



June 2009

Financial Turmoil is wreaking havoc on Retirement and Investment Plans How should you react ?

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June 2009

DC Programme

John Cremin
Deborah Reidy

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Defined Contribution Programme

- ▣ Hewitt DC Survey
- ▣ DC Adequacy
- ▣ Comparative Value of Contributions and Investment Returns
- ▣ Communication
- ▣ Budget 2009



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Hewitt DC Survey Findings



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Hewitt DC Survey Participants

- ▣ 101 completed questionnaires
- ▣ Average assets €8m
- ▣ Covering over 30,000 members
- ▣ 50/50 Hewitt Clients and others
- ▣ Variety of industries and sectors
- ▣ Statistically representative sample



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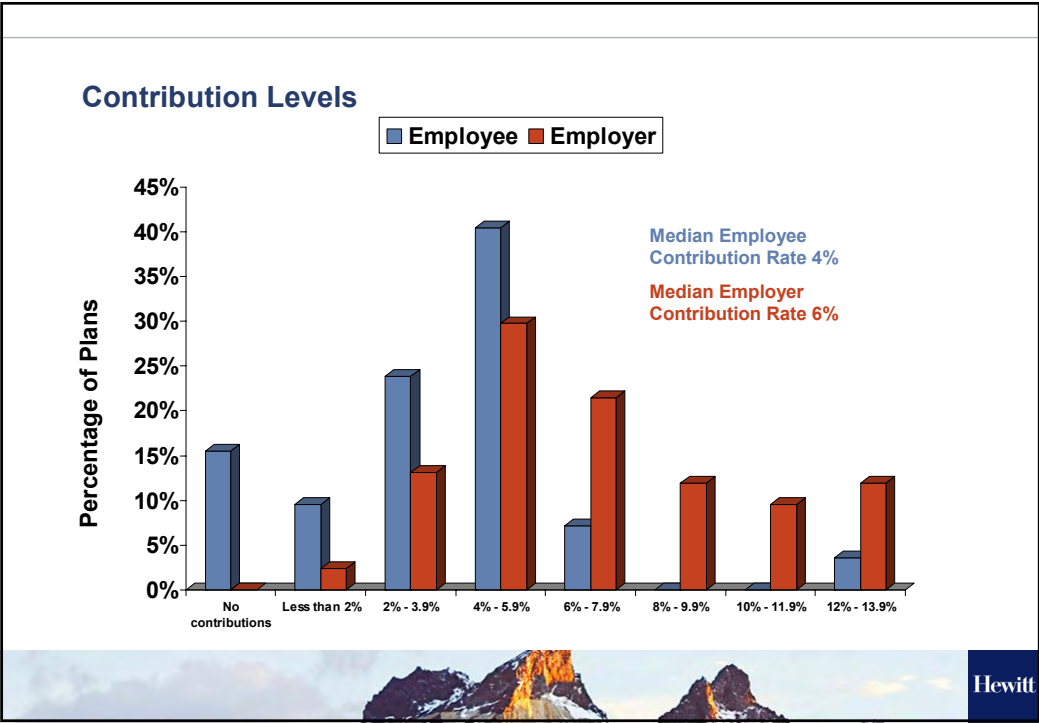
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General Design Elements

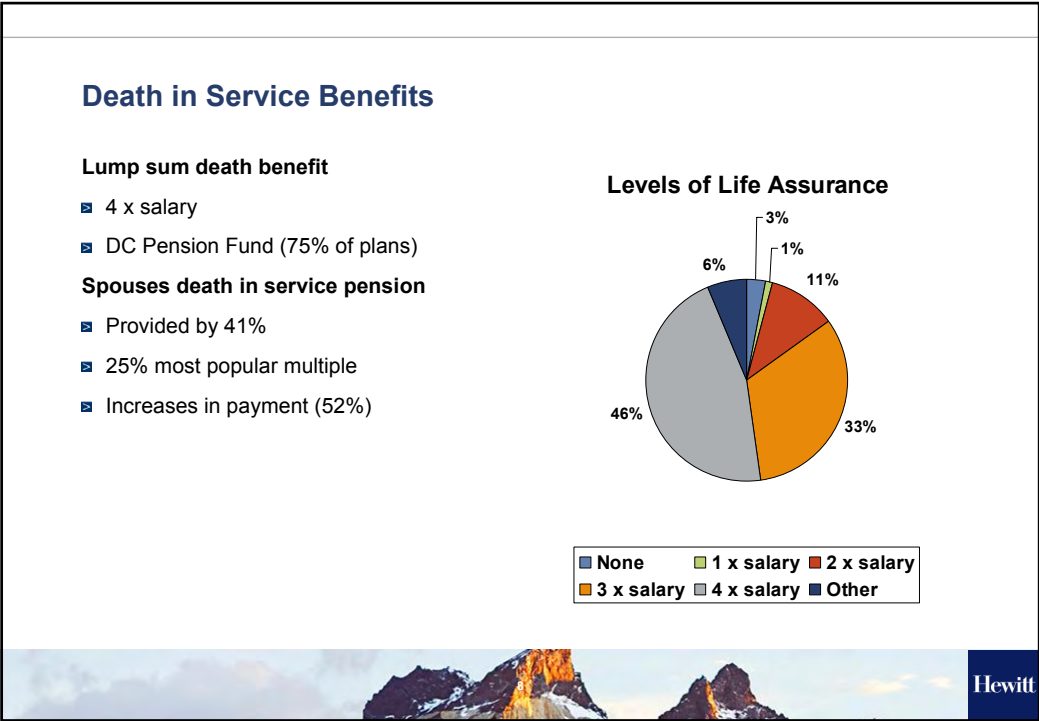
- ▣ Membership Rule
 - Eligible after 6 months
 - 51% compulsory
 - 67% take up where voluntary
- ▣ Pensionable Salary – Basic Salary
- ▣ NRA 65 for 90% of Plans



