LCP INSIGHT CLARITY ADVICE

2021

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2021 saw a raft of new pensions legislation enacted. 2022 will be a very busy year for Irish pension schemes as they implement change to ensure ongoing compliance. New minimum standards of governance are likely to be in the members' long-term best interests. However, the new requirements are also likely to place a significant additional cost burden on many schemes, particularly for smaller schemes.

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.

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 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 11 semi-state/state-controlled companies with defined benefit pension schemes that have published pension accounting information for their 2020 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 2020 financial year and other publicly available information. We did not approach companies or their advisers for additional information.

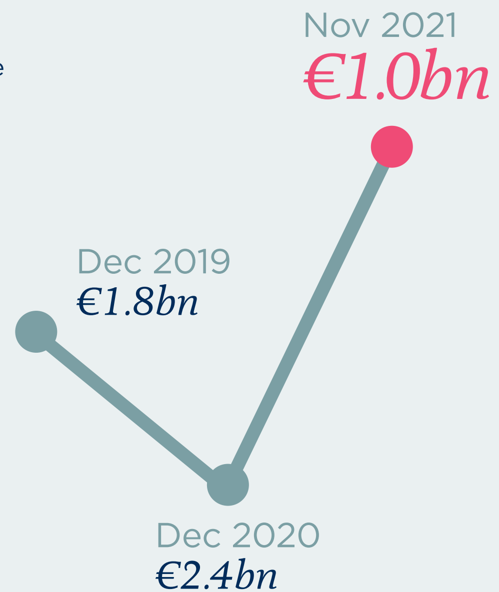
2. Executive summary

2.1. Pension deficits remain volatile

Pension scheme deficits were especially volatile over 2020 as financial markets reacted to the Covid-19 pandemic. We estimate that the combined deficit of the schemes analysed was **€2.4bn** at 31 December 2020. This represents **an increase of €0.6bn** in the deficit from the estimated position at 31 December 2019.

The increase in estimated deficits occurred largely due to decreases in bond yields during 2020. This would have been offset by strong equity returns during 2020. The movements in funding levels during 2020 were not uniform with very significant fluctuations occurring at the onset of the Covid-19 pandemic.

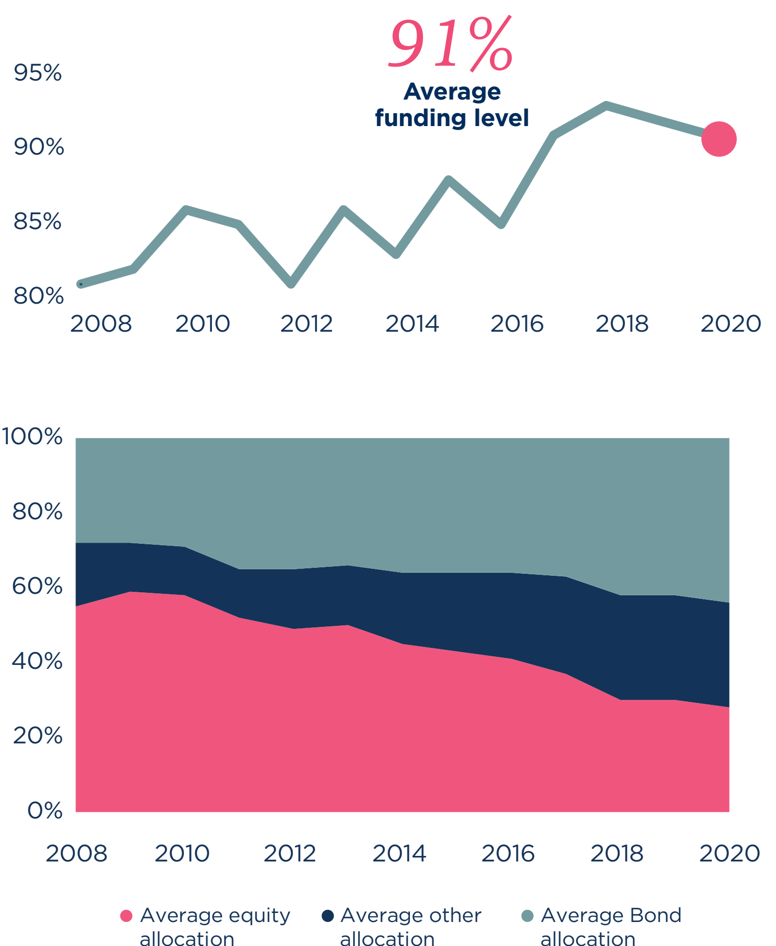
Bond yields have increased during 2021, which has improved funding positions, although this improvement has been dampened by higher future inflation expectations. We estimate that the deficit for companies analysed has fallen to **€1.0bn by 30 November 2021**. The considerable volatility in funding levels and further information is contained in section 5.



