

REPUBLIC OF IRELAND

Key characteristics of the pension funds market



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1 Introduction

1.1 General

In the Republic of Ireland, there is one main occupational pension scheme falling under the scope of the IORP Directive (Directive 2008/41/EC). This pension fund scheme offers three different products, namely one direct benefit (DB), one direct contribution (DC) and one hybrid (HY). Regarding members' exposure to investment risks, the DB plan has no exposure to investment risk while the DC has full risk exposure.¹

The EIOPA statistics for Irish occupational pension funds cover only the defined benefit (DB) and defined contribution (DC) plans. According to 2017 data, 65,0% of Irish occupational pension funds are 65,0% while 35,0% are DC plans.

The table below illustrates the assets in Ireland by types of scheme and the importance of the country within the EU, based on total assets.

Table 1–Occupational pension funds by type

In Mio EUR	Amount	%
Defined Benefit schemes (DB)	64 100	64,66%
Defined Contributions schemes (DC)	35 035	35,34%
Hybrid schemes (HY)	0	0,00%
Total	99 135	100,00%
Total assets IE / Total assets EU %		2,66%
Ranking IE based on Total assets EU		5

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), the Irish DB pension market is ranked fifth in the EU in terms of assets held, reporting 64 000 million EUR.

For total investment, Ireland is also ranked fifth in amount with 51 000 million EUR. The remaining portion of total DB scheme assets accounted for by reinsured technical provisions is reported at 0,03% while other assets account for 18,9% of total assets. It is worthwhile to note that the share of other assets in total assets is well above the EU average of 6,0%, leaving Ireland ranked second in the EU in terms of other assets.

92,0% of liabilities is related to technical provisions for pensions. This provides an excess of assets over liabilities of 5 100 million EUR.

¹ Source: Deloitte-CEPS analysis of EIOPA Database of pension plans & products in EEA

**Table 2 – Balance sheet and EU comparison of occupational pension funds**

in Mio EUR	IE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Total investments	51 966	5	81,07%	92,32%	89,43%	0,00%	100,00%	21,25%
Reinsured technical provisions	19	8	0,03%	1,60%	3,11%	0,00%	26,78%	7,68%
Other assets	12 115	2	18,90%	6,08%	4,21%	0,46%	18,90%	5,00%
Total assets	64 100	5	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%
Technical provision for pensions	59 000	5	92,04%	99,26%	80,16%	0,42%	150,71%	38,15%
Other liabilities	-			0,66%	7,67%	0,34%	70,91%	18,13%
Total liabilities	59 000	5	92,04%	99,93%	67,74%	0,00%	151,82%	48,56%
Excess of assets over liabilities	5 100	6	7,96%	0,07%	32,26%	-51,82%	100,00%	48,56%
Total liabilities + Excess of assets over liabilities	64 100	5	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%

Note (1) This data only refers to DB pension plans

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

2 Investments

2.1 Asset exposure

From an asset exposure perspective, the DB pension funds in Ireland are mostly invested in bonds (debt and other fixed income securities account for 53,3% of total investments), followed by equities and other variable-yield securities that also constitute a substantial part of the investments (42,4%).

Within the bond categories, the pension funds market is primarily exposed to sovereign securities (40,0%) and financial securities (10,1%). Other debt, including, for instance, corporate debt, make up the remaining 3,6% of debt securities.

Loans and real estate investments form the remainder of the investments portfolio. The share of these investment categories is relatively modest. Loans are responsible for 0,2% of total investments, and real estate for 5,2%.

