 companies of the largest 25 companies on the Euronext Dublin stock exchange with defined benefit pension arrangements. Company size has been determined by the weighting on the Euronext Dublin stock exchange benchmark index at 31 December 2019. The briefing also analyses the most significant state owned/controlled companies/bodies (where accounts were available) and five public companies that are listed on other exchanges but who operate significant defined benefit pension schemes in Ireland (C&C Group, DCC, Grafton, Greencore and UDG Healthcare). The 2019 figures are as at the end of the accounting periods ending in 2019. The 2018 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 and US dollars in the UDG Healthcare accounts using the Euro conversion rate applicable at each company's year-end (DCC: 1.1624 at 31 March 2019 (2018: 1.1369), Diageo: 1.1169 at 30 June 2019 (2018: 1.1297), Grafton: 1.1817 at 31 December 2019 (2018: 1.1139), Greencore: 1.1251 at 27 September 2019 (2018: 1.1230) and UDG Healthcare: 0.9169 at 30 September 2019 (2018: 0.8613)).

Appendix 2 - Accounting risk measures

The tables show the key results of analysis of the 2019 accounting disclosures made by the largest companies on the Irish Stock Exchange, the largest state-controlled companies/bodies with defined benefit pension arrangements and five other companies who operate significant defined benefit pension schemes in Ireland (C&C Group, 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 2019. 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 Euronext Dublin and London Stock Exchange 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. Some companies' 2018 figures may have been restated.

Largest funded liabilities

Company	2019 Liabilities €m	2018 Liabilities €m
Diageo	10,275	10,127
Bank of Ireland	8,495	7,475
AIB	5,904	5,323
An Post	3,566	3,111
CRH	2,780	3,026

Largest funded deficits

Company	2019 Deficits €m	2018 Deficits €m
Central Bank of Ireland	610	364
Smurfit Kappa	365	315
Ervia	147	98
Bank of Ireland	139	228
Irish Aviation Authority	110	74

Largest funded liabilities compared to market capitalisation			
Company	**Liabilities €m**	**Market cap €m**	**2019 Liabilities/ Market cap %**
Bank of Ireland	8,495	5,267	161%
Greencore	694	1,126	62%
Total Produce	203	556	37%
Irish Continental Group	290	914	32%
Smurfit Kappa	2,473	8,150	30%

Largest funded deficits compared to market capitalisation			
Company	**Deficits €m**	**Market cap €m**	**2019 Deficits/ Market cap %**
Greencore	104	1,126	9%
Smurfit Kappa	365	8,150	4%
Bank of Ireland	139	5,267	3%
Total Produce	11	556	2%
Glanbia	46	3,037	2%

Highest equity allocation		
Company	**2019 Equity allocation %**	**2018 Equity allocation %**
Kerry Group	51%	51%
NTMA	46%	49%
Central Bank of Ireland	43%	39%
Grafton	43%	41%
Ervia	42%	40%

Lowest equity allocation		
Company	**2019 Equity allocation %**	**2018 Equity allocation %**
UDG Healthcare	10%	12%
Bank of Ireland	12%	12%
Diageo	17%	18%
C&C Group	20%	20%
Total Produce	21%	19%

Highest (funded) funding level				
Company	**2019 Assets €m**	**2019 Liabilities €m**	**2019 Assets/ Liabilities %**	**2018 Assets/ Liabilities %**
Kingspan	81	72	113%	112%
UDG Healthcare	62	55	113%	124%
AIB	6,474	5,904	110%	115%
Diageo	10,849	10,275	106%	104%
Irish Continental Group	298	290	103%	99%

Lowest (funded) funding level				
Company	**2019 Assets €m**	**2019 Liabilities €m**	**2019 Assets/ Liabilities %**	**2018 Assets/ Liabilities %**
Central Bank of Ireland	784	1,394	56%	65%
NTMA	191	261	73%	77%
Ervia	474	621	76%	81%
Glanbia	207	254	82%	83%
VHI	322	385	84%	87%

Largest employer contributions		
Company	**2019 Contributions €m**	**2018 Contributions €m**
Diageo	214	217
Bank of Ireland	146	212
Smurfit Kappa	79	69
CRH	52	118
An Post	45	45

Largest service cost		
Company	**2019 Service cost €m**	**2018 Service cost €m**
Diageo	123	139
Bank of Ireland	100	109
CRH	60	64
An Post	41	47
Central Bank of Ireland	38	39

Largest employer contributions compared to service cost

Company	Contributions €m	Service cost €m	2019 Contributions/ Current service cost %	2018 Contributions/ Current service cost %
Kerry Group	19.5	2.7	722%	345%
Glanbia	8.8	1.7	518%	461%
Bord na Móna	9.5	2.0	485%	448%
Total Produce	4.9	1.4	354%	168%
Smurfit Kappa	79.0	24.0	329%	276%

Largest increase in funding level

Company	2019 Funding level %	2018 Funding level %	Increase in Funding level %
Ornua	84%	75%	12%
Irish Continental Group	103%	99%	4%
Kerry Group	101%	97%	3%
Coillte	87%	84%	3%
Diageo	106%	104%	2%

Largest decrease in funding level

Company	2019 Funding level %	2018 Funding level %	Decrease in Funding level %
Central Bank of Ireland	56%	65%	-14%
UDG Healthcare	113%	124%	-9%
Ervia	76%	81%	-6%
AIB	110%	115%	-5%
NTMA	73%	77%	-5%

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