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

The long-term trend of funding levels disclosed by companies since the first LCP Ireland Pension Accounting briefing in 2009 shows a generally improving trend although this has plateaued somewhat in recent years. The average funding level disclosed for 2020 inthis report is 91% (this will likely have increased during 2021).

In addition, the average allocation to equities for the companies analysed has also fallen significantly from a high of 59% disclosed in 2009 to a record low of 28% in 2020. The average equity holding fell slightly from 30% in 2019, but this was during a period of broadly strong equity performance suggesting a continued de-risking from equities. The long-term trend to diversify assets away from more volatile equity holdings continues.



2.3. IORP II and risk management

The IORP II Directive was transposed into Irish law in April 2021. The Pensions Authority published a draft code of practice in July 2021 setting out the Authority's minimum expectations for all schemes to comply with the new legislation. The final code of practice was published in November 2021 following a period of consultation. IORP II will have a significant impact on the governance obligations for pension schemes, particularly in the area of risk management. This will be a key focus for Irish defined benefit schemes in the coming years.

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 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.

2.4. Pension contributions remain a significant cost

The companies analysed paid substantial contributions, €0.7bn, to their pension schemes in 2020. This follows contributions of €0.8bn in 2019 and €1.0bn in 2018. 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

2018
€1.0bn

2019
€0.8bn

2020
€0.7bn

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.

Risk Management is a key element of the new governance requirements. In particular, the requirement to establish a Key Function to help identify, manage, monitor and regularly report on risks will bring risk management front and centre in the governance of pension schemes. Our experience is that many trustee boards had recognised risk as a key focus in any event as schemes moved from the funding phase towards a more mature self-sufficiency target.

Roma Burke
Partner

3. Developments in Irish pension provision in 2021

3.1. IORP II has finally landed!

IORP II, the EU Directive, was transposed into Irish law on 22 April 2021 with a raft of new governance requirements for Irish pension schemes. The Pensions Authority published a draft code of practice on 22 July 2021 setting out the Authority's "minimum expectations for all schemes in the areas covered by the code." A number of submissions were made to the Pensions Authority in relation to the draft code and the final code of practice was published on 18 November 2021.

Pension scheme sponsors and trustees now have more clarity on the new requirements and the expectations of the Pensions Authority. The Authority has indicated that it expects all existing occupational pension schemes to be fully compliant with all the new obligations before the end of 2022 and that it expects to see evidence of a plan with specified timelines and progress milestones to achieve compliance. 2022 is therefore likely to be a very busy year for pension schemes.

3.2. Minimum Governance Standards

The ultimate aim of the IORP II directive is to introduce an effective system of governance for the operation of pension schemes. The requirements range from the qualifications of trustees, appointment of new risk and internal audit function holders, right through to the enforcement powers of the Pensions Authority.

Written policies on a range of activities are required (e.g. administration, investment, actuarial, remuneration, conflicts of interest, outsourced activities). A Pensions Benefit Statement, with new, additional disclosures is required to be prepared once annually for all members with the first such statement to be issued in 2022 (previously the requirement to send annual statements only applied to active members).

3.2.1 Fit and Proper Requirements

Trustees will need to demonstrate that they are of good repute and have the qualifications, knowledge and experience which, together with the qualifications, knowledge and experience of the other trustees, are collectively adequate to ensure the sound and prudent management of the pension scheme. The Pensions Authority code of practice also provides that, at a minimum, at least one trustee on the board must have completed a course listed on the Pensions Authority's website. In practice, we expect to see an increased use of corporate and professional trustees.

3.2.2. Key Functions

Key functions must be established for risk management and internal audit. The role and responsibilities of these functions are set out in legislation. The Pensions Authority have highlighted risk management as a key element of the new governance requirements. The trustees must ensure a well-functioning risk management system with procedures in place to ensure key risks can be identified, measured, monitored, managed and be regularly reported on. The internal audit function must be fully independent of the risk management function.

The code of practice also sets out detailed fit and proper requirements for these roles – in practice it is expected that these roles will be outsourced in the significant majority of cases. LCP, as a firm of consulting actuaries, are carrying out the risk function for a number of pension schemes.

3.2.3. Investment Regulations

There have also been significant new investment requirements for pension schemes inserted into the Pensions Act. While much of the content is similar to the Occupational Pension Schemes (Investment) Regulations, including the requirement to invest the resources of a pension scheme in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole, it is notable that previous derogations for one-member arrangements have been removed. In particular, one-member schemes can no longer borrow (existing arrangements may continue) and must make new investments so as to ensure the the resources are held predominantly in regulated markets.