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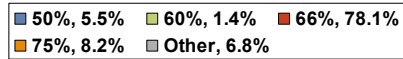
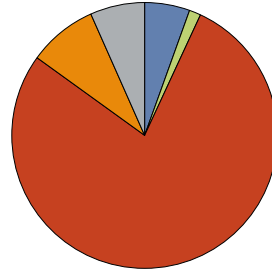
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Disability Benefits

- 79% of companies provide disability cover
- Benefit Level
 - 2/3rds salary (78%)
 - Offset - once state disability (77%)
 - Increasing in payment at 3% p.a. (47%)

Disability Benefit Level



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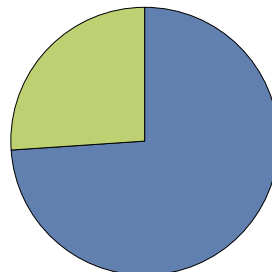
Deferred Members

Numbers increasing since survey results published

Automatic Transfer Out

- <€10,000
- >2 years departed
- Trustee decision

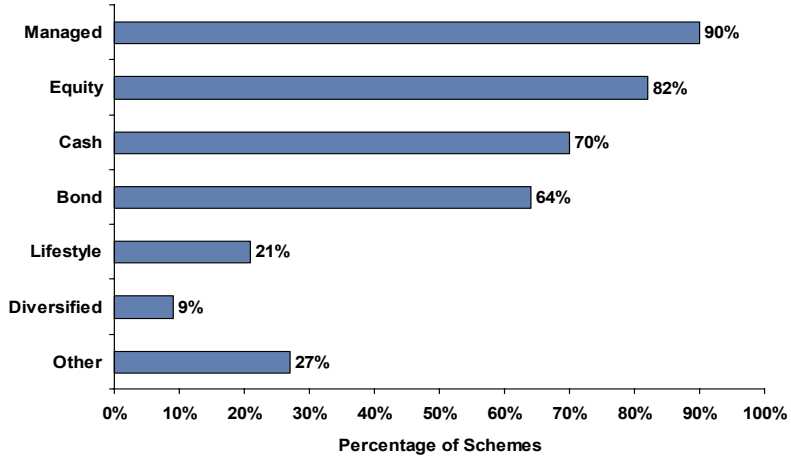
Comparison of Active vs Deferred Membership



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Member Investment Options – Range of Funds

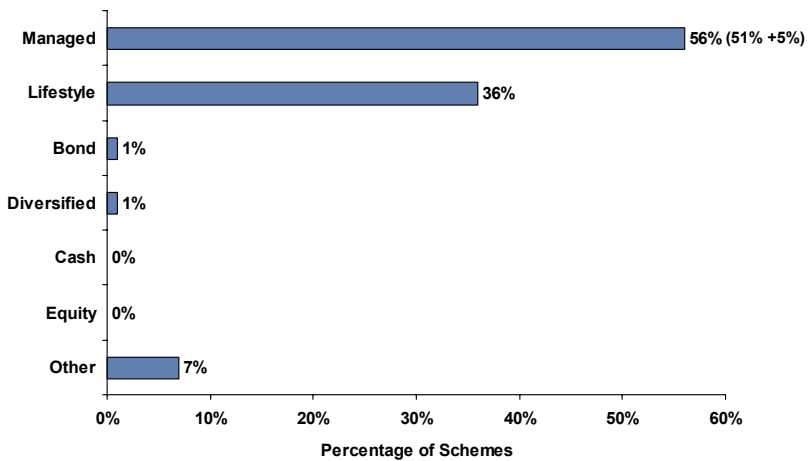
Average Number of Funds = 5 (1 to 23)



