

**“The defined benefit pension landscape in Ireland in 2014 and the implications for private sector employers”**

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## Abstract

The pension environment is constantly evolving. Increased longevity, regulation, globalisation, and demands for optimum organisational profitability all contribute to what has become a move away from traditional defined benefit pension schemes. In Ireland we are yet to emerge from the depths of a crippling recession which contributes additional complexity to the pension framework.

Given the prevailing climate, the aim of the dissertation is to examine the individual components of pension change as identified through the academic literature; namely the funding crisis for defined benefit schemes, the changes to the provision of state pension benefits, and the implications of these changes for individual pension schemes from the employer's perspective.

The researcher aims to explore what this environment means in practical terms for Irish private sector employers, that is, to identify whether employers face specific challenges due to the competing requirements that on one hand they must remain competitive and profitable, whilst on the other they must manage and provide for their human capital.

The dissertation is exploratory in nature. The researcher has adapted an inductive approach based on the findings of semi structured interviews with a selection of employers, with a view to shedding some light as to how employers have adapted to the changing pensions environment, whether they have encountered specific challenges, and how they have dealt with the issues they have faced.

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## List of Abbreviations

CARE	Career Average Revalued Earnings
CIPD	Chartered Institute of Personnel and Development
DB	Defined Benefit
DC	Defined Contribution
FP	Funding Proposal
HR	Human Resources
MFS	Minimum Funding Standard
NRA	Normal Retirement Age
OECD	Organisation for Economic Co-operation and Development
PA	Pensions Authority
SPA	State Pension Age
SPC	State Pension (Contributory)

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“The defined benefit pension landscape in Ireland in 2014 and the implications for private sector employers”

## CHAPTER 1 - INTRODUCTION

The pension landscape in Ireland is going through a period of flux, most notably in the sphere of defined benefit (DB) scheme provision. The media is awash with tales of woe regarding scheme closures, wind ups and court cases.

A DB pension scheme is one which aims to provide a predetermined level of benefit on retirement, usually based on an employee's length of service and final salary. DB schemes are costly to provide, and consequently have been a casualty of the recent economic recession. There are a number of reasons for this; the crisis in the Eurozone has led to a drop in interest rates, which effectively causes the cost of purchasing pensions to rise. In addition the effect of tiger salary increases prior to the recession, meant that actuarial assumptions which had been made in terms of funding have not been met. Economic necessity during the downturn led to many employers streamlining their workforces. Additionally, changes in demographic trends over the recent decades demonstrate that the population is living longer; in practice this means that pensions once in payment, are expected to be paid for longer (Roche, 2011). Simultaneously, as a response to these problems, regulatory requirements are becoming more demanding in terms of how both pension liabilities are valued and how assets are invested.

Government policy has been responsible for significant change in the provision of retirement benefits. The State Pension (Transition) has been abolished with effect from 2014, and the age at which the State Pension (Contributory) becomes payable

will be extended outward. Furthermore, the government introduced a levy on the aggregate assets of pension schemes in the Finance (No.2) Act 2011. In practice these changes have implications outside the realm of government fiscal policy due to the knock on effects they have for funding of DB schemes. The DB pension legal framework is evolving simultaneously through the number of high profile actions going through the courts (IRN, 2013). *"In effect, the pension structures of the past are being adapted to the likely realities of the future"* Armstrong and Murlis (2007, p488).

The culmination of these effects has led to deterioration in the funding levels of DB pension schemes over the past number of years. This in turn has led individual employers to alter and restructure the DB benefits they provide. Indeed, in many cases this has resulted in the wind up of individual schemes, with a move towards DC pension provision. Stewart (2005) points out that DB pensions cannot be taken for granted any longer. According to the Irish Association of Pension Funds (IAPF, 2013), the DB pension sphere is in crisis. Their records show the number of DB schemes still running at the end of 2013, was down 25% to 750.

From an employer's perspective, pension schemes require a significant investment, they can be viewed as an important tool in the recruitment and retention of staff, therefore it is important that they are understood by employees and communicated clearly and realistically. From an employee's point of view, participation in a pension scheme is fundamental to financial security in retirement. Almeida and Weller (2011) note that employees without DB pensions face economic risks which affect their income security in retirement. Yet there is a general perception that pension

benefits, whilst admittedly complex, are not sufficiently understood or valued by employees.

Whilst there is widespread acknowledgement in the literature of the current issues in the DB pension realm (Assa, 2011; Bridgen and Meyer, 2005; Cotter, Blake and Dowd, 2012), there is conversely a gap in the literature regarding the actual impact of these issues for employers. Yet employers as sponsoring bodies are key stakeholders in pension schemes. With this in mind, this research aims to explore, through qualitative analysis, the challenges which employers are faced with presently, and to ascertain how they are addressing them.

## **CHAPTER 2 - LITERATURE REVIEW**

### **Introduction**

In this section we will look at the background to the pension landscape and examine both state and occupational pension provision along with the link between the two. A funding crisis is faced by both tenets, which has implications for society as a whole, and has specific impact on individual employers. The changes to the state pension create a misalignment with what has been a standard pension scheme retirement age of 65. The pressures on employers in relation to the DB schemes they provide are manifold, from issues with cost, funding and affordability to accounting reporting requirements, to governmental interventions such as the introduction of the pension levy, all of which contribute to the trend of restructuring DB schemes. Finally, we will look at some recent court cases which may shape how schemes are restructured and wound up in the future.

### **Background to the pension system in Ireland**

The pension system in Ireland is formed primarily of two pillars. The first pillar comprises benefits provided by the State in the form of the state pension. This benefit was first introduced in 1909. Its aim was to provide elderly citizens with a form of independent means so they could afford a dignified retirement and as a consequence, help prevent them becoming an encumbrance on society (Moloney and Whelan, 2009). The second pillar is comprised of pension schemes, which are

made up of occupational pension schemes and personal pension plans. For the purposes of this dissertation we focus on occupational pension schemes whereby employers provide retirement benefit schemes as part of their overall compensation and benefit package. Occupational pension scheme provision is not compulsory in Ireland, and the OECD (2013) estimate that only 41% of the population has second pillar pension cover.

Occupational pensions exist in the context of an employment relationship and are tripartite in nature. Occupational pension schemes in Ireland are established under trust, and as such the assets of the scheme are a separate legal entity from the assets of the employer and they are administered by scheme trustees (McNally and O'Connor, 2013). The development of pension schemes in Ireland has been facilitated by a favourable tax regime which allows for tax reliefs on both employer and employee contributions to Revenue approved schemes, and permits gross roll up of funds, thereby deferring taxation until retirement (Finucane and Buggy, 2006). In order for a pension arrangement to be deemed an exempt approved occupational pension scheme, Revenue require that it be set up under irrevocable trust to ensure the proceeds of the schemes fund cannot be diverted for alternative purposes at a later date. Under the requirements of the Finance Act 1921, the legislation responsible for the structure we have today, it was stipulated that schemes must provide reasonably modest benefits and be bona fide in nature. *"Thus began one of the more important public-private partnerships in Ireland"* (Moloney et al 2009, p75).

The effect of this two pillar approach culminates at the point of retirement, as (with certain exceptions in terms of eligibility) an employee has entitlement to both a state pension and an occupational pension. Both pension pillars have to be funded, and both pillars face significant funding difficulties. Both state and occupational pension benefits are evolving in the face of various challenges and obstacles (Lucey, 2012), which we will now examine.

### **Pillar One – State Pension Provision**

There has been deliberation for a number of years over the sustainability of the state pension in Ireland (Green Paper on Pensions, 2007), a theme which is mirrored throughout the Western world. *“Population aging is not a looming crisis of the future - it is already here”* Maestas and Zissimopoulos, (2010, p139). The change in the demographic makeup of society is key to understanding the issues at hand. The ageing of societies and the drop in fertility rates pose problems for the funding of pension benefits in many countries, and these demographic changes are widely recognised across the breadth of the OECD according to Whiteford and Whitehouse (2006). With improvements in mortality and morbidity, retirees are expected to live longer healthier lives; consequently pensions are expected to be paid for longer and so they require higher levels of funding. Life expectancy is expected to rise further in Ireland in the coming decades according to the OECD (2013). This is compounded by the fact that population growth is in decline, meaning there are proportionately fewer workers in the population age bracket 20 to 65 to fund a larger number of retirees who are living longer (Cotter et al 2012; Proper, Deeg, van der Beek 2009;

Whiteford et al 2006). In many countries, policymakers have had to consider amendments to state funded pension benefits to counteract the demographic trends. Barr and Diamond (2010) identified a number of approaches which have been taken by governments, for example moves towards notional defined contribution state pensions, increasing ages at which social welfare benefits become available, and a widening of the income bands on which social contributions are based. Interestingly however, the political vulnerability of state pension policy can be seen presently in Germany, who in previous reforms had increased their SPA from age 65 to 67, yet now, as part of a deal struck between parties to form a coalition, the SPA has been lowered to age 63 for those born prior to 1953 (Adams, 2014).

For demographic reasons, the long term cost of maintaining the state pension system in Ireland in its previous guise was prohibitive from a governmental perspective. Separately, from an economic standpoint as Barrett and Mosca (2013) point out, increasing labour supply, and consequently output, by using a later state pension age to incentivise working longer is also a valid reason for amending the state pension system.

With the enactment of the Social Welfare and Pension Act 2011, the State Pension (Transition) which was payable at age 65 was abolished, and the age at which the State Pension (Contributory) becomes payable was extended upwards to age 67 and 68 from January 2021 and 2028 respectively. The payment rate of the SPC, currently standing at €11,976 per annum, amounts to approximately 37% of the average industrial wage, and as such is responsible for lowering the risk of poverty in old age

in Ireland (Hinrichs, 2013). Whiteford et al (2006) outline that in contrast to other OECD countries, Ireland's flat rate state pension system has a relatively low replacement rate, and as it contains no earnings-related component, it is least generous to earners above the average industrial wage. Considering wage inflation through the years of the Celtic Tiger, albeit though an element of rebalancing has since taken place, a gap in replacement income in retirement is created for what is probably a significant cohort of the population.

Barrett et al (2013) note that according to their research, the change to the SPA did not impact retirement policy in the three years since its announcement. Perhaps this can be understood in the context of Robinson, Grosling and Lewis (2005) and Barr et al (2010) who outline that there is an inherent political risk for governments in highlighting the impact of future retirement issues in the present time. In the case of some countries, minor policy adjustments are made to social welfare pension policy as a temporary fix, however the issue of addressing the looming public pension crisis is put on the long finger for future governments to deal with. *"Pensions involve thinking ahead – much further than the lifetime of one government"* Ward (in Stewart, 2005, p159). It is likely that the impact of the changes will become obvious during and after 2014, as those who were born from 1949 onwards are the first cohort of the population to be materially affected by the new SPA structure.

Whilst on the face of it, it may appear that amendments to state pension policy are outside the realm of employer concern, in fact the two are interminably linked. There are two main reasons for this. Firstly, many DB pension schemes are

established with a set retirement age of 65 years which means that there is a disjoint with the timing of state pension. Secondly, the majority of DB schemes were structured on establishment to be integrated with state pension benefits, the intention being that the total expected pension at retirement comprised jointly of the state pension and the scheme pension (Finucane et al 2006). In practical terms, this means that DB retirees from 2014 onwards have a deficit in the income that they would have ordinarily expected on reaching NRA. Kooij, deLange, Jansen, Kanfer and Dijkers (2011) observe that compensation is a primary motive for remaining in employment in later life, as a consequence, where the state pension no longer coincides with a pension schemes NRA of 65, employers could see demand from employees to extend the working relationship past age 65.

### **Pillar Two - Occupational Pension Provision**

As outlined, a DB scheme promises a set level of pension, which has a direct correlation to earnings and the duration of an employee's employment, or pensionable service. Whilst there are numerous variations of DB benefit structure, in a private sector DB scheme, the benefits provided are usually comprised of some or all of the following components; benefits typically accrue at a rate of one sixtieth of final pensionable salary for each year of pensionable service. In addition schemes usually allow for commutation of some pension at retirement in exchange for a tax free cash lump sum. Many schemes provide for some level of benefit indexation in retirement, along with allowing for payment guarantee periods and facility for payment of a contingent spouses pension on death in retirement (Kenny, 2004).

## DB pension funding

DB Pensions are funded usually by both employee and employer – by the employee at a set contribution rate and by the sponsoring employer at a balance of cost contribution rate. As a pension scheme is a legal entity in its own right, scheme trustees have obligations regarding the oversight of receipt of contributions and the investment thereof. The relevant employer contribution rates are set actuarially with a view to targeting the projected pension at retirement (McNally et al, 2013). The greater the pension accruable, the larger the liability that must be funded in the scheme. As any given pension may be payable perhaps decades into the future, the funding challenge lies in the fact that actuarial assumptions must be made regarding investment returns, mortality, statutory revaluation and future salary increases. If a schemes membership profile changes, if mortality levels improve, if investments underperform, or if salaries rise at rates higher than expected, then the costs for an employer will be higher than actuarially predicted. In practice, the sponsoring employer effectively underwrites the promise to provide the set level of DB pension. McCarthy (2006) explains that DB pensions provide an employer backed insurance of annuity risks, that is, the variations in mortality rates and interest rates, which would otherwise be borne by employees throughout the period of their employment. DB pensions have long been perceived as guaranteed (Assa, 2011); in reality however their benefits are little more than a promise. A DB benefit guarantee is only as strong as the covenant of the sponsoring employer.

By contrast, a DC scheme is funded through a set level of employer and employee contributions, and provides benefits at retirement based on the fund which has amassed - effectively the accumulation of all contributions made whilst in employment and the investment growth on those contributions in the period up to retirement. In this type of scheme, employer costs are fixed. Therefore the inherent risk of having insufficient retirement savings, which would result in inadequate retirement pension income, is borne entirely by the employee. Almeida et al (2011) point out that as employees must personally decide where to invest their contributions in a DC scheme, there is a risk that they may not possess the appropriate knowledge to do this effectively, and even if they do, they remain exposed to market risk, that is, stock market volatility which can be detrimental to retirement funding in the short to medium term.

For the purposes of this research we will focus on DB schemes, which until recently, were the predominant pension vehicle in Ireland, and which have been commonly viewed as superior in terms of the benefits they provide and the spread of risk between the employer and employees (Assa, 2011). From an employee perspective, DB schemes shield employees from certain exposures that other pension vehicles do not, that is the market, investment and longevity risks outlined above.

## **Regulation**

The Pensions Authority was set up under the Pensions Act 1990. As the regulatory body for pensions in Ireland, the PA assumes the mantle for overseeing the

administration, regulation and funding of occupational pension schemes. The legal framework within which pension schemes operate in Ireland is constantly developing. The Pensions Act 1990 is the key legislation which was introduced to protect the rights of scheme members, to ensure that schemes have appropriate controls and are properly administered (Kenny, 2004). The Act was formally updated in 1996 and 2002, and amongst its main provisions are the preservation of benefits (i.e. the vesting and revaluation of benefits for members with over two year's scheme service), the introduction of DB minimum funding standard (MFS) and the outlining of Trustee obligations. Amendments to pension legislation are frequent, and are introduced piecemeal through Statutory Instruments, along with the Social Welfare and Finance Acts each year.

As a requirement of the Pensions Act 1990, DB schemes are obliged to undergo a solvency test every three years to ascertain whether they meet the MFS, and submit an Actuarial Funding Certificate to the PA. If, in the actuary's opinion, the schemes assets are insufficient to meet the schemes liabilities at that time, then they must submit a funding proposal to the PA (McNally et al 2013). A funding proposal is a recovery plan which addresses how the scheme and stakeholders intend to tackle the deficit over a specific timeframe. It was estimated in 2012 that up to 80% of schemes were in deficit on the MFS basis (Lucey, 2012). The PA stress that the funding standard is minimum, and compared with the solvency obligations of DB schemes in other jurisdictions, the obligations in Ireland are relatively low (Pensions Authority, 2014).