3.3. 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 may be deferred, the 2021 Budget published in October 2020 confirmed that the State Pension Age would remain at age 66.

The Minister for Social Protection announced the establishment of a Commission on Pensions on 3 November 2020. Our colleague, Roma Burke FSAI (partner in Lane Clark & Peacock Ireland Limited) was appointed a member of the Pension Commission.

The Commission reported in 2021 and recommended a gradual increase in the State Pension Age starting in 2028 with increases of three months every year to reach 67 by 2031 and further increases of three months every second year to reach age 68 in 2039.

3.4. 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 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.

Sustainability has become a focus for the Pensions Authority when considering defined benefit pension schemes. Long-term sustainability and a short-term focus on minimum funding standard are not the same thing. Regulation and legislation need to evolve to ensure consistency of approach.

Martin Haugh
Partner

4. Risk management

4.1. Introduction

There has been an increased focus in recent years on the risk management of defined benefit pension schemes. Trustees have been key drivers of this focus on risk as they examine the long term sustainability of their pension schemes in a volatile marketplace. It has also been driven by the specific requirements of IORP II in the area of risk management.

In particular, the Pensions Act now requires trustees to demonstrate that they have in place reporting procedures necessary to identify, measure, monitor, manage and report key risks to which the scheme is or could be exposed. Full compliance with IORP II in this area will therefore require the trustees to integrate forward-looking risk reporting into their regular meetings as a standing item.

The chief executive of the Pensions Authority has stated that he believes the impact of the risk management requirements of IORP II will be significant.

"The Directive will affect all aspects of scheme governance for all schemes. However, I think the greatest impact on DB schemes will be in the area of risk assessment and management. For such schemes, we will be expecting to see not only better understanding of risk but a better quantitative analysis of risk."

Brendan Kennedy, Pensions Authority

4.2. Risk in Irish Pension Schemes

Given the increased focus on risk management, we have carried out some additional analysis in this year's report to consider in more detail the key risks facing Irish pension schemes.

We have considered the investment strategy of the pension funds analysed as disclosed in their accounts and changes to the strategy over 2020. It is noteworthy that the average level of exposure to equities continued to fall (28% in 2020 vs 30% in 2019). This was during a period of broadly strong equity performance suggesting a continued de-risking from equities. The long-term trend to diversify assets away from more volatile equity holdings continues. The results of the analysis of disclosed asset allocations are set out in more detail in section 5.6.

Value at Risk

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

Inflation remains a material risk for many Irish pension schemes. The recent sharp rises in inflation expectations have had a knock on impact for the finances of many pension schemes – managing and monitoring the inflation risk will become a key focus of many trustee boards into 2022.

Tomas Kirrane, Consultant

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 €4.0bn (or an average reduction in the funding position of more than 12% following a 1-in-20 year event).

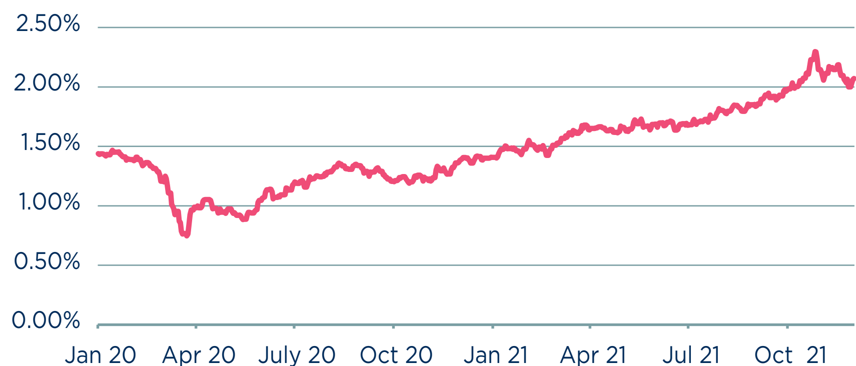
Bond Yield Shock

Another measure of risk is to consider the sensitivity of the pension scheme funding level to a bond yield shock – e.g. a sharp fall in bond yields. For the pension schemes analysed, we have estimated that, at31 December 2020, a decrease of 1% in bond yields would reduce the average funding level by 10%.