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Member Investment Options – Default Option

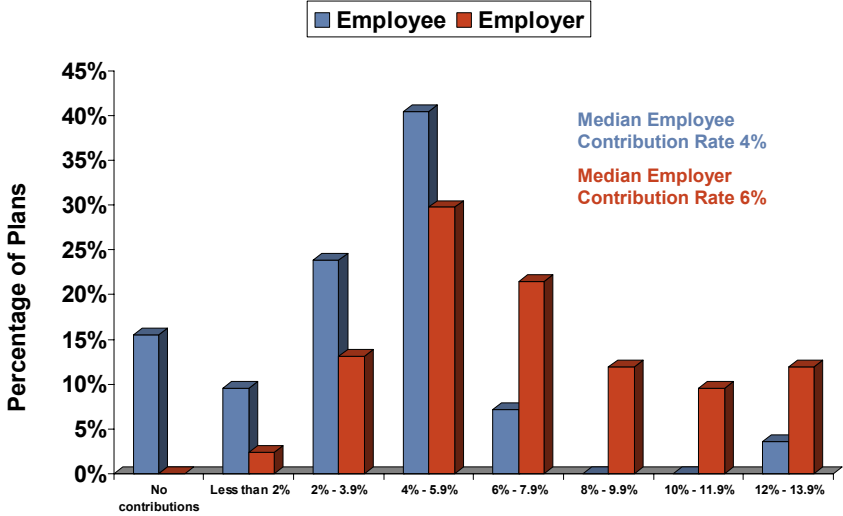


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Defined Contribution Adequacy

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Contribution Levels



Projected Pension From Age 65 as a Percentage of Salary

Contribution Rate as % Salary	Age of Commencing Contributions				
	25	35	45	55	60
10%	29%	20%	12%	6%	3%

Salary Inflation 3%

Investment Returns 5%

Interest Rates at Retirement 4%

Pension Increases 2%

Current Mortality Tables

No allowance for State Pension 33% of Average Industrial Wage

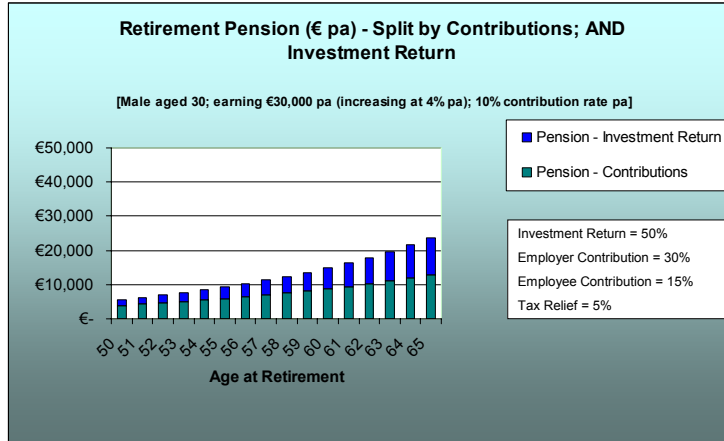
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Comparative Value of Contributions and Investment Returns

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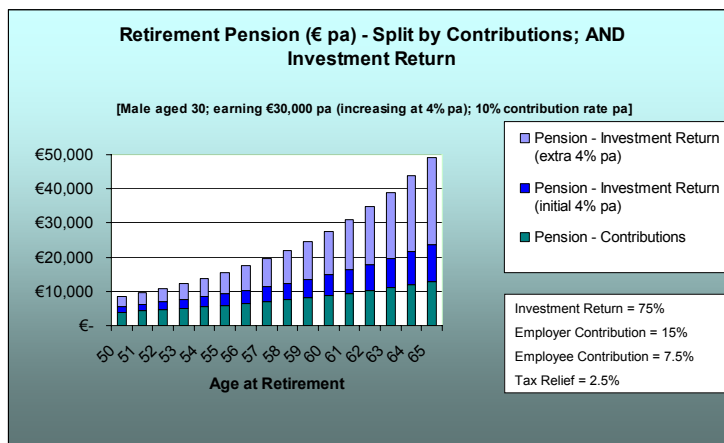
4% Future Investment Return pa (10% Contribution Rate)



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8% Future Investment Return pa (10% Contribution Rate)



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Impact of Volatile Investments

- Average DC account dropped 35% during 2008
- Mid- to late-career employees, those with larger DC balances, and those with higher exposure to equities were impacted the most
- In order to make up what was lost during 2008, employees will need to increase their savings rate and/or retire later