In their Strategy 2011 to 2015, the PA highlighted that the majority of DB schemes did not meet the MFS at that time (Pensions Authority, 2011). They outlined concerns that schemes were increasingly vulnerable because of the prevalent culture of equity based asset allocation. Cotter et al (2012) agree that asset allocation practices contributed to what became overpromised, underfunded DB benefits, and Moloney et al (2009) pointed out that the regulatory regime had been too weak. Asset allocations tended to rely heavily on high growth (and consequently high risk) assets such as equities. Pension funds are expected to generate sufficient growth to ensure the long term security of the scheme to provide the promised benefits for members. Equities are therefore an attractive asset class, as they are generally expected to outperform other assets in the long term. However, with the potential for high growth comes the potential for increased volatility of returns. This results in a mismatch between a schemes assets and accrued liabilities, particularly if markets fall, as was the case during the economic downturn. Ebbinghaus and Wiß (2011) note that Ireland suffered some of the highest losses of the downturn due to the reliance on heavily equity weighted asset portfolios.

In 2011, the funding standard was reformed through the introduction of risk reserve requirements. Risk reserve requirements stipulate that where liabilities are not matched with specific low risk assets, employers must fund for up to 10% plus of scheme liabilities over and above that required by the MFS from 2016 onwards. This raises the issue of de-risking, whereby schemes are assessing their portfolios and endeavouring to move from equity based models towards portfolios that match assets with liabilities more closely. In addition to meeting MFS requirements, the introduction of risk reserve requirements, puts an additional funding burden on

employers (Hinrichs, 2013). It has been noted that *“the time for putting in proper safeguards is when things are going well, not when they are already going wrong”* Ward (in Stewart, 2005, p159). There have been favourable equity returns in 2012 and 2013, making it difficult to pinpoint the correct time in the cycle to transfer to less risky assets. Additionally, there is a need to diversify to alternative assets to mitigate low bond yields. Cotter et al (2012) note that it is a challenge to change the asset allocation culture.

Whilst regulation of the pension industry is crucial, it comes with a cost to employers. Clark (2006), moots there is a growing understanding that the regulatory burden coupled with insufficient governmental incentives contribute to the demise of DB schemes. This point is echoed by Bridgen et al (2005) and Bateman et al (2013) who agree that the costs incurred as a result of regulatory requirements are a strong disincentive for employers.

### **Economy and Demographics**

In the economic sphere, the global financial crisis and subsequent downturn have had a significant effect on Irish private sector employers, and we have been constantly reminded of unemployment rates, emigration trends along with the effects of the recession as reported in the media in recent years. Challenging economic times have meant that employers have had to adopt challenging measures, and in many instances employers have had to streamline their outgoings to maintain the operational effectiveness of their organisation. DB benefits can be a

significant expense, and in reality, for many employers the capital to fund ancillary benefits may not be as available as perhaps it once was. Additionally, a key concern for employers is to have a level playing field pension wise, to enable them compete globally with low cost economies, and domestically with organisations who do not carry the liability of high cost DB promises.

The effects of demographics in terms of the state pension have been outlined earlier. The role of demographic change in DB schemes is also key to understanding the crisis which is faced presently. Bovenberg (2007) agrees that the ageing of the population and diminishing member base have further increased the employer burden. Where employers have been forced to downsize during the recession, there are fewer active employees to contribute to schemes. At the same time, pensioners are expected to live longer in retirement so the cost of purchasing pensions for them increases accordingly.

### **Pension Levy**

The Government introduced a pension levy on the aggregate assets held by pension schemes in the Finance (No.2) Act 2011. The levy, effectively a tax on pension funds, amounted to 0.6% of scheme assets for 2011 to 2013, 0.75% for 2014 and 0.15% for 2015. The levy depletes scheme assets and where schemes are insolvent, it increases fund deficits. Governmental measures of this nature are not a new phenomenon. Bateman and Kingston (2013) note that the tax on superannuation growth and employer contributions which was introduced in Australia in 1988

discouraged employers to fund DB benefits, and has been in part a contributing factor for the demise of DB schemes in Australia. In the short term, the monetary revenue yields from such measures are both substantial and convenient. Given the backdrop of the DB crisis however, it is arguably myopic to raid scheme assets at a time that they most need to be augmented.

### **Accounting Standards**

In addition to having ultimate responsibility for the actual funding of the scheme, an employer must under the Companies Amendment Act (1986) disclose in its financial statements the effect of any pension liabilities it carries. Depending on where companies are quoted, they must comply with International Accounting Standard 19 (IAS 19) in the US, Financial Accounting Standard 87 (FAS 87) in the EU, and Financial Reporting Standard 17 (FRS17) for unquoted companies in Ireland. Finucane et al (2006) explain that the objectives of these disclosures are to ensure that a company's financial statements outline an employer's obligation to fund pension benefits, showing the fair value of the assets and liabilities for all schemes which the company operates whilst disclosing the costs of providing all pension benefits accrued within a specific accounting period. In a DB scheme, because of the fluctuations of assets and liabilities, this disclosure can have significant volatility from year to year (Finucane et al 2006, Bovenberg, 2007, Wilson, 2008), and multinationals are inclined to be particularly sensitive to pension related accounting fluctuations. Liability disclosures may have an effect on shareholder perceptions of the organisation, therefore they have significant influence on an employers' appetite

for maintaining DB schemes in the long run. Bateman et al (2013) agree that shareholder and management preference for smooth earnings can be severely impacted by pension liability related volatility in the annual financial statements. In fact, Wilson (2008) opines that the way pensions are accounted for in financial statements would be the single most priority if employers were given the opportunity to make a change in the pension sphere.

### **Scheme insolvency**

McCarthy (2006) notes that where pension schemes are insolvent, employees effectively become unsecured bondholders of the employer, the premise being that underfunding of pension benefits is tantamount to a loan from the employees to the employer. If an employer then becomes insolvent, the employees lose the loan. The Waterford Crystal judgement (*Hogan and Ors v Minister for Social and Family Affairs and the Attorney General*) in 2013 highlighted the issues in the area of double insolvency whereby the CJEU ruled that as members pension benefits were not secured to a level of 50%, Ireland was in breach of European Directive 2008/94/EC, which required statutory protection for employees in the event of employer insolvency. Other jurisdictions provide a type of third party insurance in the event of insolvency, whereby a charge is levied on existing DB schemes to fund claims. After a similar ruling in 2007, the UK government set up the Pension Protection Fund (PPF) which aims to provide up to 90% of a members DB benefit where both the scheme and employer are insolvent. Similarly, the Pension Benefit Guaranty Corporation in USA was established to provide protection to DB scheme members in

the event of employer insolvency (Cotter et al, 2012). Whilst no such provision exists in Ireland, the government have passed the Social Welfare and Pensions (No. 2) Act 2013 which alters the wind up priority order to ensure that all categories of membership get at least 50% of their benefits excluding indexation in the event of a double insolvency. To ensure that there are no further breaches to EU directives, it is proposed that any shortfall in scheme assets on insolvency which occur after amendment of the priority order changes will be met from the Pension Levy fund.

Munnell et al (2005) propose that the occurrence of high-profile DB scheme closures and the associated media coverage, has the effect of making the DB closures the norm resulting in desensitisation of employees. Therefore the shock factor associated with scheme freezes and wind ups are somewhat mitigated as employee expectations have been adjusted. High profile court cases such as the Waterford Crystal case demonstrate that employees are increasingly aware of the pension landscape and are firmly focused on the issues at hand, in terms of their willingness to challenge change and defend DB benefits.

### **Scheme restructures**

Whilst we have had a paternal provision of DB pension schemes in Ireland, even by relatively small employers, they have been *“based on employers’ voluntarism and their willingness to pay more for them”* (Bridgen et al 2005, p769). The demise of the DB pension scheme has been underway for some time however and it has been accelerating in recent years (Moloney et al, 2009; Hughes, 2010). The IAPF (2013)

reported that only 8% of DB schemes intend to remain open to new entrants, which represents a decrease of 7% in one year alone, and the Pensions Authority statistics report that at the end of 2013 only 804 private sector schemes remain either active or frozen, down 547 from 2008 levels.

Employers, as a schemes sponsor, generally retain the right to amend or terminate schemes under the scheme rules. These rights may be invoked in a variety of circumstances, for example bankruptcy of the employer, insolvency of the scheme, or a change in economic conditions (Finucane et al 2006). The trend where solvent employers are winding up their DB schemes has been noted by Vickerstaff and Cox (2005), although in some instances, employers have opted alternatively to amend the scheme in some way. A scheme can be made more affordable in an actuarial sense by restructuring it, for example, through decreasing the rates at which pensions accrue, by increasing the rates at which both employers and employees contribute, or by eliminating indexation post retirement. The most drastic move is to wind up the scheme whereby all scheme assets are distributed, with active and deferred members receiving transfer values in respect of their accrued benefits and pensions being purchased for pensioners. An alternative would be to close a DB scheme to new entrants, whereby the scheme would continue but only for the cohort of employees who joined employment before a certain date. A restructure alternative would be to freeze the scheme, that is, close it to future accrual of benefits for all members - a link to final salary may or may not be maintained. In the past, employers were loath to interfere with pension scheme provision given the potential negative employee relations consequences, however pension restructuring is very common today.

Munnell et al (2006) examine the trend of employers amending their DB schemes, and note that in many cases what they consider to be healthy employers are opting to restructure their DB schemes for the purposes of mitigating DB risks and minimising compensation costs. The reasoning behind the move from DB provision was also examined by Clark and Monk (2008) who found that the most critical determinant was the increasing rise in the cost of DB benefit provision, which they note is closely linked with competitive pressures arising from globalisation.

Furthermore, 80% of Irish DB schemes that have closed are replacing their DB offering with a DC alternative. Finucane et al (2006) outline that this trend is contributed to by the fact that employers bear DB investment risk coupled with a high degree of mismatch between DB assets and liabilities. This move away from DB schemes has been mirrored in the United Kingdom and elsewhere from the late 1990's onwards (Bridgen et al 2005; Moloney et al 2009).

In the event that an employer opts to restructure their DB scheme, they need to be cogniscent of the need to engage and consult with employees throughout the process (Armstrong et al 2007). Given the complexity of pension benefits, the communication around a restructuring programme is key to its successful implementation and the varying needs of stakeholders such as employees, employers, trustees and trade unions all need to be considered. Stakeholders may have competing objectives. Trustees have a fiduciary duty to act in the best interests of all members, and so their priorities may be in contravention of the employers' objectives. From an employee's perspective, pensions are an emotive issue because of their financial significance. They are an integral part of the

remuneration package. Industrial relations concerns are a factor for consideration, as any amendments to employees' terms and conditions may not be viewed favourably by trade unions. Ebbinghaus (2011) is of the opinion that the recent reforms in retirement age both in Ireland and Britain outline an ability to overcome union opposition to pension benefit changes, however in the case of Ireland at least, the volume of high profile challenges in front of the Courts (IRN, 2013) would seem to challenge this perception. Legally also, employers need to be aware of potential contractual obstacles when restructuring benefits *"If the reference to amendment of the pension scheme is omitted from the contract, it might be argued that an employee has a contractual right to the pension benefits as they stood at the time the employee joined the scheme"* (Finucane et al, 2006).

#### **DB pension provision from an employer's perspective**

Employers generally provide an arena of benefits over and above basic remuneration, commonly known as employee benefits. Pensions have long formed an essential part of this suite of employee benefits, taking the form of deferred pay for retirement which is funded throughout the period of an employee's tenure. Armstrong et al (2007) examine the logic behind pension provision and note that it has arisen from a moral obligation on the part of employers to provide for their employees and their families in retirement. A pension scheme demonstrates an employer's long-term commitment to its employees and is typically regarded as one of the most important employee benefits in light of the costs involved for the

employer. Wilson (2008) agrees that employers typically provide pension schemes for paternalistic reasons, and to maintain competitiveness with other employers.

There is much debate in the literature regarding how relevant DB pension provision is for employers today. Clark (2006) proposes that provision of occupational pension benefits are not as significant for HR management programmes as they once were, however Cotter et al (2012) would disagree, indicating that pensions form part of an implicit contract between employer and employee. Almeida et al (2011) argue strongly that DB (as opposed to DC) provision works in favour of the employer, by outlining a correlation between the availability of a DB scheme and the ability of employers to attract and retain high calibre staff whose long term goals are aligned with the employers' objectives. Furthermore, Armstrong et al (2007) purport the importance of DB scheme provision for cultivating loyalty amongst employees.

Simultaneously however, societal working patterns have also evolved. Once upon a time a job for life was the objective on entering the workforce, whereas today employees require job flexibility and mobility. Long term job commitment is not a given, which implicitly gives rise to the requirement for portability of pension benefits. Munnell et al (2006) agree with this sentiment on the basis that employees do not tend to remain in the same employment for life, thus limiting the likelihood that amendments to DB schemes are relevant for employee retention. Westerman et al (2005) agree also that employee allegiances have transitioned from being to a specific employer to being to a profession in general. Clark et al (2008) found that this change in working pattern has given rise to the issue of intergenerational inequity, whereby older employees with longer tenure stand to

benefit most in a DB scheme. Armstrong et al (2007) examined the real DB benefit from an employee perspective. As an employee with long service could potentially claim a pension benefit of up to two thirds of salary at retirement, an employee on the average industrial wage accruing a DB pension is actually earning substantially more than a similar employee on a similar wage in, say, a DC scheme. A DB pension is effectively deferred income paid in respect of loyalty given to the employer. Because the value of it is not known to the employee for many years (Westerman et al 2005) however, it can be somewhat invisible from an employee's perspective. As such, when combined with the change in employee job commitment values, a DB benefit is not the selling point for employers that it once was. *"Workers value pensions differently from the amount that firms pay to provide them, which opens up the possibility that pensions can increase or reduce value in employment contracts and gives employers and incentive (or a disincentive) to provide them"* (McCarthy, 2006, p61).

McCarthy (2006) examined the rationale for employers to provide pension from an economic viewpoint. In the UK, there is a lack of empirical evidence linking pensions and job mobility, however it is reported that pension provision can act as a deterrent to leaving a job. In addition, whilst acknowledging the challenges in measuring productivity, it is noted that provision of pension benefits incentivises employees to work harder. Adams and Heywood (2011) propose that there is a correlation between deferred employee compensation and increased workplace effort, and furthermore, that the lower the employee tenure the stronger the effects on effort.

### Change to the State Pension Age

The pension crisis has brought to the fore the cultural issue of working past what was the standard retirement age of 65. Simultaneously, the phenomenon of labour market reform, which facilitates working later in life and eliminating set retirement ages, is becoming a reality. Employers may be reluctant to embrace the concept of an ageing workforce from both health and safety and productivity perspectives, and their concerns in this regard require consideration and address. Silverstein (2008) proposes a set of guidelines to facilitate employers meeting the needs of an ageing workforce. Firstly the physical work environment needs to be ergonomically conducive, and work tasks organised in a manner that suits the competencies of the individual employee. This requires analysis of job requirements and performance. Awareness of health and lifestyle and promotion of social interaction and work-life balance can be helpful to increase the motivation of older employees. Vickerstaff et al (2005) emphasise that an employees retirement circumstances must be viewed in the overall context of their employers' policies. In light of the current pension environment the individualisation of retirement ages could be a positive outcome.

According to Kooij et al (2011), the correlation between ageing and the motivation of employees is one of the most significant challenges facing employers. The need for HR practitioners to be aware of the practicalities of dealing with an ageing workforce needs to be understood and facilitated to ensure continued organisational functionality. The CIPD (2013) agree that flexible working arrangements and provision of access to training and development are key for

employers to facilitate older workers. Kooij et al (2011) agree, their findings having demonstrated that intrinsic and achievement related motivations do not decrease with age, and as such employers should provide roles for older workers which enable them to continue developing and obtaining a sense of accomplishment. The CIPD (2013) emphasise the business case for the elimination of age discrimination in the workplace on the grounds that it is detrimental to both employers and employees, and also that it contributes to a drain on talent. Interestingly, from the point of view of employers operating underfunded DB schemes, the facilitation of working one extra year can have a significant positive actuarial impact on the cost of funding a pension scheme according to Bovenberg (2007), thus where possible could be a beneficial tool in terms of helping reduce some element of the DB funding issues.