Table 3 – Total investments of occupational pension funds

in Mio EUR	IE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Debt and other fixed income securities	27 922	5	53,73%	53,75%	49,23%	12,51%	74,75%	17,30%
Sovereign	20 762	4	39,95%	34,52%	35,19%	4,38%	66,07%	18,72%
Financial	5 288	3	10,18%	10,37%	10,66%	1,45%	26,19%	7,89%
Other	1 872	7	3,60%	8,86%	13,27%	0,11%	68,50%	15,52%
Equity and other variable-yield securities (excl. UCITS)	20 749	3	39,93%	31,75%	21,78%	0,40%	68,00%	18,34%
Equity - listed	20 749	3	39,93%	27,94%	18,43%	0,26%	47,44%	14,27%
Equity - other	n/a	n/a	n/a	3,78%	8,42%	0,14%	68,00%	21,01%
UCITS	n/a	n/a	n/a	4,65%	30,43%	1,58%	77,59%	22,99%
Debt securities	n/a	n/a	n/a	1,88%	13,21%	0,43%	37,05%	12,36%
Equity securities	n/a	n/a	n/a	0,98%	15,63%	3,14%	33,48%	12,24%
Real estate	n/a	n/a	n/a	0,30%	2,16%	0,43%	3,92%	1,45%
Other	n/a	n/a	n/a	1,48%	13,33%	2,55%	40,07%	13,07%
Derivative instruments	n/a	n/a	n/a	0,00%	0,13%	-0,04%	0,64%	0,22%
Loans	58	7	0,11%	1,21%	1,78%	0,00%	9,82%	3,16%
Real estate investments	3 237	4	6,23%	5,96%	3,81%	0,05%	11,37%	3,56%
Other investments	n/a	n/a	n/a	2,68%	9,23%	0,72%	23,20%	6,41%
Total investments	51 966	5	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%

Note (1) This data only refers to DB pension plans

Source: EIOPA EEA pension statistics and Deloitte/CEPS analysis

2.2 Equity exposure

The equity exposures of pension funds can be calculated and presented in different ways. The list below includes the following equity exposure views:

- Equity exposure as the sum of direct investments in equity: listed and other equity (e.g. unlisted equity).
- Equity exposure as the sum of both direct and indirect investments in equity. The indirect investments in equity include the holdings of equity by UCITS funds held by the pension funds.

Overall, the listed and unlisted equity amounts reported are considered and integrated as an equity exposure indicator.

Table 4 – Equity exposures of pension funds

in Mio EUR	IE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity and other variable-yield securities (excl. UCITS)	20 749	3	39,93%	31,75%	21,78%	0,40%	68,00%	18,34%
Equity - listed	20 749	3	39,93%	28,60%	28,60%	28,60%	28,60%	28,60%
Equity - other	n/a	n/a	n/a	3,60%	3,60%	3,60%	3,60%	3,60%
UCITS								
Equity securities	n/a	n/a	n/a	0,98%	15,63%	3,14%	33,48%	12,24%
Total equity exposure	20 749	4	39,93%	27,47%	1,80%	68,00%	16,17%	0,00%

Note (1) This data only refers to DB pension plans

Source: EIOPA EEA pension statistics and Deloitte/CEPS analysis

In Ireland, we note that about 40,0% of investments is in equity, which is, according to the EIOPA statistics, all in listed equity. For Ireland, there is no information available on the other equity as well as the equity exposures coming from UCITS.



3 Prudential regime, accounting & tax framework

3.1 Accounting framework

Typically, Irish pension funds produce their financial accounts in accordance to the UK/IE GAAP. Yet, in accordance with the EU Accounting Regulation (Regulation 1606/2002/EC), all domestic publicly traded companies are required to produce their financial accounts in accordance with IFRS standards. For unlisted companies, IFRS Standards are permitted but not mandatory. Hence, most pension funds use local GAAP for their financial reporting.²

3.2 Prudential regime

In 2013, the legislation introduced a 100,0% limit on direct equity exposure. Ireland has introduced no specific investment limits in single issuers/issues. An equity investment limit of 50,0% was introduced in 2013 for schemes with more than 100 members.³ Prior to 2013, no portfolio ceilings were applicable to Irish pension funds.

3.3 Tax framework

Pensions Funds in the Republic of Ireland are subjected to a special tax regime: the so called "Exempt-Exempt-Taxed" (EET) where beneficiary's contributions and funds' returns on the investments (including equity and dividends) are exempted, while withdrawals are subject to taxation (or partial exemption).⁴

² Source: Deloitte-CEPS analysis of annual reports of Irish pension funds and IFRS country profiles.