Current age	Save More			OR	Retire Later		
	New savings rate per year		Retirement age		Old savings rate per year		New retirement age
35	11%	until	65		10%	until	66
40	13%	until	65		10%	until	66
45	16%	until	65		10%	until	66
50	18%	until	65		10%	until	66
55	23%	until	65		10%	until	67
60	36%	until	65		10%	until	68

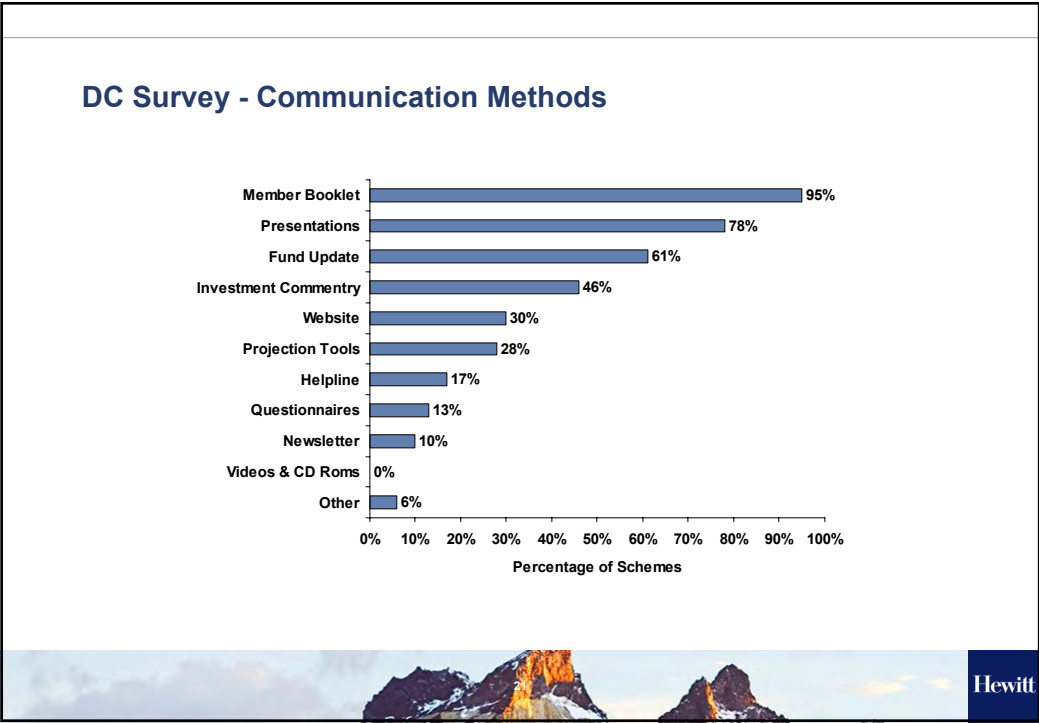
Assumes members suffered a 35% fall in funds during 2008; Fund Values as at 01 January 2008 are: €30,000 [age 35] and €200,000 [age60] (intermediate ages' fund values are a linear function of this difference); Member earns €30,000 pa from age 35 [increasing at 4% pa thereafter] and pays contributions of 10% pa salary each year; assumptions on future salary inflation/investment returns/mortality, etc as per the Society of Actuaries in Ireland PRSA basis.

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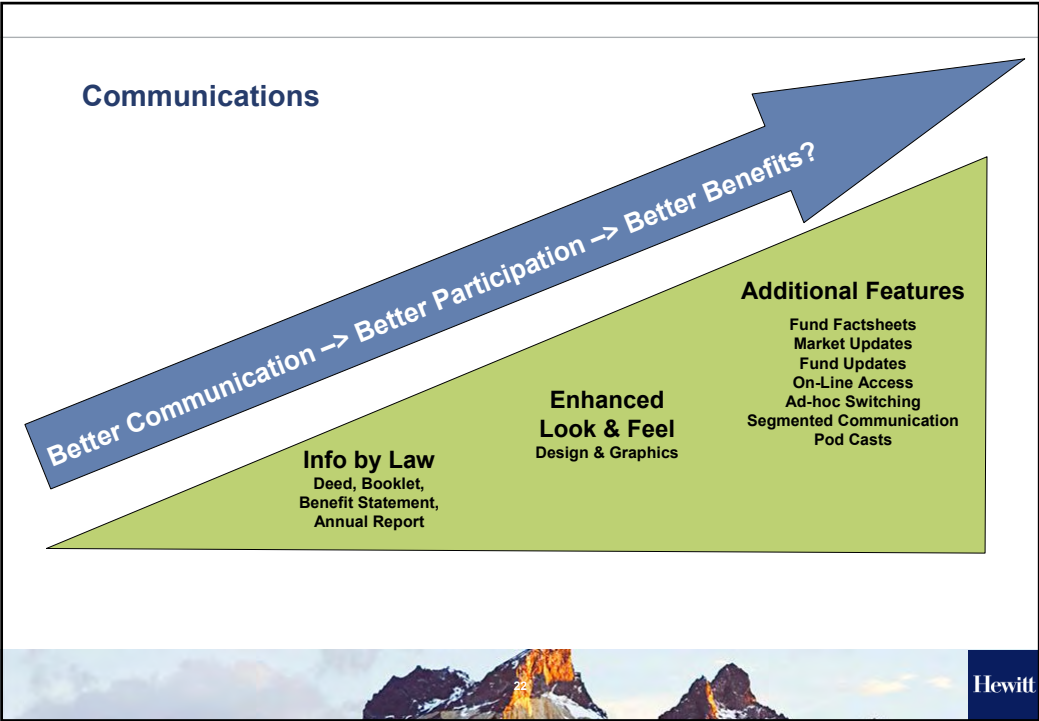
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Communication