With the exception of some specific professions (e.g. the defence forces), a compulsory fixed retirement age does not apply in Ireland. The retirement age applying for a given role is usually outlined as an express term either in the contract of employment or in an employer's staff handbook, and in practice has typically been at age 65 (CIPD 2013, Murray 2013). The change to the SPA brings with it consequences in terms of the contractual retirement, whereby pension scheme benefits are payable at age 65. The income stream from state pension benefits would have provided a certain incentive for employees to retire at the contractual age of 65, the absence of which creates what could be a significant financial gap. This may cause problems for employers, whereby for financial reasons, employees express a desire to continue working due to the unaffordability of retirement (Wilson, 2008). Murray (2013) however notes, an employer is not

obliged to retain an employee until the state pension benefits become payable. Furthermore many employers may not want to, for reasons such as provision of promotional opportunities for other staff, or due to health and safety concerns.

Employers must be cognisant of legal requirements under the Equality Acts and the Unfair Dismissals Act, and must be in a position to objectively justify the retirement policies they have in place (Daly and Doherty, 2010). Irish legislation is more lenient than European law on this matter however and European case law from the Court of Justice of the European Union under Directive 2000/78/EC requires objective justification for enforced retirement ages. This justification must be both proportionate and reasonable, and must pursue a legitimate business objective (Daly et al, 2010), and it must relate to clear grounds of organisation as a whole as opposed to specific individuals. The CIPD (2013) recommend that employers ensure retirement ages are specified in contracts of employment and that employers reserve the right to review their policies on retirement ages as their business objectives evolve. Furthermore, they advocate that where fixed retirement contracts are used, they are done so with caution as they potentially create precedents which may enable future challenges to enforcement of a normal retirement age.

The ageing of the working population has brought to the fore an interesting conundrum for trade unions in terms of DB pension provision. Flynn, Upchurch, Muller-Camen and Schroder (2013) report that trade unions face conflicting demands, from what would have been their traditional stance namely the protection of pension benefits, lowering of entitlement ages and facilitation of early

retirements on one hand, to the current demands which entail the encouragement and enablement of extending the working life of its members.

### **Employee risk benefits**

Risk benefits are typically provided for under the trust of a DB scheme, to cover payment of a lump sum or dependents pension in the event of an employee's death whilst in employment. It is common for these benefits to be insured with a life assurance company. Working past age 65 has implications for the continued provision of insured life assurance benefits and alternative employee benefits for example income protection cover, as insurers may wish to cover employees only up to what was their normal retirement age, usually age 65 (IRN, 2014). Consideration is required for the implications of a gap in cover arising for employees who remain in service for those types of risk benefits, particularly in the absence of a set retirement age. The CIPD (2014) advocate that a flexible approach be taken by employers, where practical, to the continued provision of risk cover past age 65. In practical terms this may have cost implications for employers and it may mean shopping around for insurers who are willing to provide appropriate levels of cover.

### **Recent legal judgements of interest**

As noted many employers are making the decision to restructure their pension schemes. A court decision was reached in April 2014 in the UK case *IBM v Dalgliesh*, whereby it was held that the employer, breached its duty to employees through the

restructuring of its DB schemes (IRN, 2014). A DB restructure was announced in 2009 which amongst other changes, closed the DB schemes to future accrual and replaced the DB scheme with a DC scheme offering for future service. The employer had previously implemented pension changes however, the communications around which gave members reasonable expectations and some comfort surrounding the continuation of their DB pension promise. In instigating further changes in 2009, the judge determined that the changes constituted a breach of the imperial duty, that is, the duty an employer has to its employees not to destroy the mutual relationship of trust without reasonable cause. The judge found that the restructure was largely driven by the employers US parent, who had the dual aims of minimising the costs of funding the schemes whilst also minimising pension accounting costs on the balance sheet. Whilst this judgement is not binding in Ireland, it may be persuasive, and may have implications for the manner in which scheme restructures are implemented. It emphasises that employers need to communicate and consult with scheme members in an open and transparent manner.

The question of balance of power between the employer and scheme Trustees is at the core of the Omega case, *Holloway and Ors v Damianus BV and Ors*, on which judgement was made in the Irish High Court in July 2014. In this case, the Trustees, on being notified of the employer's decision to wind up the DB scheme, issued a contribution demand to the employer for €2.23million which represented the schemes deficit cost. The judge found in favour of the Trustees, meaning that the employer is liable to pay the contributions due (IRN, 2014). At the time of writing, it is not known whether this decision will be appealed by the employer; however this judgement could have implications for many DB schemes. According to Gray (2014)it

is expected that court cases of this nature could shape the future DB landscape, the implication being that they will form the basis for future governmental and regulatory pension policy.

### Literature Review Conclusion

The literature review demonstrates that there are challenges faced by both pillars of pension provision in Ireland, and there is widespread acknowledgement of the unsustainability of public and private pension schemes for demographic reasons, as the decreasing ratio of employees to pensioners creates ripples for state pension and DB provision alike. Employer covenants to fund and maintain DB schemes are getting weaker, as demonstrated by PA figures for 2013 which showed a reduction of 5% in the total number of DB schemes from 2012 (Pensions Authority, 2014). This trend is complicated by cost factors, regulatory and governmental influences and accounting disclosure implications. Given the magnitude of the situation, and the substantial complexities involved there is likely to be a significant impact on private sector employers. There is a dearth of knowledge as to how they manage these challenges, and this dissertation aims to explore these areas further.

### CHAPTER 3 - AIMS OF THE RESEARCH

The title of this dissertation is “The defined benefit pension landscape in Ireland in 2014 and the implications for private sector employers”. The specific aims of the research are as follows:

- To undertake a review of the academic and policy focused literature which discusses the nature of and the challenges around pension provision
- To explore the issues arising out of the current DB pension landscape from an employer perspective
- To identify the initiatives which employers have engaged to address these issues

In light of the issues which have been identified in the literature review, the researcher wishes to examine the pertinent topics through three different lens:

1) *DB Scheme Funding*. 'To identify the extent of the DB pension crisis across a cross section of employers in the Irish private sector'

Provision of DB pension benefits depends on the willingness and ability of employers to fund them on a long term basis, however “*common wisdom has it that traditional DB plans are unsustainable due to demographic shifts and fiscal pressures*” Assa (2011, p861). Furthermore, Munnell, Golub-Sass, Soto and Vitagliano (2006) echo

concerns regarding the funding burden of DB plans for employers, whereby market, investment and longevity risks outlined above are the responsibility of the employer, combined with the likelihood that legislative changes and updates to accounting practices which make the actual funding of DB schemes more challenging. The researcher wishes to identify the relevance to Irish private sector employers of the influencing factors identified by Clark et al (2008); increasing costs, competitive pressure, regulatory burden, unreasonable accounting standards and unquantifiable risks. The researcher wishes to examine whether each employers DB scheme has been effected by funding issues, how these materialised, and how they were addressed. The researcher would like to understand the employers perceptions of the regulatory framework and of governmental interventions and accounting standard reporting, and if they have influenced employers to restructure their scheme. Where a restructure has taken place, what action was necessary in terms of scheme wind ups, closures or alterations, and to examine the strategies employers have deployed in the process.

2) *Pension Scheme Restructuring.* 'Where DB scheme structure changes have been implemented, what strategies have employers engaged to ensure a smooth transition to the restructured arrangement'

The potential for damage to the psychological contract is a distinct possibility where part of the employee benefit package is altered. *"Tinkering with pension plans may have a negative influence on employee behaviour that is out of proportion to the financial impact of the change if employees feel the implicit contract has been*

*breached*" Milkovich and Newman (2005, p 12). The researcher wishes to explore whether this has impacted employee motivation or has been perceived to have caused damage to the psychological contract of existing employees.

To facilitate the varying requirements of an array of stakeholders, employers have engaged specific strategies to manage this change. Shuit (2003) emphasises the importance of having an astutely crafted communications procedure in place to ensure that employee expectations are managed effectively. Clear communications can mitigate the shock to employees, and can help keep the rumour mill at bay which could be detrimental to organisational productivity. The importance of clarity in the communication exercise has been highlighted previously in the landmark UK case *IBM v Dalgliesh* (IRN, 2014). The researcher hopes to identify any implications for the engagement and retention of staff, and ascertain whether the employers feel that their employer brand has been effected. Almeida et al (2011) outline the impact of DB scheme provision on employee tenure and productivity providing an incentive to remain in employment. They also note that DB pensions tend to be aligned with employers workforce goals from the point of view that retirements are known in advance and can be planned for and managed, as opposed to in DC plans where employees can retire at their own discretion prior to age 65, but elect to remain in employment during periods of downturn, which is generally misaligned from the employers viewpoint.

3) *Impact of the change to the State Pension Age.* 'To identify the any concerns Irish private sector employers are considering on foot of recent changes to state pension benefits'

Whiteford et al (2006) note that the proportion of the population at work needs to be increased in order to counteract the problem of demographic ageing, therefore policies which facilitate longer working are the focus of much debate throughout the OECD. Furthermore from a standard of living perspective, they note the prospects older employees have whilst remaining in the labour market are significant. Ebbinghaus et al (2011) chart the retreat of the State from pension provision which leaves private pension funding to bridge the resulting income gap. However, the question remains as to how much the demographic burden of ageing should be shared between governments and individual employers. Proper et al (2009) envisage that a change in HR strategy is required to manage and prolong labour participation. Silverstein (2008) moots that whilst older workers can perhaps be the most skilled; in other respects they are quite vulnerable. Cognitive and physiological functions decline as we age, however this does not necessarily mean that workplace performance is impaired by the employment of older workers. Furthermore, he notes that losses in mental or physical capacity are frequently offset by experience related skills. The matching of employees to roles suiting their individual competencies is key to facilitation of working into later life. The researcher wishes to explore whether employers feel they should allow employees to work past age 65, and if this warrants any consideration from a motivation perspective as the literature has suggested. The introduction of longer working lives may not be feasible in certain occupations, for example those which are physically demanding,

and therefore some employers may be restrained by the industries they work in. The researcher would like to explore whether they have faced any challenges from a mandatory retirement perspective, and how they have addressed these.

Through these objectives, a greater insight will be sought into what this dynamic pension landscape means for employers, and the researcher will try to gauge the appetite they have to embrace the environmental change to which they are exposed.

## CHAPTER 4 – METHODOLOGY

This dissertation is focused on private sector employers in Ireland, and their individual experiences of the recent changes in the DB pension environment. Empirical research which investigates the link between these topics has not yet been undertaken in the academic sphere; therefore this study has been completed as an introductory exploration of this area in an attempt to allow us better understand employer perspectives on the DB landscape and the challenges they face. To ensure that research is robust and viable, there are a number of factors the researcher must consider prior to embarking on the research element of a dissertation, and these are discussed below.

### Research Method

Consideration was given by the researcher to the most appropriate research method to attain the required results. Qualitative data research involves the collection of information from participants through verbal forms of language and conversation, and through tacit forms of communication such as body language and expressions. Qualitative research allows for examination of words and concepts, is inductive in nature, and facilitates discovery through participants experience and perceptions (Pereira Heath & Tynan, 2010). Quantitative research on the other hand is numerical and statistical in nature, and provides hard data based on the researchers

structured questions. Some key differences between qualitative and quantitative research methods have been outlined by Anderson (2009), as follows; qualitative research is based on familiarisation with real life situations as opposed to with current research, it facilitates analysis of significant themes as opposed to a set number of variables, and it is concerned with interrelationships of these factors as opposed to establishing separate relationships between the given variables. Bryman and Bell (2011) note furthermore that qualitative research allows for theories to emerge, it provides data which has potential to be both rich and deep, and facilitates proximity and personal interaction between the researcher and the participant.

As this is a preliminary examination of this area, quantitative research would have been a less favourable research method in this instance. Given the exploratory nature of the study, it would have been problematic to construct a questionnaire which could accurately identify and capture the relevant information. The richness of the data, based on the variety of participants experiences, which could be attained through qualitative research would be lost. Qualitative research endeavours to explore the understanding of a particular situation and how that impacts specific actions. On the consideration of the researcher, it was deemed the most suitable research method for a study of this nature.

## Research philosophy

From an epistemological point of view the researcher has adopted an interpretivist philosophy. In utilising a qualitative research, the data is received from sample participants in verbal form, which then is processed into findings, effectively using the researcher as the conduit. As such there is an element of subjectivity involved. Interpretivism is *“predicated on the view that a strategy is required that respects the differences between people and the objects of the natural sciences to grasp the subjective meaning of social action”* (Bryman et al, 2011, p17), therefore the researcher is permitted a certain scope to infer and deduce from the research data obtained.

## Sample Selection

A study population comprises all individuals who are relevant to a particular study. Anderson (2009) outlines there is a requirement for researchers using qualitative methods to justify their sample selection. In reality, for any given piece of research, it may not be feasible to access the entire population, or universe, of relevant individuals and as such the researcher must amend the parameters of their population search accordingly by utilising a sample population. For the purposes of this study, the research took the form of non-probability sampling of a population of private sector employers in Ireland who operate DB pension schemes. Non probability sampling infers that a relatively small segment of the population are used to investigate the topics and themes at hand, therefore the sample represents the population, but is not representative of it (Quinlan, 2011). The researcher

identified a selection of private sector employers who continue to provide DB schemes for their employees. Probability sampling would not have been suitable in this instance, as that could have included employers with DC schemes, or indeed employers who do not provide an occupational pension scheme at all.

The selected sample was purposive. Quinlan defines purposive sampling as “*the criterion for inclusion in the research is the capacity of the informant to inform the research*” (2011, p213). Purposive sampling involves an element of judgement on the part of the researcher. It implies specific individuals are chosen as research participants’ because it is expected that their particular experiences and expertise will enlighten the research. To moderate any potential sampling bias on the part of the researcher, the sample is comprised of organisations of different sizes operating throughout a cross section of economic sectors.

The size of the population sample, particularly for qualitative research can be difficult to determine, a fact outlined by Quinlan (2011). Due to the scope of the research and the time constraints involved, a sample of six participants was selected by the researcher. The individuals were selected as they have direct experience of and responsibility for DB scheme management in their organisation. The research population was comprised of Human Resource Managers for each organisation. Due to the nature of company structures and the actual roles carried out by certain individuals Pension Managers and Finance Managers were also selected for participation, due to their ability to enlighten the research. Each participant was personally approached by the researcher and asked whether they would be willing to participate in the research. Once each participant had agreed, they were

provided with a Study Information sheet which outlined the background to the research, the methodology involved, an overview of the pertinent topics, and disclosure in relation to the recorded interview process and the publication of the final results (see Appendix 3). Each participant was asked to sign a consent form.

### Data collection

Qualitative data collection is typically done in an interview or focus group setting, and the researcher considered the pros and cons of each data collection method. Because of the subjective nature of the research topic, possible commercial sensitivities on the part of the participants and the likelihood that participants experience was expected to be somewhat unique to them, a focus group was deemed by the researcher as an unsuitable data collection method in this instance.

Interviewing is one of the key ways in which qualitative data is captured by researchers (Chenail, 2011). Interviews can be structured or semi structured. A structured interview has a fixed format, and as such was inferior for exploratory research because of its rigid nature. A semi-structured interview format on the other hand permits the researcher to systematically discuss common issues and themes with the participants, whilst being sufficiently flexible to allow individual participants own experiences and perspectives be explored.

The interviews were face to face interviews, with the exception of one, which due to geographical constraints took the form of a conference call. Face to face interviews

enabled the researcher's direct interaction and engagement with the participants' and facilitated the building of rapport.

The interviews took place during July 2014, and they were scheduled at a mutually convenient time for the participant and researcher. Each interview took place in a private meeting room to eliminate risk of interruption or distraction. The format was based on a theme sheet drawn from the recurring themes as had emerged from the literature review (see Appendix 2). As participant's pension experiences differed, the semi structured interview format permitted the researcher discretion around how the themes were covered. Each interview was voice recorded by means of a digital voice recorder with the permission of the participants, the purpose being to ensure accuracy. The researcher noted that the recording process did not seem to prove a discernable distraction for any of the participants. Anderson (2009) recommends the taking of notes in addition to recording interviews, so that focus can be maintained on the questions at hand. The researcher took notes throughout the interviews also, as a focus aid and to have as backup in the event of a technical malfunction with the digital recordings.