Inflation

There have been significant rises in both experienced inflation and market expectations for future inflation. Market expectations for future inflation can be seen in the chart below[1]. Inflation expectations have been increasing steadily since the onset of the Covid-19 pandemic and this has impacted materially on the finances of many pension schemes. Pension schemes calculate the liability value including an allowance for the cost of inflation linking of benefits (whether guaranteed or due to a constructive obligation) and the results can be very sensitive to changes in the inflation assumption. For example, a scheme with a duration of 20 years would see a rise in the liability disclosed of approximately 10% if expectations for future inflation increased by 0.5% per annum.

Eurozone future inflation expectations p.a.



[1] Based on Euro swap curve at 20 year duration.

4. Risk management

Growth portfolio shock

Notwithstanding the significant investment de-risking implemented by pension schemes in recent years, the pension schemes analysed retain exposure to market risk in respect of performance-seeking assets.

For the pension schemes analysed, we have estimated that, at 31 December 2020, a fall of 20% in performance-seeking assets would reduce the funding level by 9%.

> *The recent significant swings in funding level have prompted many employers and trustees to seek further de-risking measures including enhanced risk reporting.*
>
> *Fergus Collis, Partner*

4.3. Reporting on Key Risks

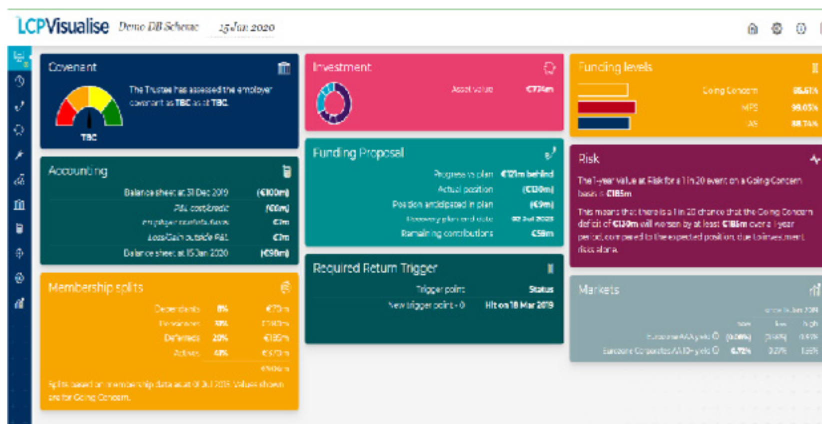
We expect to see a significant increase in the quality and frequency of risk reporting for many schemes to ensure ongoing compliance with IORP II. For large pension schemes, the risk function holder is likely to be presenting a risk dashboard showing movements in key risk metrics on a quarterly basis.

The risk function will be expected to consider financial and investment risks but also other risks (e.g. operational, governance, covenant). A key challenge for trustees and their risk function holder will be the establishment of an effective framework that allows for the identification, management and reporting on all key risks in a way that is meaningful and is integrated into the decision-making process of the pension scheme.

4.4. LCP Visualise

The new requirements for ongoing monitoring of key risks has also highlighted the value of a specialist online tool such as LCP Visualise.

Online access to real-time funding positions and daily monitoring of various risk metrics such as Value at Risk, hedging ratios and covenant monitoring helps align the new statutory requirements with the power of current innovation and technology.



5. LCP's analysis of pension accounting disclosures

5.1. 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 2.

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.

91%

The average funding level (assets as a proportion of funded liabilities) for the companies analysed was 91% in 2020.

5.2. 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 their funded liabilities (**AIB, An Post, Bord na Móna, DCC, Diageo, Kingspan** and **UDG Healthcare**). This is unchanged from 2019 where seven companies reported sufficient assets to meet their funded liabilities.

The average funding level for the schemes analysed worsened slightly from 92% in 2019 to 91% in 2020.

5.3. Development of pension scheme deficits during 2021

We have also considered the movement in the pension scheme balance sheet positions during 2021 to 30 November.

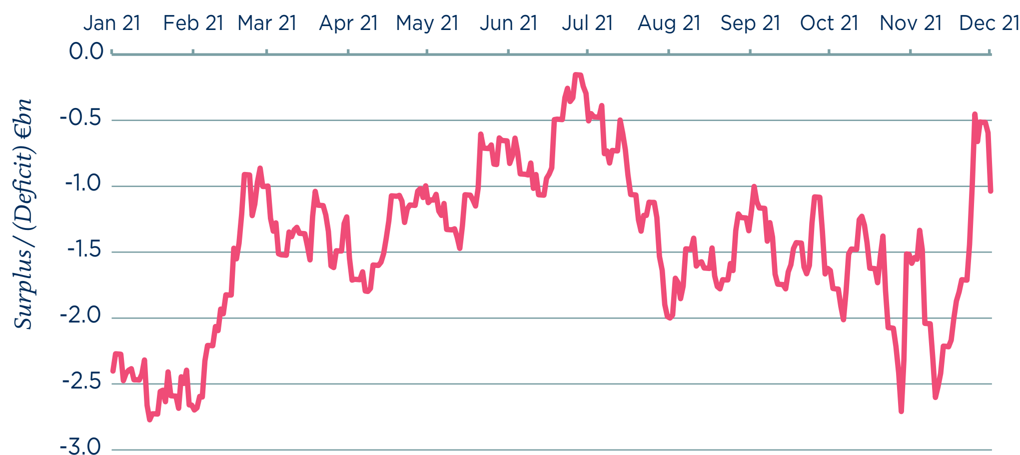
Financial markets have been very volatile in 2021. Global equities, as measured by the FTSE World Index, were up approximately 25.8% in 2021 to the end of November.