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Budget 2009

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Budget 2009

Part 1

- ▣ Restricted income tax/PRSI relief (salary of €150,000)
- ▣ Defer annuity purchase until 31 December 2010

Part 2

- ▣ Threatened
 - Taxation of lump sums at retirement
 - Reduction of income tax/PRSI relief
- ▣ No changes implemented, but both under review

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Key Messages

- ❑ Contributions must be reasonable
- ❑ Investment returns must protected
- ❑ Members must be equipped with tools to;
 - Assess contribution levels
 - Protect investment returns
- ❑ Range of Investment Options should include Pension Funds which better manage volatility
- ❑ Managing volatility should also be addressed in selecting Default Option
- ❑ Tax relief changes may be announced in Budget 2010

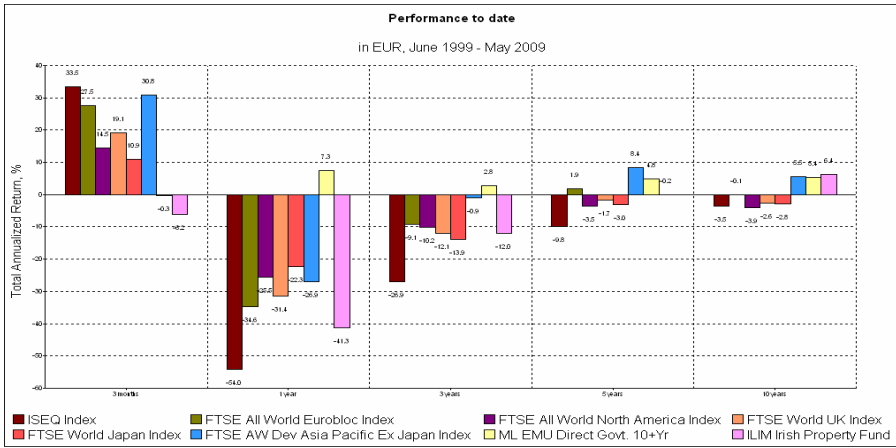
The Hewitt logo is located in the bottom right corner of the slide. It consists of the word "Hewitt" in a white, serif font, set against a dark blue rectangular background. The slide also features a decorative banner at the bottom with a photograph of snow-capped mountains under a blue sky with light clouds.

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Investments Option – New Thinking

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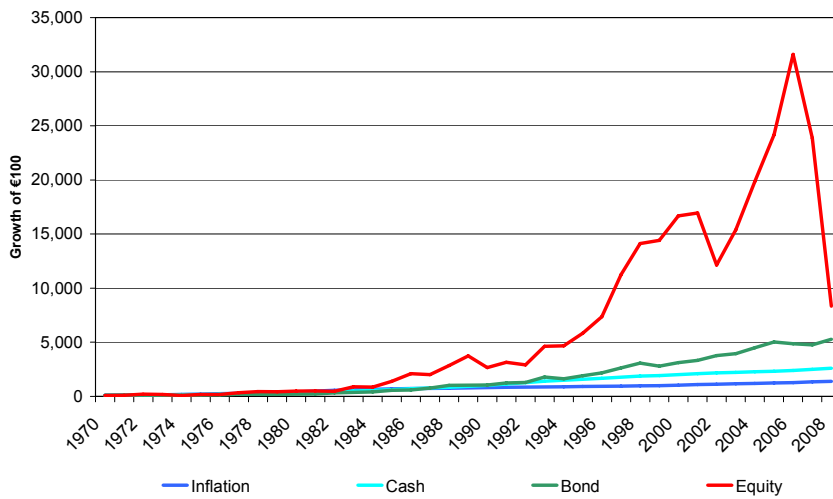
Major Index Returns to 31.05.09