Chenail (2011) points out the importance of eliminating researcher bias in the conduction of qualitative research. *"A usual procedure for testing the quality of an interview protocol and for identifying potential researcher biases is the pilot study in which investigators try out their proposed methods to see if the planned procedure perform as envisioned"* Chenail (2011, p255). The objective of a pilot interview is to enable a researcher identify areas where unforeseen problems arise with the methodology and data collection instrument. It enables any issues to be addressed

prior to the rollout of the research to the entire research population, and provides integrity to the methodological process. The researcher opted to pilot the study on one of the participants. The participant was notified, and they volunteered to reconvene the interview at a later stage if further queries arose on foot of the data received from the interviews which followed. No issues of note were identified as a result the pilot test.

### Data analysis

Analysis of data obtained through qualitative research involves the researchers' immersion in and familiarisation with the interview responses. According to Quinlan (2011), the researcher is obliged to pay attention to the key issues and phrases contained in the data, so that core concepts can be identified, grouped and the key themes then isolated. Firstly, the researcher listened to the digital recording of each interview several times, and, in conjunction with the handwritten notes taken during each interview, compiled detailed interview notes in respect of each participant (see Appendix 4).

There are computer software packages available for the analysis of qualitative data. Given the sample population size however in this instance the researcher analysed the data manually. The digital recordings and handwritten notes were used to isolate the salient points from each interview, and compile them into an excel spreadsheet. The responses were grouped into themes relevant to each participant. The spreadsheet was then formulated to compile an analysis based on specific

themes, with separate worksheets for each theme, for example funding, change to state pension age etc. This thematic analysis forms the basis for the presentation of findings in the next chapter. The audio recordings are available for the examiner if required.

Separately, a copy of the researchers' interview notes for each individual interview was provided to each participant after the interview for their feedback and comments. This process is known as "*respondent validation*" (Bryman et al, 2011, p396) and it aims to fulfil the purpose of ensuring that the participants views and experiences have been understood by the researcher, and have been appropriately corroborated. The participants were asked to confirm that the interview notes were representative of their interview experience.

### **Research Limitations**

The dissertation was completed in fulfilment of a part-time course of study for a Masters award. As such there was a set timeframe within which the research had to be completed, and this limited the scope of the study to some extent.

The sample population available to enlighten the research is restricted by virtue of the fact that DB schemes are becoming less common. Out of the universe of Irish private sector employers who continue to provide a DB scheme, the sample population available to the researcher from an access perspective was also limited.

The research population numbered six participants for this study. Based on the findings, the researcher is satisfied that the data collected from the sample

population is somewhat representative of the general experience of employers in this area. However, a study containing a larger sample population would be beneficial to verify the results and provide additional breadth and depth to the findings.

A significant volume of data is generated from semi-structured interviews, the collation of information and extrapolation of data and findings are subject to the intervention of the researcher. Whilst every effort has been made on the part of the researcher to perform an authentic and reliable study, the findings are the subject of human interpretation.

Finally, the lack of previous academic research in this area proved a challenge, as there was no body of information from which comparisons could be drawn.

### **Ethical Considerations**

As with all academic research, ethical concerns in relation to data collection must be anticipated, examined, and addressed where identified. The National College of Ireland have stipulated a suite of core ethical principles by which students must abide whilst engaging in research. The ethics code is based on the fundamental principles of respect, fairness, and the safeguarding of participant well-being in academic research.

Anderson (2009) emphasises, that explicit focus on ethical concerns is a fundamental feature of good research in the field of HR. The researcher has considered ethical concerns in full in relation to this study.

A sample of employers, as have participated in this study, would not constitute an ethically vulnerable group, nor would research of this nature typically raise significant ethical concerns. However, concerns around the processing of qualitative data and participant anonymity have been identified. Participants have been consulted in this regard, and have requested that their confidentiality be maintained. Being mindful of commercial and operational sensitivities of participants, the researcher has anonymised the participants and the details of their organisations. Quinlan (2011) points out that informed consent is a key principle of ethical research. In this regard, the researcher provided each participant with a Study Information Sheet which outlined the nature of the research, and a Consent Form (see Appendix 3) for the participants to sign to confirm their agreement with participation.

## CHAPTER 5 – FINDINGS

### Funding

*“The big issue for DB schemes has been the fact that it’s been like a runaway train...”*

Company E

The findings demonstrate that organisations have observed that the cost of providing DB schemes had been increasing gradually over time, with deficits commencing to spiral from the late 2000’s onwards (Bridgen et al 2005, Cotter et al 2012). As a measure to control this phenomenon, the DB schemes in Company A, B, C, D, E and F had been closed to new employees for a number of years. This measure, whilst taking some future liabilities off the table, made each scheme an ageing scheme. Secondly, it meant that employees who joined the company after a certain date had their pension benefits provided under an alternative and less costly arrangement. Company D pointed out the huge pension cost difference per member on a DB basis versus a DC basis. In addition, Company C observed a need for sensitivity around the continued provision of DB benefits.

The effect of the economic crisis on depleting scheme assets and increasing deficits is evident, with all companies having commenced restructuring exercises of their schemes during the period 2009 to 2011, highlighting that the days of employers unquestioningly funding deficits are over. Demographic impacts noted by Bovenberg (2007) were also apparent. Company E reported that in the period from 2004 to 2011, the deficit in their scheme rose by over 370%, prompting them to

undertake a fundamental review of their pension scheme to mitigate costs. Company A noted that the nature of the DB scheme whereby employers underwrite pension benefits has shielded employees from the actual costs involved in providing benefits, which in turn has led to shock and disbelief amongst employees when faced with scheme restructures. A commercial reality has arisen where employers are no longer in a position to fund DB benefits without some employee concessions. Company B, being a multinational, observed that the issue of longevity created ever larger deficits which they were unable and unwilling to fund. Longevity concerns were echoed by Company C who highlighted the correlated funding risk that improvement in mortality brings.

The cost of funding and the unquantifiable risks involved in providing DB benefits were key drivers for all organisations in the decision to examine their pension provision. Funding concerns have led organisations to implement de-risking of their DB asset portfolio as a key part of scheme restructure, as noted by Company B and F. Company E reported that as part of their investment strategy, an investment committee was established with a view to monitor future scheme asset performance.

### **Regulation and governmental interventions**

*“The increase in regulation came at the very worst time”* Company D

Employers overall acknowledge the importance of having a stringent regulatory framework in place for the monitoring of DB schemes. Bridgen et al (2005) and Clark

(2006) note that the regulatory burden faced by employers contributes to the DB demise. In light of the current DB scheme climate and with the benefit of hindsight, it was felt by Company A, C, and D that the regulatory structure in the past was insufficient to be able to protect schemes against the deficits which occurred during and after the economic collapse. Whilst acknowledging that improved longevity and the effects of the global financial crisis are outside the remit of a regulatory framework, Company A, C and D noted that a more prudent regulatory approach could have been taken, for example, schemes could have been monitored more closely to ensure that asset allocation strategies were appropriate. Company C noted furthermore that a time delay in introducing formal funding proposal guidelines left employers somewhat in the dark, and unable to commence tackling their deficits.

With regard to the introduction of the risk reserve, the research tends to agree with Hinrichs (2013) who highlighted the additional funding burden it puts on employers. The potential implications of the risk reserve timing has been noted by Company C, D and F as a further death knell for DB scheme provision, and *“a nail in the coffin”* of DB schemes in the opinion of Company A. Whilst recognising entirely that the risk reserve is a positive measure intended to protect member benefits and bring a level of stability to the funding of schemes, employers are concerned that the timing of its introduction is particularly inapt, coming as it does on foot of the funding crisis. It has the effect of putting additional financial pressure on schemes which are in deficit, and as Company C note *“it will lead to a flood of funds into the safer matching assets at a time when a lot of schemes need to get the good returns from the riskier investments”*. For example, as Company C have pointed out, they have

been endeavouring to tackle their scheme deficit under the terms of their funding proposal, however, looking at future projections the efforts to date will have been nullified by the risk reserve requirements in 2016. Its introduction brings with it further costs for employers whose schemes had equity weighted asset allocations. On the other hand, Company E points out, it may have been difficult for stricter regulatory measures such as the risk reserve to be introduced during the good economic years - in the aftermath of the economic crisis, employers are now more accepting of and open to contingency planning and risk analysis. Company B and D do not regard the risk reserve as a main concern.

Company C highlighted the importance of the trustee role, and the necessity for trustees to have appropriate knowledge to be able to make informed decisions. The absence of a requirement for formally monitored trustee training until 2011, particularly where member trustees are involved, was also a concern. Separately, Company A and D noted that the additional costs involved for the employer, from an advisory and compliance point of view are significant, in both monetary and time terms.

The Pension Levy is viewed by employers as a negative development, and has somewhat disappeared from the public's perception since it was introduced in 2011. As a tax which pushes schemes further into deficit it is unpalatable as noted by Company A, B, C and D. Company F were of the opinion that if they as an employer had to fund this tax directly, it would likely trigger the wind up of their scheme. Trustees are permitted under legislation to cut members benefits on foot of the pension levy introduction, therefore employers are not obliged to fund this tax

directly, which in the case of Ireland, mitigates the Australian experience of pension taxation reported by Bateman et al (2013). Company D acknowledged the fact that increased regulation, in general, could be forcing a further decline in DB provision due to the influence it can have on the employers appetite to continue funding schemes.

Interestingly, Company B, C, D and E have outlined that regulation was not a significant driver in their decision to restructure their scheme. Despite employers' mindfulness of the cost implications and complexities of regulation and awareness of the potential influence governmental interventions have on the appetite to continue provision of DB schemes, the research would not seem to confirm a definite link with the reduction in DB scheme provision as proposed by Bateman et al (2013), Bridgen et al (2005) and Clark (2006).

### Accounting Standards

*“we can't, one, keep funding these ever deepening buckets of deficits that keep appearing and, two, we can't take volatility on our books because it's putting too much strain on our profit and loss account”* Company B.

The influence of accounting standards on employers' appetites to fund DB schemes has been mooted in the literature by Munnell et al (2006) and Kingston et al (2013). The findings conclude that this is indeed an area of concern for employers. The extent of the concern however seems to be related to the organisational structure, and the findings would not seem to go so far as to agree with Wilson (2008) that

given the choice, accounting disclosures would be the single most priority for employers to address. Companies A, B, E and F all noted that DB scheme related debts and volatility on the balance sheet are problematic for their organisations and in the case of Company A and E they were of some influence in making the decision to restructure the scheme. Company C recognised the impact of balance sheet volatilities; however, due to the nature of their organisation, this was not a persuasive factor in the decision to restructure their DB scheme. Accounting standards were not an issue for Company D due to the methodology under which they account for their scheme liabilities under FRS rules. Organisational group level attention on pension scheme disclosures was also something that Company F were aware of when making the move to restructure their scheme. Multinational hypersensitivity to disclosure volatility was demonstrated in the case of Company B, whereby their corporate board, uncomfortable with the range of surplus/deficit fluctuations, which in addition, were out of sync with actual deficits and funding requirements (McNally et al, 2013), made a global decision to move away from DB provision across their organisation for all future service benefits.

### **The nature of the restructure**

*“We needed to do something radical or else we would have been forced to close down the DB scheme for all people” Company F*

There is no one size fits all approach to pension scheme restructure. All of the organisations who took part in the research have had significant pension scheme

deficits which precipitated amendments to their schemes to make them more affordable. All of the organisations have reported that they looked at a detailed suite of options in conjunction with the scheme trustees and their advisors before agreeing on their chosen method. This indicated that there was a will amongst employers to attain balance between their financial needs and keeping the scheme operational for employees as anticipated by Armstrong et al (2007). Companies C, D and E reported that initial measures undertaken to address the deficit, prior to the restructure, were unsuccessful. Companies B, C and D opted for a cessation of future accrual, and a move to DC for future benefits. Company B emphasised their need to create international parity between their employees. Company E opted for a hybrid option whereby DB accrual is maintained to a ceiling on a CARE basis, with DC provision above that threshold. Company F opted for the elimination of guaranteed pension increases through a Section 50 application to the Pensions Authority. The restructure in Company A is ongoing, and involves a series of proposed measures including the introduction of a salary cap, cuts to benefits on foot of the pensions levy and increased contribution rates.

Company A, B, C, D, E and F have all committed to funding proposals, whereby they endeavour to address their funding deficits over the course of approximately ten years, thereby confirming a long term commitment to DB benefit provision for their employees, which lends itself to the paternal provision of DB schemes mooted by Bridgen et al (2005) and Wilson (2008). All organisations have indicated that they hope the restructure in conjunction with the funding proposal commitments will be sufficient to restore solvency, however as company C and F pointed out, if this proves not to be the case, then the DB restructures may have to be revisited in the

future. *“just because we are restructuring now, doesn’t mean that this is it forever. We honestly hope it will be, but we don’t know what will happen in the future”*

Company C. Organisations have reported that employees have taken comfort from the fact that their employers have made this commitment to the funding of the schemes, and that in the cases of Company C, D, E and F, it has helped get the necessary changes over the line.

### **The communication of the restructure**

*“..so that members would understand what we were doing and why we were doing it and how their pension would be funded in the future”* Company C

Shuit (2003) and Armstrong et al (2007) outlined the fundamental importance of having a comprehensive communication and consultation structure around the implementation of pension changes. All of the employers interviewed have agreed vehemently that this is indeed the case, and all were strongly of the opinion that transparency and trust are needed to get changes through. A variety of strategies were engaged by the different organisations, depending on the complexities of their individual changes, and the culture within each organisation. Company A, C, D, E and F operate in unionised environments, and all were conscious of the need to inform their unions of the level of pension deficit and get their buy-in to the restructure.

Companies B and F both engaged their senior management team to run the communication exercises, whilst simultaneously working to get the unions on board.

In each case, presentations were arranged on behalf of the company, with the schemes advisors to educate employees as to the reasons for the restructure. Company F engaged a strategy whereby they provided their union with background information and figures to explain the need for the restructure, and to a certain extent this was an educational exercise for the unions due to the technicalities involved. With regard to employee communication, Company F outlined that there was a need for employees to understand that they needed to consider embracing the restructure or risk losing the DB benefit entirely.

Company A, C, D E and F had flagged funding difficulties to their employees in advance of the restructure. Companies C and D provided employees with individual statements which contained bespoke calculations, projections and FAQs for each employee, and they facilitated one-to-one meetings for employees with the scheme advisors who were able to address specific employee concerns. Company C held a CEO address for employees, and made HR personnel available for employee drop-in sessions. They also held a tailored presentation for the unions.

In addition to the strategies already outlined, Company E held a series of HR clinics, published a DB restructure booklet, and rolled out an online portal for their staff which contained amongst other functions, a facility for employees to perform calculations using a range of assumptions. Company E outlined that their overall communication objective was to be *“fitter than the fittest dissenter”*. Companies B, C, D and E whose restructures meant moving to DC for future benefit provision all outlined the importance of providing generously funded alternative benefits.

At the end of their communication exercises, Companies C and E undertook employee surveys to ascertain the level of satisfaction with the restructure communications and the level of understanding of the issues at hand. The survey results in both cases returned positive affirmation that the strategies employed had been a success.

It can be particularly disadvantageous where the communication efforts don't run as smoothly as the employer would like. In Company As' experience, they, due to the complex nature of their restructure programme, have entered into discussions with employees on a number of occasions since 2010. With a number of false starts, they sense that this has significantly diminished employee goodwill, and they are in need of a significant PR drive to get the pension changes over the line and re-engage employees.