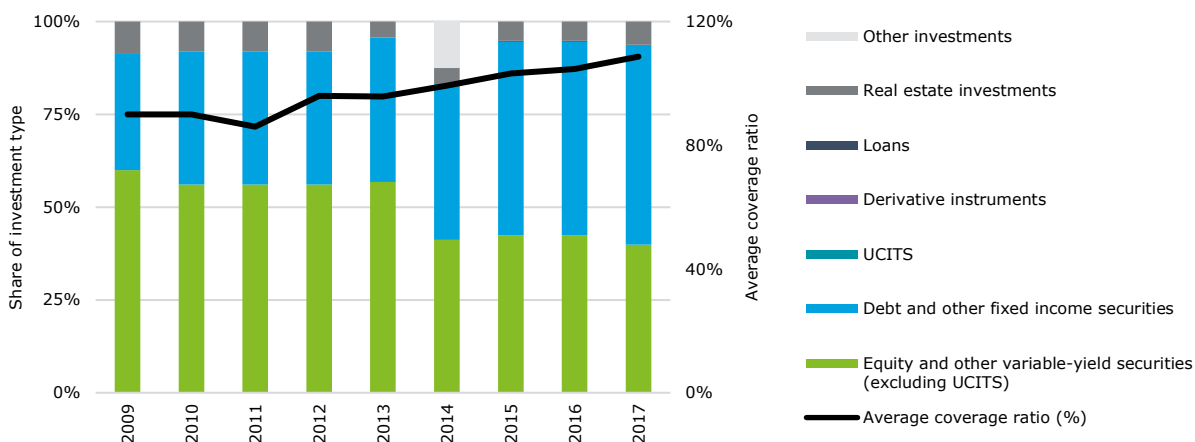
³ Source: Deloitte-CEPS analysis of the OECD Annual Survey of Investment Regulation of Pension Funds.

⁴ Source: OECD (2015) Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries

4 Historical data

The evolution of investment by Irish pension funds, broken down by types of investment, between 2009 and 2016 are displayed in the figure below. Furthermore, the figure illustrates the change in the average coverage ratio for Ireland.

Graph 1 – Evolution investments and average coverage ratio



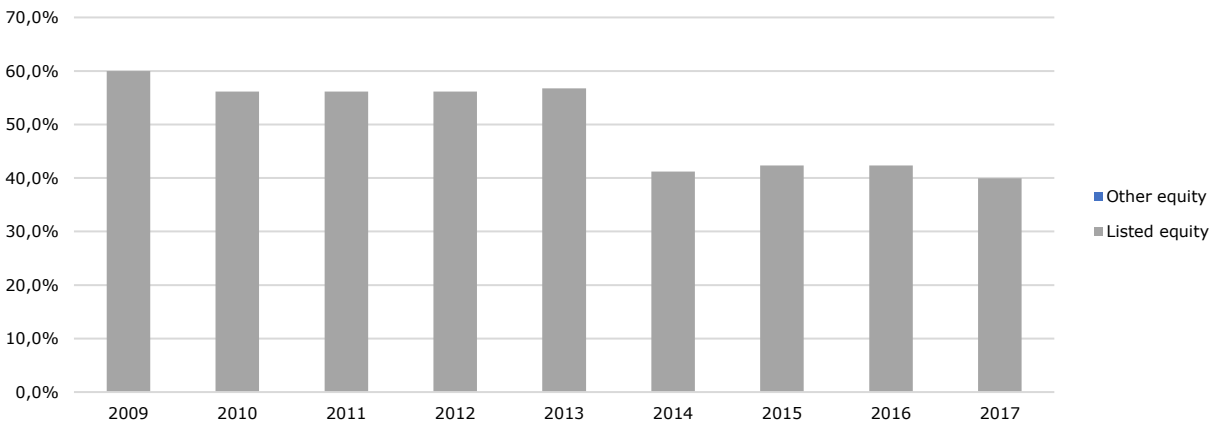
Note (1) For Ireland, data breaking down investment by type is not available prior to 2009.

Source: EIOPA EEA pension statistics and Deloitte/CEPS analysis

The composition of Irish pension funds investment portfolios has remained relatively stable over time with a slight substitution of investment in equity and other variable-yield securities for debt and other fixed income securities emerging since 2014. Overall, Irish pension funds display a similar decline to British pension funds in their equity investment, if not as smooth, since 2009.

The trend in equity investment, broken down by type, for Ireland is shown in the figure below.

Graph 2 – Evolution investments by equity type



Note (1) For Ireland, data breaking down equity investment by type is not available prior to 2009.

Note (2) This data only refers to DB pension plans

Source: EIOPA EEA pension statistics and Deloitte/CEPS analysis