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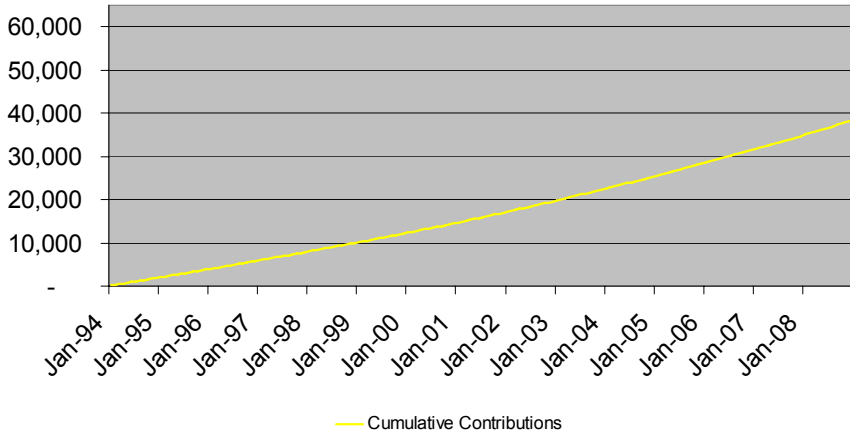
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Long Term Investment Returns – 1970 to 2008



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Contributions paid over 15 years

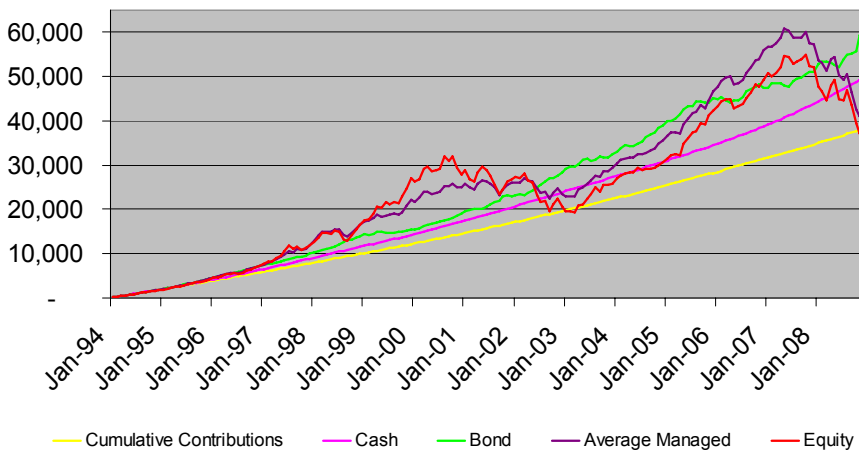


Note: Monthly contributions increased each year by salary inflation assumption, inflation +1.5%

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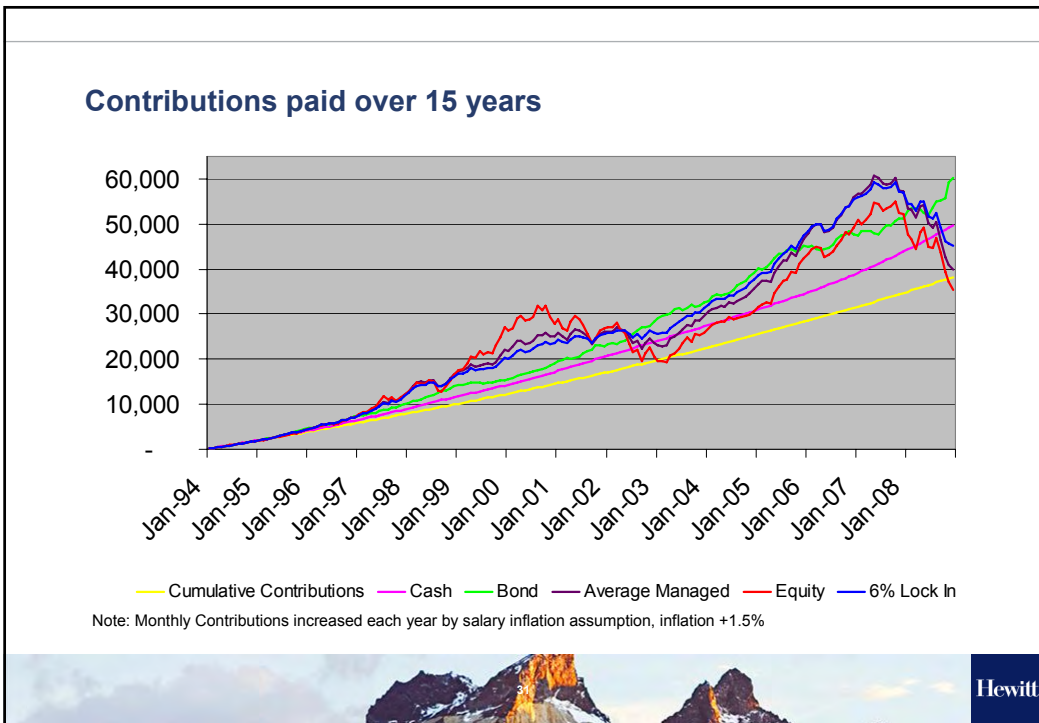
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Contributions paid over 15 years