On the liability side, high quality corporate bond yields as at end November 2021

were higher on average than as at the end of 2020. Higher bond yields means that IAS19 (or FRS102) liability values fall (and vice versa) as pension scheme liabilities are calculated by reference to these yields for accounting purposes. Liabilities are also impacted by expectations for future inflation which have also increased during 2021. Higher expectations for future inflation increase the pension scheme liabilities and this partially offsets the fall in liabilities due to bond yield movements.

LCP estimates that the aggregate pension deficit for the Irish funded schemes of the companies analysed stood at €1.0bn as at 30 November 2021 compared to €2.4bn at 31 December 2020.

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.[2]

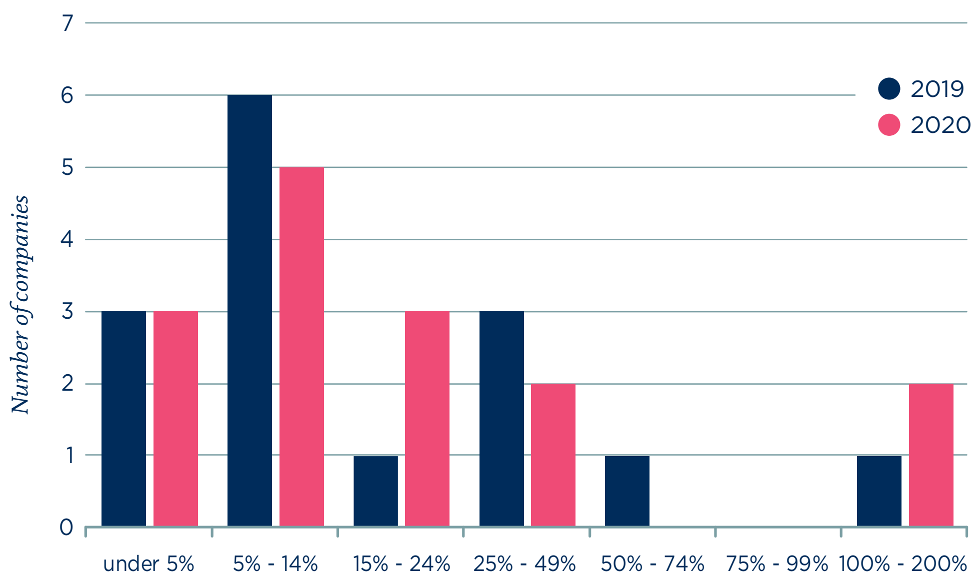
As the graph demonstrates, there can be significant volatility in the aggregate surplus/(deficit) as equity values, inflation expectations and bond yields fluctuate. There has been considerable variation in the estimated deficits with the estimated **deficit** being as high as €2.8bn in January 2021 but almost fully removed in June 2021.

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

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

5.4. 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 total pension liability, expressed as a proportion of market capitalisation, increased over the year (from 27% in 2019 to 38% in 2020).

The following lists the companies with the largest pension scheme liabilities expressed as a percentage of their market capitalisation at their 2020 year-end dates:

Bank of Ireland:	254%	(161% in 2019)
Greencore:	134%	(62% in 2019)