### **The reaction of employees to the restructure**

Pensions are complicated, as are employees' relationships with them. There are a number of factors which contribute to this. Firstly, as Company A noted, employers underwrite the benefits under the DB structure therefore employees have typically been shielded from the reality of the costs involved. Secondly, as Company A, C, E and F noted, employees primary concern is often the amount of take home pay they have, and employees can tend to view their pension contribution deductions as an additional cost, as opposed to a long term benefit. Thirdly, the level of engagement between an employee and their pension benefit seems to be correlated to the age

of the employee, due to the ever closer proximity of retirement for older employees. Company A noted *“When you are young you don’t ever think you’re going to hit 60 or 65”*. Company B, C and F both reported increased concern from older employees over pension scheme restructure. Depending on the life stage of the employee therefore, their financial priorities may lie elsewhere, this influencing how willing they are to focus on pension provision. It also lends itself to the notion of intergenerational inequity proposed by Clark et al (2008) where older employees with longer service have more to gain from DB schemes.

The level of understanding amongst employees of how their pension benefits work is a concern for employers, perhaps even a frustration, given the time and financial costs involved in their continued provision of DB benefits. McCarthy (2006) pointed out that employee’s value pension benefits differently from the employer. Company A, B, C, E and F reported that there tended to be a level of non-recognition amongst their employees of how valuable their DB benefits were and the costs involved in continuing to provide them, which lends strength to Westerman et al (2005) theory about the invisibility of DB pension. *“Pensions are a lost world”* according to Company E. Company C noted the employees tend to leave it until closer to retirement before giving serious consideration to their pension benefits. Company C and E reported that they undertook exercises to educate their employees, and help them positively engage with pensions.

The correlation then, between employees’ appreciation of their DB pension benefits and their reaction when schemes are restructured, could seem to be somewhat at odds with each other.

All of the employers who took part in the research experienced a variety of negative feedback from their employees on the announcement of the scheme restructure. *"..people haven't found it easy"* Company E. In the case of Company C, D, E and F, the pension restructure came against the backdrop of other remuneration cuts, causing greater concern for employees and unions who viewed it as a further erosion of entitlements. Because of the general understanding that DB pensions were secure (Assa, 2011), the employees of each Company were dismayed and disappointed to learn that their scheme was in difficulty, particularly in the case of Company C and D who had made previous scheme changes in an attempt to curb the deficits. Company A encountered resistance from younger members of the workforce, who thought it was an unfair burden on them to prop up older employees. Company C and F reported that older employees were most concerned due to the impending impact the restructure would have on their circumstances and this impacted their level of resistance to the changes.

All of the employers note the importance of their communication strategy in assisting employees to understand the background to their individual restructures, and to give them a sense of realism surrounding the alternatives. Company B, C, D, E and F reported that some comfort was taken by employees from the willingness of their employer to enter into funding proposals. Separately, Company B, C, D and E noted that their willingness to generously fund alternative pension benefits helped employees adopt the changes more readily.

The effect of media coverage of the DB crisis has been interesting. Munnell et al (2005) point out that media reports desensitise employees and could therefore help

get scheme changes through. Company D agreed that media coverage helped educate employees to a certain extent and helped them get the restructure over the line. Company E outlined that media coverage provided background and context for employees, and helped employees become cognisant that the changes to their scheme were not as severe as perhaps they could have been, a point which was used in Company E's communications strategy. Company A and Cs' experience has been somewhat different however. Company C noted that media reports increased the level of concern amongst older employees, as it created awareness that they would have little time to take corrective action if something went wrong with their pension. Company A felt that media coverage is more likely to have a negative effect on employee relations, as it can influence unions to adopt strong arm tactics in restructure negotiations, and riles employees against change. Separately Company A noted the potential for negative media coverage to diminish the company brand. From Company Fs point of view, their awareness of the likes of the Waterford Crystal case was actually a positive influence on the employer, as it gave them an impetus to keep the scheme running. They were also of the opinion that it made their employees value their DB pension benefits more highly.

### **HR implications for restructuring pension schemes**

Company B, C, D, E and F observed that the scheme restructure had no discernable effect on staff retention. This aligns somewhat with the findings of Almeida et al (2011) who proposed that DB provision offers an incentive to remain in employment. Company B pointed out that their restructure came about in the midst

of the economic downturn therefore it was difficult to ascertain whether this proved an influence on their low attrition rate.

Company B would also agree with Westerman et al (2005) and Munnell et al (2006) who proposed that with an increased employee focus on moving jobs throughout ones career, DB schemes are no longer as important as they used to be for staff retention, as younger staff tend to feel that portability of benefits is important. Overall, it is difficult to ascertain whether or not DB schemes provide golden handcuffs, as the labour market movements meant that the results of restructures on retention is unclear. Outside of the pension realm, this brings focus on the need for employers to monitor employee engagement, and target areas of concern to maximise retention levels.

The availability of a DB scheme to enhance employer brand and cultivate employee loyalty has been mooted by Armstrong et al (2007). The significance of provision of a DB scheme for recruitment purposes has not been proven in this research. Company B, C, D and F reported with very few private sector DB schemes remaining open to new employees, that this would not typically be seen as an important concern.

It was proposed that employee motivation and engagement decreases as a result of changes to pension schemes Almeida et al (2011). Interestingly, none of the employers were of the opinion that their DB restructures contributed to employee engagement and motivation issues. As previously mentioned, the pension changes occurred simultaneously with other remuneration changes in the cases of Company C, D, E and F, and employers were broadly of the opinion that pay and bonus cuts

were more likely causes of employee discontent. *“So much had come over the last period of time that it would be hard to say that change to the DB scheme caused a lack of engagement. Cuts to pay had a far more damaging effect on the employer employee relationship than the change to the DB pension scheme”* according to Company D. The entering into funding proposals was helpful to demonstrate the employers’ commitment to the pension scheme. Company B were of the view that where DB schemes have been replaced by DC offerings, the level of employer contribution to the new arrangement is a factor which influences continued employee motivation.

The damage that changes to remuneration policy make to the psychological contract has been noted by Milkovich et al (2005). The research would seem to indicate that this very much depends on the company involved, and it may be linked furthermore to the effectiveness of the communication strategy. *“it puts a big hole in that (psychological) contract...”* Company A. Company A agree that in their case, the psychological contract has been affected by the proposed pension restructure and combined with the delays in getting the changes implemented has diminished goodwill and impacted on employee and union engagement. Company E agree that prolonged toying with pension scheme restructures causes fatigue, and creates an atmosphere of scepticism and mistrust. In practice however, Company B, E and F report that they suffered no distinguishable effects to employee engagement or psychological contract. As a happy anomaly, Company C noted that in practice, the psychological contract for their older employees had actually been enhanced because the nature of their restructure benefited them financially.

## The change to the State Pension Age

The age increase at which state pension benefits become payable is something of a concern for employers, and has forced them to assess their retirement policies to reaffirm that they continue to be fit for purpose. Company A noted that the SPA change has been rather muted. Company F agree, and point out that from an employer's perspective, there is a lack of guidance and clarity around the issues the change to SPA brings. All of the employers are concerned with the legal and contractual issues that they feel are inevitable in this sphere (CIPD, 2013).

On reviewing their retirement policies, Companies C and E have concluded that they will continue to retire employees at the contractual age of 65. Company A, B and F are willing to permit employees to work on past age 65, however this is possibly on a case by case basis, and Company D has not yet made an organisational decision on the issue. Objective justification of the organisational retirement age is a legal necessity (Daly et al, 2010), and Companies C and E have outlined a desire to continue to create promotional opportunities for existing staff as being an important factor in their decisions.

Whilst the impact to the change to the SPA is effective only from the start of 2014, Companies A, B and E have already had requests to facilitate late retirements – and as proposed by Wilson (2008), in their opinion this is down to the unaffordability of employees to retire, as employees now have an unexpected income gap until they reach age 66. Company A and C believe that as employers, they may have to bear

the brunt of employee frustrations in this area with the SPA change, coming on the back of the DB pension crisis. Company E however believe that there is a direct responsibility on the employer to communicate the SPA issue to employees. As Company E have made a decision not to permit late retirements, they have elected to pay employees who are due to retire in 2014 and 2015, an ex gratia taxable lump sum to enable them bridge the income gap. This measure was taken as Company E felt that these employees did not have sufficient time to make alternative arrangements in the period since the change to the SPA was announced – for retirements in future years, they propose to flag the SPA issue well in advance to enable employees plan proactively.

All of the organisations have noted that the ability to work past age 65 depends both on the nature of the job and the nature of the individual. Company A noted that with work environments becoming more challenging and demanding of employees, health and safety concerns are a real concern for employers where the job is manual or involves shift work. In those types of organisations, it may not be practical to arrange the individual work tasks around the employee as has been proposed by Silverstein (2008). Company B acknowledge the value that older employees bring to the organisation. However this needs to be balanced with the creation of opportunities for younger employees and they emphasise the need to transition knowledge from older to younger employees in a practical and structured manner. Company F were cognisant that maintaining an older workforce would “*reduce the amount of new talent employers can get into the company and impact college leavers*”.

Kooij et al (2011) proposed that the correlation between motivation and an ageing workforce is a challenge facing employers. Company B would disagree with this, because in their experience older employees can be more reliable, for example, it is less likely that older employees have unexplained work absences. Company A would tend however to agree with Kooij et al (2011), particularly as employees would have had a notional target of retiring at 65, and where the goalposts have changed they find themselves having to work later. Management of this issue is required to avoid creation of a culture where older employees have to be carried by other employees until their actual retirement, in Company A's view. For various operational reasons, for example redundancy exercises which have seen older employees leave service, Companies C, D and F have not experienced motivational issues for older employees. However, with the SPA change being so recent, it is likely that concerns around the employment of members past age 65 may become a more pertinent issue as time goes on.

### **Other findings**

All of the organisations were in consensus about the time and cost involved, along with the dedication and effort it took to undertake a pension restructure exercise. Similarly, all organisations felt that a steep learning curve was experienced by the variety of stakeholders, including the unions, scheme members and trustees, and indeed was an educational process, although as company A pointed out this can also prove a distraction from the day job at hand.

Company A, C and D noted that member trustees in particular, have a difficult task to perform throughout a restructure exercise. On the one hand, they are obliged to act as trustees and perform those duties accordingly, whilst on the other, they may feel pressure, either real or perceived, from their fellow employees. Company C pointed out that the appointment of a corporate trustee could be beneficial in terms of the expertise they have in dealing with pension matters.

Companies A, C and D reported that as employers, they all engaged independent professional advisors, that is actuaries, consultants and solicitors, as distinct from those engaged by the Trustees, to ensure that any potential for conflict of interest was eliminated.

In terms of the communication strategy, Company E reported that scheme restructure represented a watershed in terms of how they as an employer engaged and communicated with their employees. In addition, it has led them to form a leadership group which participates in other transformational projects within their organisation.

### **Research Conclusions and Implications**

Each of the employers who have participated in the research have restructured their schemes on foot of the effects on them of the DB funding crisis. Having assessed a suite of restructure options, all of the employers have continued to provide DB benefits for their employees in some format. None of the employers interviewed have elected to wind up their DB scheme. From the employers perspective however there continues to be challenges in terms of the funding of benefits, with continuous

economic fluctuations which drive the costs of benefit provision and continued improvements in longevity expected to continue. When it comes to asset investment and portfolio de-risking, employers as scheme sponsors, need to understand the interplay between risk and return to facilitate optimum returns. The reality of an ageing workforce is likely to become a more pertinent topic as time goes on as the impact of the change to the SPA becomes apparent. Company A reports that this creates a “*double whammy*” for which employers are likely to bear the brunt. This agrees with Ebbinghaus et al (2011) who notes the State withdrawal from pension provision. This emphasises the need for employers to actively promote pension benefits and educate their employees in the pension sphere, so that the responsibility for retirement security can be more evenly shared.

Ultimately pensions are for the benefit of employees. Overall, there tended to be a level of pragmatism from employees in accepting scheme restructures, and this was probably helped by a growing cognisance of the wider DB pension environment in Ireland as contributed to by media coverage, and to the specific communication exercises in which the employers engaged. With regard to the impact of the SPA change, it is too early to tell the real implications that will have for employees. The current environment, where DB schemes are by no means guaranteed highlights the need for employees to take personal responsibility for their pensions, to engage with them and to ensure that they have appropriate knowledge to manage their benefits. The current tax regime facilitates tax efficient pension savings; therefore employees should aim to enhance their pension benefits to the maximum affordable

to safeguard their retirement security. Ultimately, it is key that pensions are not seen by employees as a cost or a liability, but as a very important asset.

The findings of this study have not reported any problematic trade union intervention or serious industrial unrest amongst the population sample. However there does seem to be a need for broadening and deepening trade union knowledge around the complexities and technicalities of DB scheme operation. As DB scheme provision is no longer a given, it may be preferable in a restructure situation that some level of DB benefit is maintained rather than none at all, therefore appropriate trade union understanding is required of all the issues at hand to ensure that member outcomes are optimised.

From a governmental perspective, the findings provide interesting feedback. The change to the SPA highlights the need to provide guidance and support to employers to manage concerns around an ageing workforce and to promote diversity in the workplace. There is acknowledgement of the need for a strong governing regime to protect pension benefits; however, the timing of the risk reserve introduction in the midst of the deficit crisis is unfavourable. The pension levy is also an unwelcome introduction however it is mitigated for employers somewhat by the facility to cut pension benefits, therefore it is not necessarily a direct employer outgoing. As these issues generate further funding setbacks, they can disincentivise employers who are endeavouring to continue DB benefit provision. As Moloney et al (2009) pointed out pensions were first introduced to prevent the elderly from becoming a burden on society. However with the demise of DB schemes, the risk and

responsibility for DC benefits falling on employees shoulders, and the amendments to State pension provision, there is a danger that society could be heading back in that direction. Without sufficient education and incentive for employees to plan and save for retirement, and a robust regulatory framework to protect benefits, the outcome of the DB pension crisis could be very costly for future governments.

### **Limitations and Future Research**

This dissertation was completed as an exploratory study into employers' experiences of the current DB pension landscape. As an exploratory study, the findings covered a variety of angles, and a number of matters arose which may be worthwhile researching on their own merit. The emergence of restructured DB provision along with a move towards DC provision continues unabated. A longitudinal study may shed further light on the implications this has for employers from a HR perspective.

Another example is the impact of the change in the age at which state pension benefit becomes payable is effective from 2014 onwards. It is too soon to tell the level of bearing this has on extending the working life of employees.

An employee focused study which tracks pension scheme provision in future years, and the societal impact of same, where the employee, as opposed to employers and the State are ultimately responsible for financial security in old age may be of interest to explore the financial impact to employees of the DB demise. This could ascertain whether the move away from DB provision will invoke a cultural change in Ireland whereby private sector employees take on a more active role in fortifying their financial security in retirement.

Finally, this dissertation focused on organisations who have continued to provide DB scheme benefits for their employees, in spite of the current challenging environment. There are a growing number of employers in the private sector who had provided DB benefits in the past but are now no longer willing or able to do so. A comparable study of these organisations could ascertain their reasons to cease DB provision, and may provide further insight into the aftermath of the DB demise from an employer's perspective.

## CHAPTER 6 – CONCLUSION

*“They weren’t constructed to cater for people living 25 years beyond retirement”*

Company E

In this dissertation we have explored the DB pension landscape in Ireland, and its implications for private sector employers. The findings represent a mosaic of different challenges faced by the employers who continue to provide DB schemes.

Provision of a DB pension forms a fundamental part of the suite of employee benefits and represents significant financial investment on the part of the employer. The extent of the DB pension crisis across the private sector over the last number of years has been severe, and there have been many casualties along the way. As Company E pointed out, the costs of providing DB benefits continue to spiral with improving longevity and this has been exacerbated by low bond yields. At the same time, the availability of, and competing demands for capital are a concern for all employers. Of the sample employer population involved in the research, all have restructured their scheme to make it sustainable, the primary reasons being costs and the unquantifiable risks that go hand in hand with long term liabilities. The main message to emerge from the restructure process is the need for employers to actively and constructively engage with all stakeholders around the restructure, and communicate openly and honestly with employees.