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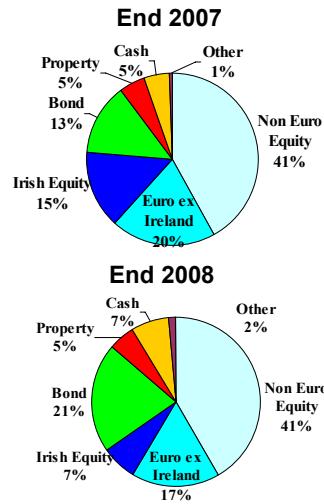
Member Participation – Issues Emerging

- ▣ Less than 15% to 20% actively manage their investment
- ▣ 80% to 85% use Default Option
- ▣ 90% of Default Options invest in Managed Fund (50% Stand Alone; 40% coupled with Lifestyle)
- ▣ Managed Fund has 60% to 80% in Equities
- ▣ Investment Managers do not actively ‘manage’ asset mix in Managed Funds

Traditional Default – Consensus Fund

Issues

- High Equity Exposure
- Irish Exposure
 - Equity
 - Property
- Limited use of asset classes



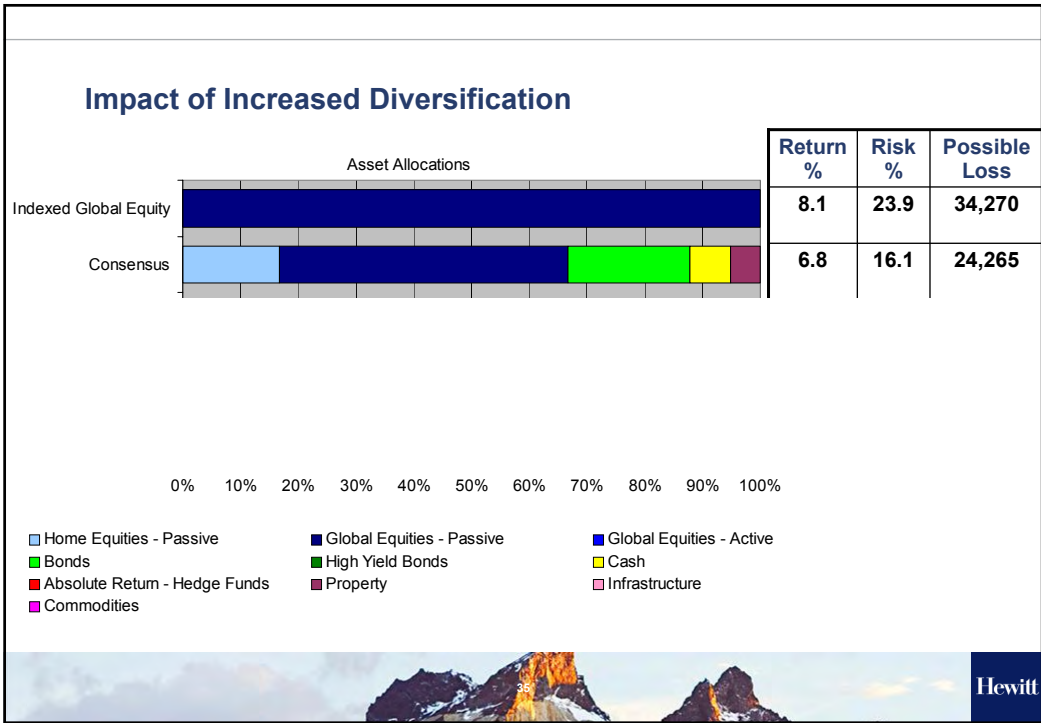
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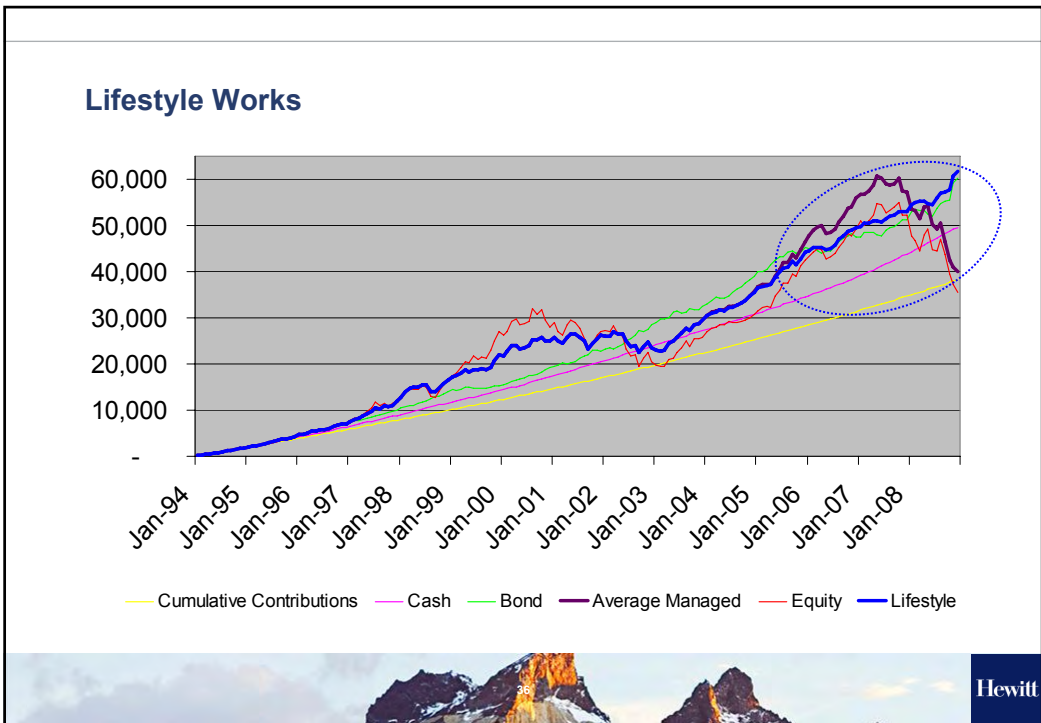
Majority of Current Default Options