5.5. Contributions compared to benefits earned

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

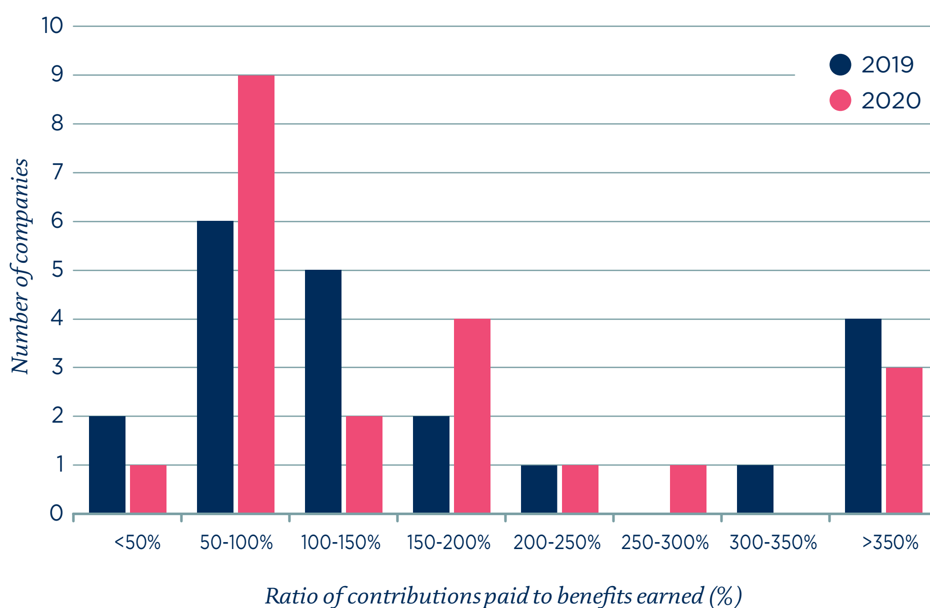
- The cost of benefits earned under IAS19 is determined by the assumptions at the start of the accounting year.
- Typically, employer contributions are set following recommendations by the Scheme Actuary and are designed to ensure that there are sufficient assets to meet benefit payments as they fall 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 1.7 times (2019: 2.0 times) the cost of benefit accrual on the accounting basis.

Bord na Móna and **Glanbia** paid contributions that were over five times the estimated cost of benefits earned during the year under IAS19.

Aryzta, C&C Group, Central Bank of Ireland, CIÉ, **Ervia, NTMA** and **UDG Healthcare** paid contributions that were less than 75% of the estimated cost of benefits earned during the year under IAS19.

Employer contributions compared to benefits earned



5.6. Trends in asset allocations

We have also analysed the investment strategies of pension funds as disclosed and changes to the strategies over 2020. 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 28% in 2020 (falling from 30% in 2019). The average allocation to bonds was 44% (an increase from 42% in 2019). The average allocation to other asset classes remained unchanged at 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 2020 for those with property assets (unchanged from 2019). Some companies also disclosed an allocation to cash assets – the average allocation was 6% in 2020 for those with cash assets (unchanged from 2019).

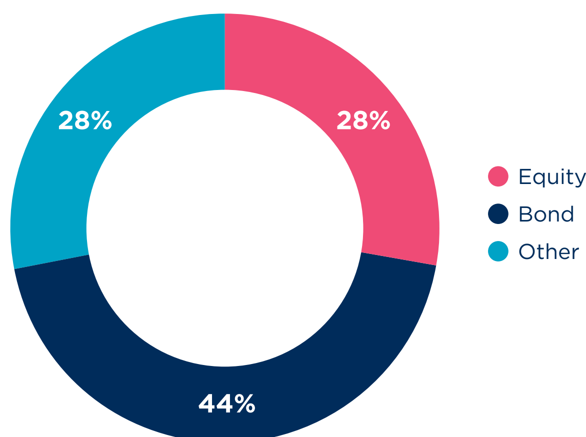
Seven companies disclosed an allocation to Liability Driven Investment – with **Bank of Ireland** (38%) and **Kingspan** (35%) disclosing the highest allocations.

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

28%

The average equity allocation for the pension schemes analysed fell during 2020. This is still significantly higher than pension schemes in other jurisdictions.

2020 Asset allocation



Companies who reported the highest equity holdings were **Irish Continental Group** (56%), **Kingspan** (51%), **Kerry Group** (44%), and **Central Bank of Ireland** (43%). On the other end of the spectrum, **UDG Healthcare** (10%) and **Bank of Ireland** (10%) 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 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.

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, 15%[3] of pension scheme assets were allocated to equities in 2020 compared with 28% for the Irish scheme assets in this report.

Aryzta and **Total Produce** reported the highest property holdings at 28% and 14% respectively.

The highest reported cash holdings were **UDG Healthcare** (26%) and **NTMA** (14%).

An analysis of the asset allocations of large Irish pension schemes highlights that the active de-risking of investment holdings continues. We expect a significant trend of schemes accelerating their de-risking by conducting liability buy-out or buy-in exercises in the medium term.

Oliver Kelly
Head of Investment Consulting Ireland

5.7. 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 schemes.

While employer contributions continue to be significant – which could be interpreted as a sign that sponsors are standing firmly behind their pension promises – the listed companies analysed paid dividends in 2020 of over six times the level of contributions into their DB pension schemes (unchanged from 2019).