Whilst employees and unions resisted changes to their pension schemes, and management was required to address these issues in individual cases, surprisingly, there was little evidence from the research of serious HR implications in terms of recruitment, retention or employee engagement, on foot of the DB restructures. Perhaps there is a recognition that times are changing. At the same time, prompted by the change to the SPA, employers are being forced to consider their retirement policies to ensure that they continue to be fit for purpose, to best suit the business needs of the organisation.

The DB demise has been observed in Ireland and elsewhere for some years now, and the real losers are employees. *“It is to be hoped that companies will be inspired to find solutions that balance the requirement for financial affordability and predictability with a desire to provide employees with a decent standard of retirement living”* (Armstrong et al, p511). Overall, the research findings demonstrate an ongoing commitment of employers to the continued provision of DB pension benefits in their organisations, albeit in restructured formats, which has been demonstrated by their willingness to persevere with restructure exercises and enter into long term funding proposals. This has to be viewed in a positive light. In their Annual Report and Accounts 2013, the Pensions Authority have acknowledged the considerable efforts made by trustees, scheme members and by sponsoring employers in the arrangement of funding proposals and recovery plans for their schemes, and they have commented that their findings surpass even their expectations (Pensions Authority, 2014). In parallel reality however, the decision

has been made by many employers to move away from DB scheme provision entirely, and whilst freedom from the shackles of DB funding may be financially beneficial from an organisational perspective, only time will tell the ramifications this will have on employee retirement experiences.

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## APPENDICES

## Appendix 1 – Glossary of Pension Terms

*Compiled from the Pensions Authority glossary of definitions and the Pensions Authority website and reproduced with their kind permission.*

**Accrual Rate:** The rate at which pension benefit is built up as pensionable service is built up as pensionable service is completed in a defined benefit scheme. It is usually expressed as a fraction of pensionable salary e.g. 1/60<sup>th</sup> for each year of service

**Active member:** A member of a pension scheme who is currently in the employment to which the scheme relates, and who is included in the scheme for a pension

**Actuarial Funding Certificate:** A certificate that trustees of a defined benefit scheme must submit to The Pensions Authority at least every three years. It is signed by an actuary. The certificate demonstrates that the scheme complies with the funding standard under the Pensions Act, stating whether the scheme is capable of meeting specified liabilities in a statutory order of priority in the event of its being wound up on the date of the certificate

**Actuary:** An adviser on financial matters involving the probabilities relating to mortality and other contingencies affecting pension scheme financing

**Actuarial deficit /Actuarial surplus:** The difference between the value of the assets and the value of the liabilities under the particular valuation method and assumptions being used

**Accrued benefits:** The benefits earned in respect of service in the scheme up to a particular point in time

**Assets:** The property, investments, cash and other items of which the trustees of a pension scheme are the legal owners

**CARE scheme:** A defined benefit scheme where pensionable salary is defined by the average of earnings throughout a member's career rather than earnings close to retirement

**Closed scheme:** A pension scheme which does not accept new members

**Commutation:** The replacement of a series of future pension payments by an immediate lump sum. The exchange of pension for immediate cash is regulated by the Revenue Commissioners

**Deferred member:** A person entitled to a pension payment at a future date. Normally this would be an early leaver but the term is sometimes used to describe someone whose retirement is being postponed.

**Defined benefit scheme:** Defined benefit schemes provide members with retirement and death benefits based on formulae set out in the rules of the scheme. Benefits are often

based on a members' salary close to retirement and on his or her pensionable service. For this reason these schemes are sometimes known as “final salary” schemes

**Frozen scheme:** A scheme which provides benefits only for members whose service has terminated; or a scheme where continuing service in employment does not entitle members to accrue new pension benefits, and to which no new members are admitted.

**Funding proposal:** If a defined benefit scheme does not meet the funding standard set out by the Pensions Act, the scheme trustees must submit a funding proposal to the Pensions Authority explaining how they intend to rectify the schemes funding over a specified period of time.

**Funding standard:** The funding standard ensures that a defined benefit scheme has sufficient funds to secure the pensions rights that members have built up should the scheme have to be wound up at any stage. To comply with the funding standard, a defined benefit scheme must be able to meet certain liabilities, as set down in the Pensions Act. The funding standard is a statutory measure of solvency whose purpose is to protect members' benefits. However, it is a minimum standard only

**Indexation:** A system whereby pensions in payment and/or preserved benefits are increased automatically at regular intervals by reference to a specified index of prices or earnings

**Integration:** The system of designing scheme benefits to take into account all or part of the benefits payable by the state under the social welfare arrangements.

**Liabilities:** Obligations to pay money immediately or in the future

**Member:** A person who has been admitted to membership of a pension scheme and who is entitled to benefits under the scheme. This will include active members, pensioners and deferred pensioners

**Member trustees:** Trustees who are appointed by members or whose appointment by the employer has been approved by the scheme members in accordance with the regulations made under the Pensions Act

**Occupational pension scheme:** A pension scheme set up by an employer to provide retirement and/or other benefits for employees. It is sometimes called a company pension scheme

**Pensioner member:** A person being paid from a pension scheme (also called a pensioner)

**Personal pension plan:** A policy taken out with an insurance company in order to provide benefits in retirement. These may be taken out by those who are self-employed or who are in non-pensionable employment. There are two forms of personal pension plans, a Retirement Annuity Contract (RAC) and a Personal Retirement Savings Account (PRSA)

**Restructure:** A scheme may be amended because an employer wishes to change the benefits provided. Scheme amendments often reflect difficulties in maintaining the level of

funding required to support the existing benefits provided by the scheme, and result in a reduction in benefits or a closure of the scheme to new members or cessation of future benefits for existing members

**Revaluation:** The preserved benefit which is payable to a member from a defined benefit scheme will normally be revalued at the end of every year, starting with the calendar year before the benefits become payable. Revaluation helps to maintain the purchasing power of a members preserved benefit until he or she reaches retirement. The rate of revaluation for a full year will be either 4% or the increase in the Consumer Price Index if it is less than 4% in that year

**Risk:** Any threat to the accumulation of benefits or the solvency of a pension fund. Risk can often arise from the variability of investment returns. Investments with a greater degree of risk built in must offer higher returns to attract investors.

**Risk Benefits:** Benefits payable in the event of death or disability, which are not pre-funded. These risks are often insured

**Risk Reserve:** The additional asset holdings required under the funding standard as protection against future volatility in financial markets

**Section 50 order:** An instruction given to the trustees of a scheme by the Pensions Authority, pursuant to Section 50 of the Pensions Act, to reduce the promised benefits under the scheme so that the funding standard can be met. Under such an order, accrued benefits relating to members' past service (excluding pensions currently in payment) can be reduced

**Wind up:** The process of terminating a pension scheme, usually by applying the assets to the purchase of immediate and deferred annuities for the beneficiaries in accordance with the trust document or the Pensions Act

## Appendix 2 – Theme Sheet

### Introduction

- INTRODUCTION  
Background to research  
Organisational environment (unionised, sector, location, employee numbers)  
Ethics and anonymity
- DB SCHEME PROVISION  
In your case, what is the historic background to the provision of a DB scheme to employees?  
How important is continued DB scheme provision to your organisation? (*Armstrong et al, 2007*)  
Do you think that deferred compensation contributes to organisational performance?

### DB funding crisis

- FUNDING  
Is there a parent company/sponsoring body to whom your organisation must report?  
Has your organisation experienced significant fluctuations in the level of DB contributions required? (*McNally et al, 2013*).  
  
Has your organisation had affordability concerns on foot of funding demands?  
Were these on the grounds of ongoing sustainability or immediate concerns?  
Has your organisation had marketplace and competition concerns?
- ORGANISATIONAL DEMOGRAPHICS  
What effect has the GFC had on the demographics of your organisation?  
What actuarial implications have demographics had on your schemes funding?  
(*Bovenberg, 2007*)
- REGULATION /GOVERNMENTAL MEASURES  
Do you think that the regulation of DB schemes places an unfair burden on employers?  
(*Clark, 2006*)  
Do you think that regulation of pension schemes has been helpful to employers in the past?  
Do you envisage the introduction of the risk reserve in 2016 as being problematic?  
(*Hinrichs, 2013*)  
Has the introduction of the pension levy influenced your commitment to funding your DB scheme?

- ACCOUNTING DISCLOSURES  
Do you think that volatility in DB scheme accounting disclosures are a problem for employers? *(Finucane et al, 2006)*  
Have you made a decision on the future of your scheme directly because of accounting disclosures?

### **Implications for your DB scheme**

- RESTRUCTURES  
Have you had to make changes to your DB scheme? *(Vickerstaff et al, 2005)*  
What were the reasons for the restructure in your case? *(Munnell et al, 2006)*  
What were the nature of the changes?  
Prior to restructuring the scheme what had the employees understanding and appreciation of it been?  
Were there any complications in this process?  
Have you had to have a consultation process with employees?
- COMMUNICATION EXERCISES  
How did you communicate this change to employees? *(Armstrong et al, 2007)*  
How did you communicate with other stakeholders?  
Were the proposed changes met with resistance from employees/stakeholders?  
*(Ebbinghaus, 2011)*  
Were these issues difficult to manage?  
Is there anything you would change if you had to redo this exercise?
- HR IMPLICATIONS  
Have there been any negative outcomes to the schemes restructuring? *(Almeida et al, 2011)*  
Have you noticed any impact on employee engagement and motivation of staff?  
Has employee retention suffered? *(Armstrong et al, 2007)*  
Have there been any issues around breach of the psychological contract?  
Have there been employee relations issues?  
Has recent media cover helped or hindered you in the restructure? *(Munnell et al, 2005)*  
Prior to the restructure, what had been your employees perceptions of DB scheme benefits? *(Assa, 2011)*

### **Change to the State Pensions Age**

- GENERAL  
Has the change to the State Pension Age had any noticeable impact on your organisation? *(Barrett et al, 2013)*  
What is your organisations policy on retirement age?  
Is this tied into your pension Scheme normal retirement age?
- INTERACTION WITH THE PENSION SCHEME  
Is your DB pension scheme integrated?  
Have employees requested that late retirement be facilitated? If so, do have reason to believe that this could be for financial reasons arising from the State Pension Age change?
- LEGAL  
What is the normal retirement age in your organisation?  
Is this tied into your pension Scheme normal retirement age?  
Have you encountered contractual employment issues due to the change in State Pension Age?
- DIVERSITY  
What is your organisations overall ethos regarding the employment of an ageing workforce?  
Does your organisation have a policy on age discrimination?  
Are there difficulties around the motivation of an ageing workforce? *(Kooij et al, 2011)*  
Are there gender imbalance implications in the management of an ageing workforce?  
Are there age limits on access to training/development within your organisation?  
Are there health and safety considerations around maintaining an older workforce? *(Silverstein, 2008)*  
Are there strategic issues for your organisation for maintaining an older workforce? *(McCarthy, 2006)*

## Appendix 3 – Study Information Sheet and Consent Form

### Study Information Sheet

Thank you very much for agreeing to participate in this study.

As part of my programme of study for a Masters in Human Resource Management, I am required to complete a dissertation. The purpose of a dissertation is to identify pertinent issues relating to a particular topic through a review of the current academic literature, and to undertake primary research to explore actual experiences of those issues.

The working title of my dissertation is “The defined benefit pension landscape in Ireland and the implications for private sector employers”, and the themes I would like to examine are as follows:

- your organisations experience of the DB funding crisis – has your DB scheme been effected by deficits, have there been affordability concerns,
- organisational demographics – experience through the recession, redundancies, actuarial implications
- your experience of governmental interventions - introduction of the pension levy,
- introduction of risk reserve requirements, DB regulatory burden
- the relevance of accounting disclosures to your appetite to continue DB scheme provision
- on foot of the current environment, has your organisation restructured a DB scheme,
- what were the nature of the changes - closing it to future accrual, capping benefits etc
- how were these changes rolled out to employees – specific communication exercises
- your experience of DB restructuring in terms of employee engagement, the psychological contract, has it had any effect on recruitment and retention,
- have you encountered industrial relations issues because of the restructure
- in relation to the change to the State pension age and integration of DB scheme benefits with state pension (if applicable), have you had to facilitate working past normal retirement age
- have you experienced contractual issues, or other issues relating to employing an older workforce
- your opinion on the relationship of deferred compensation to organisational performance

In order to elicit your views, I would appreciate if you would participate in an interview. The interview will be audio recorded and will last for approximately an hour. The information provided in the interview will be typed up, and will be used to collate data for research purposes. However, your name and your organisations details will be anonymised in the dissertation. (For the purposes of assessment and marking of the dissertation, the examiner may require verification of authenticity of research data.)

As is typically the case with academic research, the final dissertation including the anonymised research data and findings, will be held by the college (NCI) in electronic and

hard copy format, and will be available to other researchers in line with current data sharing practices.

If you have any questions about the research or dissertation at any stage, please do not hesitate to contact me on (xxx)xxxxxxx.

Many thanks,  
Geraldine

### Consent Form

- I the undersigned have read and understood the Study Information Sheet
- I have been given the opportunity to ask questions about the study
- I understand that taking part in the study will include being interviewed and audio recorded
- I understand that personal details such as name and organisation address will not be revealed in the dissertation
- I understand that my words may be quoted in the dissertation but my name will not be used
- I understand that I can withdraw from the study at any time

Participant: \_\_\_\_\_

Date: \_\_\_\_\_

Researcher: \_\_\_\_\_

Date: \_\_\_\_\_

Participant Code: \_\_\_\_\_

Participant Employer Code: \_\_\_\_\_

## Appendix 4 – Interview Notes

### Interview Notes – Company A

<b>Interview type:</b>	Face to face interview
<b>Participant:</b>	HR Manager
<b>Sector:</b>	Manufacturing
<b>DB scheme employees:</b>	100-150
<b>Notes:</b>	Pilot interview, Scheme restructure ongoing

The DB Pension Scheme in Company A was established in the early 1980's, and joining the scheme was a condition of employment for employees. The initial funding rates were a matching 5% employer and employee contribution when the scheme was set up. As is typically the case, the actuarially recommended employer contribution has risen over time, whilst the employee rate has remained static. Mr A noted that this has shielded employees from the reality of the cost of providing their pension. In addition, pensions are complex and technical which dis-incentivises members from engaging with them in a meaningful way. With the benefit of hindsight, Mr A noted that employers in general should perhaps have made employees contribute more at an earlier stage, rather than insulating them from DB funding concerns.

In 2008 funding issues started to emerge in the scheme, and it became clear that changes would need to be made to ensure its ongoing sustainability. Whilst Company A was committed to the continued provision of a DB scheme for its employees, this was against the backdrop of commercial reality. A communication exercise commenced between Company A and the scheme stakeholders in 2010, which alerted them to the stark reality of the schemes funding level and the implications thereof. The crux of the issue was the level of contribution that Company A was willing to contribute on an ongoing basis. In addition, Company A expected that employees would also make some concessions with a view to making the scheme more affordable.

A range of restructure options have been considered by Company A in conjunction with their advisors. Delays in the process of completing the restructure have arisen on foot of the time it took to agree the specifics around the funding proposal and other industrial relation matters.

The details of the DB restructure changes which have been proposed for Company A scheme have yet to be finalised, however they include proposals to alter scheme commutation entitlements, increase to contribution rates and the alignment of the scheme retirement age with the state retirement age.

Company A have been involved in a scheme restructure communication exercise with employees on and off since 2010. Negotiations took place in 2011 with both unions and employees, which unmasked huge anger from employees over the prospect of having to pay more and receive less in return. The fact that a DB pension is a promise rather than a guarantee, and the fact that continued DB provision depends on the willingness and ability of the employer to fund it came as a shock to employees. Younger employees in particular felt that they shouldn't have to contribute more to prop up older scheme beneficiaries. Separately, unions argued that the employer cannot walk away from their obligations, whereas from the employers' perspective, continued DB scheme provision is entirely discretionary.

In 2013, the details of the funding proposal were agreed in principle between the trustees and Company A, and negotiations with employees recommenced. However the announcement in late 2013 of the revised priority order on wind up delayed further the finalisation of the funding proposal, and consultation with employees was put on hold yet again.