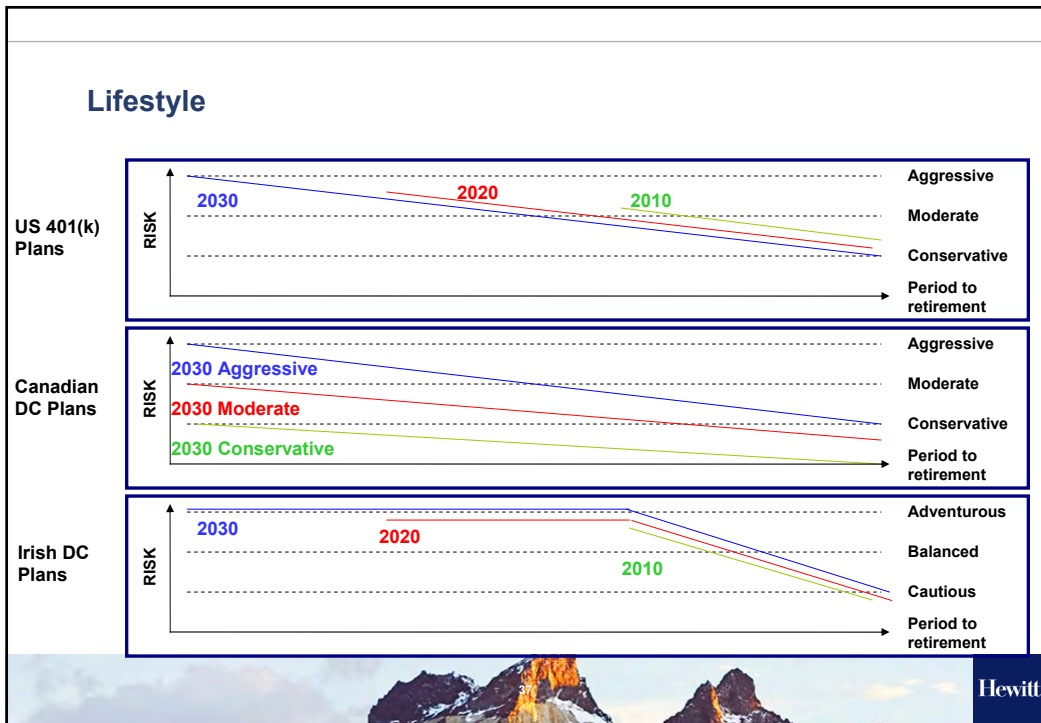
- Take a long term rather than a short term view
- Focus on “real” long term returns rather than short term positive absolute returns
- Do not specifically strive to manage volatility
- Is it possible to have a Default Option to satisfy everybody?

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Key Messages

- ❑ “One size does not fit all”
- ❑ Need Real Growth for Adequate Pensions
- ❑ Need to consider risk/return trade-off of various investment options
- ❑ Need to Increase Efficiency of Portfolios (Increase Diversification)
- ❑ Need to Protect Pensions closer to retirement (Lifestyle works!)

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