The total IAS19 pension deficit for the 12 listed companies that disclosed a deficit in 2020 was €1.7bn. Those same companies paid dividends totalling €1.4bn. Interestingly, for the same 12 listed companies, the payment of the 2020 dividends as a contribution to the pension schemes would have fully eliminated the 2020 deficit for four 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, the level of investment risk amongst other things.

[3] LCP Accounting for Pensions May 2021

5.8. 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

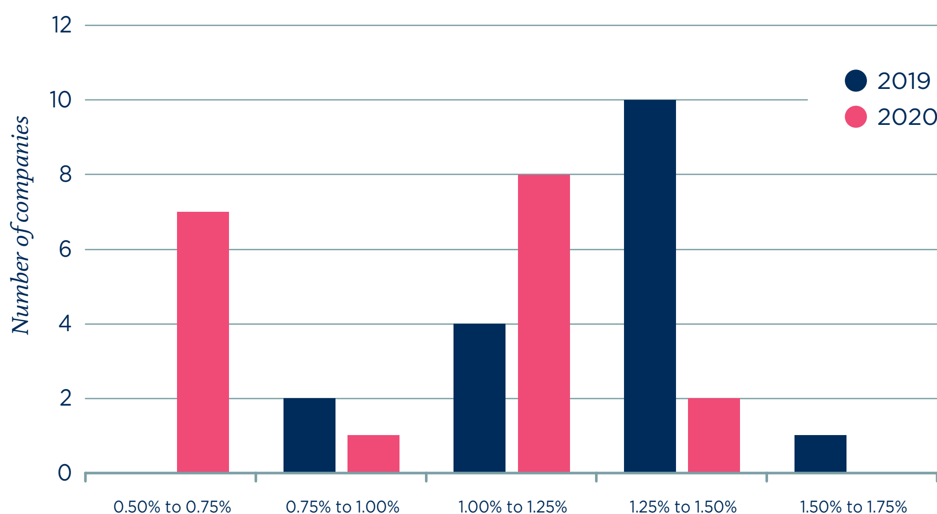
The discount rate is the key assumption used to value pension liabilities. Under IAS19 and FRS102, this assumption is based on the yields available on long-dated high quality (typically AA-rated) corporate bonds in the currency of the liability at the valuation date. The yields on high quality corporate 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 2020 year-ends. As this shows, there was a decrease in the discount rates disclosed compared to last year.

0.9%pa

The average discount rate adopted by the companies in this report decreased from 1.3% in 2019 to 0.9% in 2020

Discount rates used at 31 December (% pa)



The average discount rate for companies reporting at 31 December 2020 was 0.9% pa – a decrease from the average discount rate of 1.3% pa as at 31 December 2019 and reflecting the commensurate fall observed in corporate bond yields over 2020. The highest discount rate was disclosed by **NTMA** and **VHI** (1.3%). Most schemes reported decreases in the discount rate.

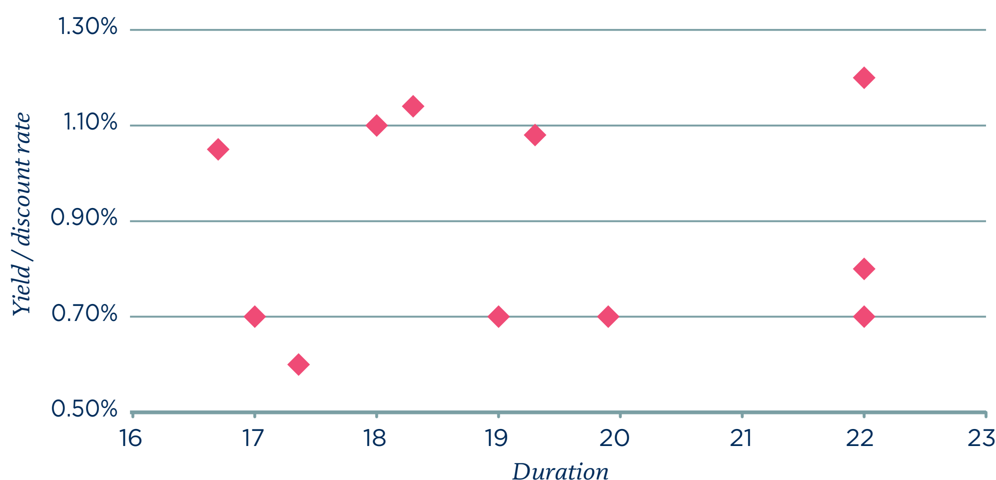
The accounting standard (IAS19) requires that the discount rate used is determined by reference to market yields at the end of the reporting period on high quality corporate bonds of a currency and term consistent with the currency and term of the pension scheme liabilities. This is generally interpreted 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 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 11.6% 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 2020 have been charted against the disclosed durations below for the 11 companies with such disclosures and a year-end at 31 December 2020 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 2020 by duration