In Mr A's experience, the re-engaging and communication with employees, and the delays which have been encountered have caused loss of goodwill and a deterioration of morale amongst employees. Having been aware that discussions amongst other stakeholders have been ongoing for some time, employees felt that they should have been more involved. This has contributed to pension scheme fatigue and cynicism, which has noticeably damaged the psychological contract in Mr A's opinion. Mr A pointed out that if the DB Scheme had actually been closed, there would have been an immediate uproar but it probably would have been relatively short lived. In practice, the continued attempts to restructure the scheme, and the delays which have been encountered, mean that a powerful PR exercise is

now needed to maintain a level of goodwill required to get everything back on track. Separately, Mr A noted that confusion arose as part of a previous communication exercise, which emphasises the need for clear and concise communications in dealing with employees.

In terms of media influence, Mr A was of the opinion that whilst the prominence of cases such as Element 6 and Aer Lingus, provides employees with background and awareness of the general DB pension environment, it would likely be incendiary rather than comforting to employees and he anticipates that employees and unions would rely on media reports to bolster their arguments.

In the case of Company A, there is a combination of factors which have led to the need to restructure the DB arrangement. From an accounting perspective, the DB liability was a fluctuating unknown that the company could not afford to have on their balance sheet. The unquantifiable risk of underwriting DB benefits was also an issue for Company A, and they needed to know and manage the risks and be able to quantify the costs. From a financial viewpoint, Company A never envisaged that the cost of maintaining the scheme would be so sizeable. A further reality was that their main competitors did not have DB schemes and consequently had a competitive advantage.

From a regulation perspective, the risk reserve requirement has recently been introduced, which will increase the schemes deficit significantly in 2016. Company As schemes portfolio had been heavily equity based, and as such it had suffered significant investment losses during the economic collapse. Mr A noted that regulation in the past was probably not sufficiently robust. If a risk reserve had been introduced earlier, it would have triggered an investment review of schemes and would have forced mature schemes to ensure they were in a position to deliver on their pension commitments, and move to an asset/liability compatible portfolio. Mr A noted that the introduction now of the risk reserve made matters more challenging for employers, and in the long run may be a further nail in the coffin of DB pension schemes. In addition, Mr A felt that Pension Levy was an unfair and is effectively a form of stealth tax which depletes scheme assets even further.

Mr A noted that the change to the state pension age is something that has been introduced relatively quietly. Mr A pointed out that with DB scheme difficulties and the restructuring the State Pension, a double whammy is created for employees, for which employers are likely to be forced to take ownership.

The benefit basis for the Company A's DB scheme includes integration, and in Mr A's experience, there have already been unaffordability of retirement issues for employees which the company have assessed on a case by case basis.

From a HR perspective there are health and safety concerns around having employees work on to 67 and 68 in a manufacturing environment. In addition, Mr A noted that the work setting is becoming more pressured and challenging for employees in terms of job demands, individual capabilities, and achievement of KPIs.

In addition, motivation is potentially an issue, and Mr A would have concerns around the creation of a culture whereby employees could have to be carried somewhat by their colleagues for a number of years prior to actual retirement.

Separately, with employees working longer recruitment and talent management is impacted.

Mr A expects also that contractual issues are inevitable, and there are particular challenges involved for Company A in management of the extension of the scheme retirement age as, there would be a significant deterioration in morale if employees had to retire from the company at 65 yet had to wait until 66 and beyond to access their pension benefits.

Mr A pointed out that the ongoing DB issues and restructuring impacts trustees and feels that it puts particular pressure on the member trustees because of their dual role as both trustees and employees.

The time and cost involved in a scheme restructure is also a concern for Company A with all the necessary discussions, meetings and the seeking of independent advice by all parties. Overall this forms a substantial distraction from the job in hand. In Mr As experience the process of a pension scheme restructure has been a very steep learning curve for all those involved.

As this is the pilot interview, Mr A advised that he would be happy to answer any other questions which may arise as a result of further primary research.

## Interview Notes – Company B

<b>Interview type:</b>	Conference call interview
<b>Participant:</b>	Pension Manager
<b>Sector:</b>	Sales
<b>DB scheme employees :</b>	under 50
<b>Notes:</b>	Multinational

The DB Pension Scheme in Company B has been in existence since the 1970's. At this time it was standard for a DB pension scheme to be provided by employers as part of the remuneration package.

Ireland is one of a number of countries globally in which Company B operates. With longevity increasing, the Company B were aware that funding to their DB schemes was going to be effected. In addition, during the economic environment of the 1990's, deficits started to appear in Company B's DB schemes. The Company had to deal with the actual deficits which were getting larger, in addition to significant levels of volatility from an accounting point of view. These two elements were out of sync with each other, and the corporate board being very uncomfortable with same, instigated a global review of Company B's pension arrangements. At corporate level, Company B decided to close all its DB Schemes for new entrants to the organisation, and to cease future accrual for all existing employees.

In deciding upon the restructure changes, Company B felt that closing the DB scheme solely for new hires would create disparity with existing employees who were doing the same roles, particularly with smaller workforce operating in Ireland. The decision was made to establish an alternative pension vehicle for future service, to which Company B would contribute to at a generous level, whilst maintaining the levels of risk benefit cover which had been available to employees under the DB scheme.

Company B is not a unionised environment, and they did not encounter significant resistance or difficulties in the implementation of the changes to the DB plan. Ms B notes that from the perspective of their employees, there was a sense of realism - Company B was

undertaking pension changes across other jurisdictions, whilst simultaneously, DB scheme changes of a similar nature were happening in other employers in Ireland. At the same time employees were aware that the alternative benefits were relatively generous from Company B's perspective. Therefore, whilst the employees did not welcome the changes with open arms, they were not rebellious about them.

The communications process was thorough from the outset, and involved the engagement firstly of local senior management. Regarding the restructure Company B wanted to ensure that employees understood the "why" and the product they would have "instead of". Ms B advised that a joint company and provider presentation was held which was mandatory for all staff. This comprehensive presentation involved input from Company B's DB scheme advisors who explained why the changes were required, and the providers for Company B's new arrangement. The nature of the changes would affect members differently depending, for example, on their age and service. To supplement the presentations, one to one sessions with an advisor were set up for each employee, to enable them discuss their individual implications and get tailored advice. Ms B felt that this communication approach was the principal reason Company B didn't encounter an overly negative reaction from employees.

In terms of HR implications, the restructure process commenced in 2010, the timing of which was coincidental with the recession. As a result there were not a great number of alternative job opportunities had employees wanted to leave service. Ms B felt that it is hard to gauge any impact on staff retention, however questioned whether this experience might have been different had the economy had been more buoyant. Ms B would feel there is a link between deferred compensation and motivation, but this would be relative to the package and contributions on offer - the issue would be more about the attraction and retention of staff. For example if a salesperson is looking at similar job offers they will then consider pension elements, but this depends where they are in the life cycle.

Ms B would not necessarily be of the opinion that DB pension provision provides alignment to long term employee/employer goals. Historically long service with an employer would have been probable, whereas nowadays it is not a given. Employees are now more likely to have multiple jobs and the paradigm of employee/employer loyalty has changed, thus portability of benefits is becoming important.

Ms B noted is that, in general, the engagement of employees with their pension benefits is a concern, particularly for members who had a DB pension, as historically, there was less of an onus on DB scheme members to review their benefits.

With regard to the change in the State Pension Age, Company B's DB pension scheme entitlement is integrated, and a number of their employees have already chosen to work until 66. Ms B felt that this change to work practice reflects the fact that some employees need to work on for affordability reasons. In terms of motivation of older employees, Ms B felt that there is no problem motivating employees age 65/66, indeed it seems to be the opposite, as older workers are less likely to be absent from work. Due to the nature of the workforce in this organisation there are no immediate health and safety issues for older workers, however where the labour involves an element of manual work there may be issues around an individual's ability to perform their role.

In terms of increasing output, there needs to be an ordered handover of knowledge between the generations. Ms B values the knowledge and experience that older employees can bring to an organisation, whilst maintaining a balance between having older and younger members in the workforce. Apprenticeships can afford new recruits opportunities to learn skills from the older employees; however the success of such a programme depends on the nature of the individuals concerned.

In terms of regulation, Ms B would agree that that regulation can place an unfair burden on employers. Overall, regulatory changes since 2000 have been positive in terms of securing members' benefits, and introducing stricter controls. With regard to the risk reserve, it is not a significant issue for Company B's pension, having partially de-risked already. The purpose is to mitigate the risk of investing in risky assets, however it doesn't necessarily take complete cognisance of the specific position of a scheme.

The introduction of the Pension Levy is a negative development, as it diverts funds from the pensions of members and pushes already strained pension schemes into further deficit. The Pension Levy does not affect the appetite of Company B to fund the DB scheme however, as their main driver is what is fair and reasonable for their employees.

## Interview Notes – Company C

<b>Interview type:</b>	Face to Face interview
<b>Participant:</b>	Pension Manager
<b>Sector:</b>	Recreation
<b>DB scheme employees :</b>	between 50 and 100
<b>Notes:</b>	Restructure complete

Company C has recently undergone a restructuring of their DB scheme, having encountered funding difficulties over the past number of years. The scheme had been closed to new employees for ten years, so demographically it was an ageing scheme. A salary cap and increased contribution rates had been introduced under a previous reform in 2010, but this proved insufficient to address the funding gap.

When Company C assessed the figures in 2012, it realised that it was not in a position to provide the level of funding required to make good the deficit. Company Cs own funding has been cut, and it would be unfeasible and inequitable to channel an extremely high level of funding to provide DB benefits for a relatively small cohort of its employees. Company C looked at the full range of options available to them from the utilisation contingent assets, increasing contributions, removal of indexation to scheme wind-up. Ms C noted that in light of the money available from Company C, the combination of measures which would have been required to solve the problem would have been draconian for employees, so it was decided that future accrual in the scheme was to cease, and that all future benefits would be provided by way of a DC scheme. In addition Company C elected to enter into a funding proposal to address the scheme deficits.

Ms C noted that communication was one of the most important parts of the process. A communication exercise was undertaken to enable employees understand the reasons for the proposed DB restructure, and inform them as how their pensions would be provided in the future. Employees were made aware of the deficit levels, and the fact that the company, trustees and advisors were working together to address this. The fact that the 2010 pension reforms were inadequate was a shock for employees, as they had hoped that the funding difficulties had been addressed.

Employees were disappointed, however they took comfort in the fact that the CEO, being a member of the scheme, actively participated in the employee communications. The advisors for both the DB scheme and the DC scheme gave presentations. Bespoke member statements containing the DB benefits, along with a variety of DC projections were provided to each scheme member, along with a comprehensive FAQ document. In addition, Company C facilitated one to one meetings with the scheme advisors for each employee. Employees were encouraged to participate and engage in the one to one sessions, and both the HR Manager and Pension Manager were on hand also to address employee concerns.

Employees were made aware that the funding proposal represents a commitment from the employer. It outlines the employers' intention, however in practice it depends on available capital on an ongoing basis, therefore the DB benefit is an expectation rather than a guarantee. It was important for Company C that their employees understood this point, and this featured strongly in the communication exercise.

Company C is partially unionised, and although the union presence was not particularly strong, Company C were conscious of respecting the union position. The unions were fully involved in the communication process, and were invited to a bespoke presentation regarding the proposed changes. The scheme trustees looked at their own options independently, in conjunction with their advisors. Company C engaged an alternative panel of advisors, to ensure that all parties were in receipt of impartial advice so as to avoid any potential conflict of interest.

Ms C noted that there were instances of employees being resistant to change, particularly in the older age bracket, because of the proximity of the perceived impact of the restructure on them. In the experience of Company C, concern for and understanding of pension benefits tends to crystallise the older an employee gets, and many of this cohort of members engaged proactively in the communication process. It is expected that the move to DC will prove to be highly advantageous for some long service employees. In practice this has encouraged employees to stay in their role, and has so has enhanced the psychological contract.

Company C have not experienced motivational issues on foot of the changes to the DB scheme, nor have they had employees leaving the organisation as a result of the restructure. Ms C noted that other changes to remuneration practice outside of the pension sphere would be a more significant source of concern for employees.

Overall, whilst employees were not happy with the changes, they were somewhat realistic, and demonstrated willingness to work with Company C. One of the most common employee queries was the timing of the funding proposal which was finalised after accrual ceased, as this enabled the funding proposal be agreed on a reduced liability basis.

In addition to cost factors, the main driver for change from the perspective of Company C was risk. Unquantifiable risk was a concern on the grounds of improving mortality, therefore the decision on cessation of accrual mitigated that risk somewhat. Accounting standards and the regulatory environment, whilst significant burdens, were not factors which influenced Company C in their decisions. Competition is not relevant in the case of Company C.

Ms C noted that it can be challenging to get employees to engage with their pension benefits, and indeed for them to understand the fact that it is a benefit. Employees tend to see it as a cost as opposed to a benefit; again this is generally correlated to age.

The change to the State Pension Age (SPA) pushes out to 66 (and beyond) the age at which state pension is payable. The scheme is integrated. Company C have been aware of the concerns around raising the SPA, and it has considered this in depth. The organisation has decided that age 65 will continue to remain the standard retirement age, to enable them create promotional opportunities for staff. Separately Company C may have the option of a number of alternative casual roles, which could provide an income for employees over age 65. Ms C expects that the SPA change impact will be greater as time goes on and organisations will find themselves under increasing pressure. Its impact will likely increase as time goes on and the SPA date is pushed out to 67 and 68. The ability to work past age 65 depends entirely on an individual's capabilities. Ms C would agree that employers may be faced with dealing with repercussions of the SPA change being instigated simultaneously with DB restructures on foot of the funding crisis.

Ms C notes that in terms of regulation, changes to longevity and the economic collapse were outside the control of the regulatory authorities. In hindsight however, perhaps they could have played a stronger role in the monitoring of DB schemes as deficits were allowed to build up. The time delays in the provision of funding proposal guidelines and trustee training requirements were not helpful. Trustees need to be able to understand the issues, and make informed decisions – this is particularly relevant where member trustees are appointed, as in most cases their expertise is in an area outside of pension trusteeship.

The introduction of the risk reserve will lead to further funding concerns and will divert a flood of funds to matching assets at a time when they may most need to benefit from returns. From Company Cs perspective, the effort they are currently making to reduce the deficit will be wiped away in 2016. Whilst it is not pertinent in the case of Company C, Ms C noted that the risk reserve requirement could tip the balance for other employers in terms of what they are willing and able to fund.

Ms C noted that the role of member trustee during the course of scheme restructuring can be quite challenging, and can be difficult to deal with. Ms C acknowledges the benefits a corporate trustee can provide in terms of knowledge and best practice, and to mitigate member trustees concerns.

## Interview Notes – Company D

<b>Interview type:</b>	Face to Face interview
<b>Participant:</b>	Financial Controller
<b>Sector:</b>	Recreation
<b>DB scheme employees :</b>	50-100
<b>Notes:</b>	Restructure complete

Company D are cognisant of the fact that provision of a DB scheme has been a great benefit from an employee perspective, however from an employer point of view it has posed many difficulties in terms of the funding deficits, and has become a significant cost burden on the employer. Company D's DB scheme was established in 2007, as part of a pension scheme merger.

In 2009, it was recognised that the scheme was running into funding difficulties, and Ms D advised that the work at addressing these issues has been ongoing since then. Compared to a DC scheme, where the employer would have a fixed contribution and consequently known costs, a DB scheme is very expensive to fund as the liabilities are open ended.

Back in 2009 when substantial funding concerns were identified, initial measures were taken in an attempt to address the deficit through the introduction of a salary cap, combined with an increase to the employee contribution rates.

As time went on, it became obvious that the changes which had been introduced were not enough to curb the deficit. In 2011, concerned with ongoing sustainability and affordability of the scheme, Company D looked at a number of potential restructure options which would help overcome the deficit issues. It was decided that the scheme would cease future DB accrual, and that pension provision for Company D employees would be by means of a DC scheme, going forward. Funding proposal discussions were entered into with a view to addressing the deficit by means of a long term funding strategy.