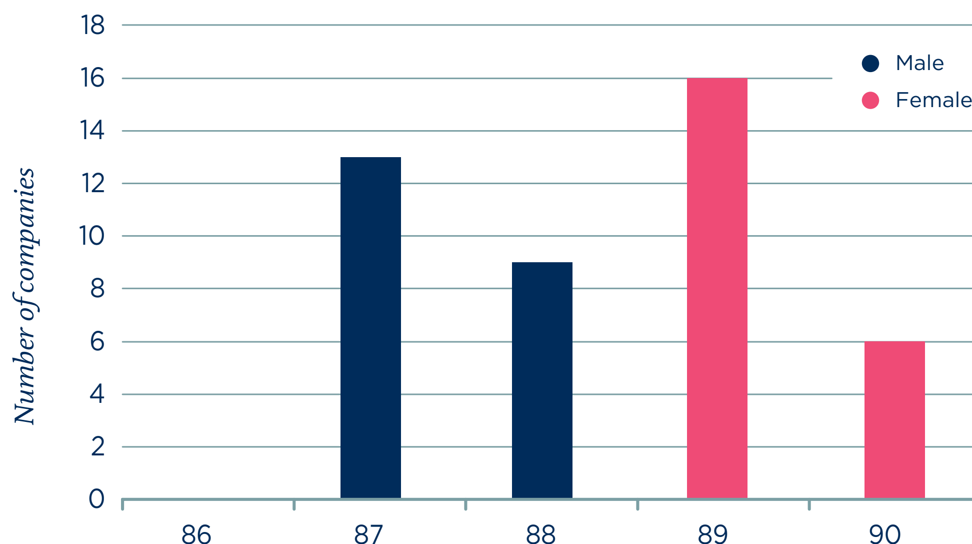


Life expectancy

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 2020.

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. **Ervia** and **Glanbia** increased the life expectancy for a male aged 65 by 0.3 years. In contrast, **Aryzta** and **CRH** reduced the life expectancy for a male aged 65 by 1.1 and 0.5 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.

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 is unchanged from the assumptions made by the companies in 2019.

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 2020 was 1.3% (1.4% at 31 December 2019).

It is clear that inflation expectations were at a relatively low point as at31 December 2020 reflecting the early impact of the Covid-19 pandemic. However, inflation expectations have increased sharply over 2021 with a knock on impact on pension scheme finances (see more on inflation risk in section 4.2).

The overall improvement in the funding position of large Irish pension schemes over the last 10 years has been remarkable. It is clear that we are now moving into a new phase for many such schemes – with the focus shifting from funding and growth to the gradual de-risking of mature pension schemes.

John Lynch
Partner

Appendices

Appendix 1 - Methodology used
Appendix 2 - Companies analysed

Appendix 1 - Methodology used

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 2020. 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). We have excluded from our survey companies who had no evidence of significant defined benefit provision.

The 2020 figures are as at the end of the company accounting periods ending in 2020. The 2019 figures are as at the start of the accounting period. Some companies' 2019 figures may have been restated. All figures shown were taken from pensions accounting disclosures.

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 converted the figures provided in pounds sterling in the DCC, Diageo, Grafton and Greencore accounts and US dollars in the CRH and UDG Healthcare accounts using the Euro conversion rate applicable at each company's year-end.

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. Asset allocations are based on Irish or Eurozone schemes where disclosed.

The surplus/(deficit) figures are before allowing for deferred tax.

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.

Appendix 2 - Companies analysed

This table shows the companies included in our analysis.

Irish Companies

Company	Year-end
Aryzta	Aug
Bank of Ireland	Dec
C&C Group	Feb
CRH	Dec
DCC	Mar
Diageo	Jun
Glanbia	Dec
Grafton	Dec
Greencore	Sep
Irish Continental Group	Dec
Kerry Group	Dec
Kingspan	Dec
Smurfit Kappa	Dec
Total Produce	Dec
UDG Healthcare	Sep

Irish State-controlled Bodies

State-controlled Body	Year-end
AIB	Dec
An Post	Dec
Bord na Móna	Mar
Central Bank of Ireland	Dec
CIÉ	Dec
Coillte	Dec
Ervia	Dec
Irish Aviation Authority	Dec
NTMA	Dec
Ornua	Dec
VHI	Dec

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