The ongoing funding issues were flagged to employees in 2012, and they were informed that negotiations over a funding proposal were taking place. Whilst the continued

participation in a funding proposal would be subject to affordability, it nevertheless outlined the employers' commitment to the DB scheme.

A communication exercise was undertaken whereby individual statements were provided for all members, which combined their DB scheme benefits, with projections under the new DC arrangement using an array of different assumptions. Company D's pension scheme advisors were engaged to provide presentations, and one to one meetings with members. These exercises were helpful in alleviating employees concerns.

In addition, Ms D noted that the contribution of the employer to the new DC scheme is quite generous, which enhances the employees potential outcomes, thereby softening the blow of DB restructure somewhat.

Ms D noted that the reaction of employees to the 2011 restructure was muted. The initial changes in 2009 seemed to provoke a stronger reaction than the actual cessation of accrual. The broader HR environment within Company D in 2009, saw a change to pay policy and the introduction of pay cuts – this in combination with the increase in DB contributions, employees overall remuneration package was reduced which caused a lot of negative feedback. By the time of the 2011 restructure, there had been such a lot of negative media coverage in relation to pension schemes, employees were more open to accepting the change on the basis that the employer commitment to a funding proposal indicated Company D's long term commitment to the scheme. Ms D felt that the coverage in the media of the Waterford Crystal and SR Technics cases, helped in getting employee buy in to the restructure.

Company D operates in a unionised environment. However there was no problematic union obstruction to the restructure, possibly as there was broad awareness within the union of the greater DB pension environment, and acknowledgement that the continuation of the scheme, albeit in an altered format, was preferable to an alternative such as a wind up. The Trustees were engaged in the discussions and negotiations throughout the restructure and funding proposal process. The member trustees were in a difficult position, and were adversely affected by the restructure, however Ms D notes that they managed their roles well. Company D engaged their own independent advisors to ensure that the potential for conflict of interest throughout the restructure and funding proposal negotiations was mitigated. There was no acrimony between the stakeholders throughout the process.

In terms of Company D's experience, the HR implications of the restructure programme do not appear to be significant. There was no discernable impact on employee retention, however the labour market and the geographical constraints meant that there were limited opportunities to move jobs. Ms D felt that employees recognised the difficult economic times and the environment in which Company D operates. From a recruitment point of view there are very few employers offering a DB scheme, therefore this would not be an influencing factor on employee decisions in Ms D's opinion. In terms of employee engagement and the psychological contract, the pension scheme changes took place amongst the backdrop of other remuneration cuts and changes, so it is difficult to determine precisely whether the DB restructure had any influence on these aspects of employee behaviour. In addition, employees seemed to take comfort from the fact that Company D was entering into a funding proposal

In addition to the cost issues discussed earlier, the other main factors influencing the decision is the regulatory burden. The timing of improvements to regulation, for example the risk reserve, was not ideal, having been introduced when schemes were in deficit. It has the effect of putting a further onerous burden on employers and would be very likely to influence ongoing commitment to a DB scheme. Ms D would be of the opinion that in terms of regulation, that the increase in mortality, the rising cost of annuities, and the collapse in the equity markets were combining factors in the DB collapse and may not have been entirely predictable. However if regulation had been tighter, perhaps allowances may have had to have been made for these matters which would have safeguarded schemes somewhat. The cost of running a DB scheme from a regulatory (as opposed to a funding) point of view is considerable, compared with for example the per member cost on a DC basis.

The pension levy did not have a huge impact on Company D's scheme, as member benefits were reduced accordingly, thus reducing the liability from the employers' point of view - from an employee's perspective however the pension levy represents a retrospective tax.

From Company D's point of view, accounting standards was not a problem because of the way that they are obliged to account for their deficits under FRS17 rules.

Competition was not an important factor for Company D due to the nature of their business. In addition, the amount of time running a DB scheme takes from a management and advisory perspective was a significant factor.

The unquantifiable risk element was also an influence, and this element led to Company D choosing the option of closing the scheme to future accrual so that this risk was somewhat mitigated.

With the change to the State Pension Age, Company D has not yet received requests from employees to work past the normal retirement age of 65. Ms D pointed out that an increase to the scheme retirement age in alignment with the State Pension Age would have helped the funding position of the DB scheme, however this would have necessitated a Section 50 agreement with the Pensions Authority which would have created alternative technical implications. The issue of working past 65 due to unaffordability of retirement is something Company D has not yet encountered, however Ms D is aware that it is a concern which will need to be considered. Company D has in the past facilitated late retirement on a case by case basis and the issue of motivation of older employees has not been a problem. If Company D were to allow retirement after 65 as standard policy, then the implications in term of risk benefits and contracts would pose serious concerns. Ms D would see this as a problematic area for employers in general.

## Interview Notes – Company E

<b>Interview type:</b>	Face to Face interview
<b>Participant:</b>	HR Manager
<b>Sector:</b>	Professional education
<b>DB scheme employees :</b>	150-200
<b>Notes:</b>	Restructure complete

The funding issues in Company E's DB pension scheme had been a concern since 2003. In 2004, the scheme was closed to new entrants and funding to the scheme was boosted by the employer in attempt to address the issue. However, these measures were inadequate in the long term due to increased longevity and investment returns, and by 2011, the schemes deficit was had accelerated to some €30m. In spite of this however, Company E was committed to the ongoing provision of a DB scheme for its staff.

There was a clear understanding on the part of Company E that fundamental changes were needed to ensure the schemes viability. The scheme actuaries and senior management undertook a review of the scheme in early 2011, from which a broad framework emerged. This focused on the interplay between the level of benefits payable, the contributions available from both employer and employees, and the level of risk palatable to the employer - and from this a wide continuum of restructure options emerged which were considered at length.

Company E elected to retain DB benefits to a fixed level of salary, which was supplemented by an additional DC benefit for the balance of salary. The future service DB benefit was structured so as the lower paid staff maintained a higher proportion of DB accrued benefits. It was a key point for Company E for the purposes of mitigating risk that the link to final salary was broken, therefore the element of future DB benefit would be provided on a career average basis.

Company E chose not to increase the employee contribution rate as part of the restructure. In addition, the employer entered into a Section 50 and Funding Proposal, which were accepted by the Pensions Authority with a view to restoring the scheme to solvency within a

ten year period. As part of this arrangement, Company E availed of the option to use contingent assets to bolster funding of the pension scheme.

In terms of the drivers for pension scheme change in Company E, cost and the unquantifiable DB risk were the primary concerns. Accounting disclosures was an influencing factor, and to this end, the management of risk involved setting up an investment group to look at how investment choices were made, and to drive a market based approach towards de-risking and investment. Regulatory burden was less of an issue for Company E. On the topic of recent regulatory changes, Mr E noted that it can be more challenging to bring about regulatory change when things are going well, there being less of a willingness to accept its necessity. On foot of the economic crisis, organisations are now more aware of the need to have a risk analysis framework and have contingency plans. From an employer and trustee point of view, there is acceptance that the days of employers' underwriting DB costs are over.

Company E understood that a comprehensive communications strategy was required to address all stakeholders. Initially, over a three month period Company E engaged with the trustees and the trade unions, along with Company E's senior management group so that consensus could be reached amongst this cohort, whilst simultaneously corresponding with the Pensions Authority on the proposed changes. The Trustees had concerns around changes to future accrual along with pension indexation, whilst the unions concerns centred around the contribution rates into the DC arrangement.

Mr E outlined that Company E wanted their employees to understand a number of key points - the benefits they already had accrued, those they would have in the future, the reasons as to why a restructure of the DB scheme was required, and the realities facing the scheme if a restructure programme could not be agreed. Over a two month period, employees were invited to attend general briefings presented by the CEO and HR Manager, which set out the funding position, the options available and the next steps. A detailed consultation process ensued which involved the setting up of an online portal containing scheme information, an interactive pension calculator, and an FAQ section. Individual member benefit statements were presented to each employee which outlined their specific changes, and an explanatory booklet was prepared which provided background information, a jargon buster and generic calculation examples. Clinics with HR representatives were held, and one-to-one briefings were made available with an actuary to discuss potential outcomes on an individual basis. In addition, targeted follow on briefings were provided for various

cohorts of employees with a view to addressing concerns common to those groups. At the end of the communication process, Company E undertook a survey of employees which verified the success of the communication strategy in terms of employee understanding and satisfaction.

With regard to the HR implications, Mr E took the view that representatives of Company E had to stand over the decision to restructure, and engage with stakeholders frequently, openly and transparently on any issues and queries they may have had in relation to the process. This strategy helped minimise resistance to a certain degree. A certain amount of resistance was encountered from the Trustees, who perhaps previously would have looked to Company E to solve the problem directly. Mr E noted that it can be challenging for member trustees in particular to decouple their competing responsibilities from one another.

A good relationship had been established between Company E and the trade unions which helped smooth the process, and the restructure was an educational process for them also. Whilst unions were theoretically opposed to a scheme restructure, there was acknowledgement that it was done in a transparent manner and for the right reasons.

Whilst not actively measuring employee engagement, Mr E would not consider that there has been any significant implications in terms of engagement or the psychological contract for Company E. However, continued tinkering with and revisiting pension scheme changes can contribute to fatigue and scepticism for employees. Company E has not experienced any retention issues on foot of the pension scheme restructure.

Media coverage of DB schemes was prominent at the time of the restructure, and Mr E felt that this was helpful insofar as it provided additional background and context for employees. Company E incorporated this into their communication strategy to emphasise that the alternatives to a restructure may be significantly more draconian.

Company E have considered the change to the State Pension Age, and the implications for their organisation. Company E have been requested by some employees to facilitate late retirement, however it is not clear that this is on the grounds of unaffordability. Company E have decided not to amend the contractual retirement age of 65, so that their retirement policy is consistent and fair for all employees, and so that it facilitates promotional opportunities for other employees. Mr E noted that members retiring in 2014 and 2015

have had little opportunity time wise to make arrangements to fill the gap in income, therefore Company E have elected to make a one off taxable ex-gratia payment to the relevant employees to ease this burden. Mr E has outlined that in future, employees coming up to retirement will be targeted to ensure that they are aware of the timing of the State Pension Age to enable them make the relevant personal arrangements. This change to the State Pension Age would be something that should be communicated by employers to employees in Mr Es opinion.

## Interview Notes – Company F

<b>Interview type:</b>	Face to Face interview
<b>Participant:</b>	HR Manager
<b>Sector:</b>	Sales and Manufacturing
<b>DB scheme employees :</b>	50-100
<b>Notes:</b>	Restructure complete

The DB scheme in Company F has approximately 100 members, and it has been closed to new employees since 2007. The company operates a DC scheme for employees who have joined service since that date.

It became evident to Company F that structural changes needed to be made to the scheme, as it moved from being borderline solvent to having a significant deficit within a relatively short timeframe. There were many discussions held between Company F, the trustees and their advisors regarding the nature of the changes required, and a variety of different options were examined. The decision was made that the restructure of Company F's scheme would involve the elimination of guaranteed increases to pensions in payment. As part of the restructure, Company F increased their contribution rates, and entered into a funding proposal which demonstrated their willingness to make a long term commitment to fund the scheme. The Waterford Crystal case, and the adverse publicity which surrounded it, acted as a positive influence on Company F when it came to the restructure and the communications around it. With the benefit of hindsight Mr F believes that the chosen solution has proven to be the most appropriate, and it verified to employees, trustees and unions that Company F were dedicated to maintaining the DB scheme.

The executive team were heavily involved in deciding how the restructure was going to be communicated to employees, and they had awareness that communicating with employees in an open way would engender an atmosphere of trust. There was consultation with the unions in the first instance to advise them of the proposed scheme changes, and the reasons why the changes were necessary.

A company presentation was then held for all employees. This was followed by presentations to employees from the Company F's advisors, who were able to explain the DB benefits provided, the differences that the proposed changes would make, and the

reasons why the changes were needed. The company also committed to reviewing the decision on pension increases when scheme solvency was restored, with a view to providing discretionary increases.

In hindsight, one to one meetings on an individual basis could have helped put employees more at ease, however the way that Company F connected with employees was very open, and as HR Manager, Mr F was able and available to address employee concerns as required.

Mr F noted that there were some difficult discussions with union representatives on foot of the restructure, and that within the unions, there was a lack of technical pension knowledge. In addition because Company F was one of the first to apply for a Section 50, there was little practical experience of the process and how it would work. Once Company F's funding strategy was shared with the unions however, Mr F was able to work through the restructure process with them in a constructive way.

Mr F noted that the advantages from an employee perspective of having a DB scheme are significant, and the benefits afforded by a DB scheme tend to be valued higher by employees. In Mr F's experience, pension issues are to the fore in employees' minds. This phenomenon has been enforced by media coverage relating to the demise of DB schemes, particularly since the economic downturn.

Company F did encounter some resistance to the restructure from employees who saw it as further erosion of benefits, coming as it did on the back of pay cuts within the organisation. There was a higher level of concern amongst employees in the older age bracket because of the proximity of the impact of the restructure on them.

From a HR perspective however, Company F did not experience any lack of motivation or change in employee engagement on foot of the pension scheme changes, which was helped perhaps because of the long term view of DB pensions as portrayed in the media. Mr F was of the opinion that the cause of most industrial relations issues is employees take home pay.

Separately, Company F's parent company closed their DB scheme for all employees a number of years ago and their future benefits are on a DC basis, therefore there was realism amongst stakeholders that the restructure could have been significantly more draconian.

In terms of recruitment, Mr F noted that employees don't tend to compare pensions when considering moving jobs; they are more concerned about overall remuneration levels. For

the purpose of attraction of staff, the provision of a DB scheme is not a significant factor any longer as Company F's competitors do not provide DB schemes to new entrants.

In terms of the drivers of change in Company F, the cost of continuing to provide the scheme in its original format was unaffordable. The cost implications had been recognised a number of years ago and the scheme was closed to new entrants back in 2007, with a view to mitigating these costs. The economic downturn meant that the funding required to provide benefits increased substantially, and the costs involved became prohibitive. Balance sheet volatilities in the FRS17 figures brought the pension scheme deficits to the attention of management at group level, thus expediting the need for changes to be made to make the scheme affordable.

Competitive pressures would not necessarily have been seen as a major influence for Company F, on the basis that business had been poor throughout their entire sector during the period of the downturn. Mr F notes that a lot of work has been done on de-risking the scheme investments on foot of the Section 50 proposal, so this has now alleviated the unquantifiable risks element somewhat from Company F's perspective.

The pensions levy is an added burden, and if Company F were obliged to directly cover the cost of the pension levy, that could more than likely lead to the closure of the scheme in Mr F's opinion. The introduction of the risk reserve, whilst Mr F recognises is a positive development in terms of providing stability, has the potential to have serious implications where for example, a company would be borderline profitable. Mr F noted that employees are not generally aware of the actual cost to employers of providing DB schemes and this is something on which they should be informed.

The change to the State Pension Age has not caused any direct problems for Company F as yet. In the last number of years, Company F had run redundancy programmes which meant that they lost an element of their ageing workforce. Normal retirement age in the company will remain at 65. However, in the event of an employee's request to remain in employment, there is a provision within the company's retirement policy that negotiations with the company can be held on a case by case basis at the time of retirement, and where feasible, the company will facilitate the employee working past age 65. In practice, this will mean that there are contractual issues for Company F which will have to be addressed. Mr F noted furthermore, that with the employment of an older workforce comes increased risk for employers in terms of health and safety. Additionally, the practice reduces the new

talent that employers can take into their organisations, and effects employment opportunities for college leavers. Mr F felt that the change to the State Pension Age is not a topic which has been talked about enough by employer and employer bodies, and consequentially is an issue that organisations can be somewhat in the dark about.

Mr F felt that ultimately the restructure changes worked well and that the chosen solution has proven to be the most appropriate. The restructure process was long and required considerable investment of time and effort, however it was ultimately worthwhile in terms of maintaining a DB scheme that continues to be operational. It was a significant learning experience for all stakeholders involved.

## Appendix 5 – Matrix of Findings