

Group Pension Managed Funds Update to 30th November 2008

Summary

Irish pension managed funds fell by 4.7% on average during November. Eagle Star was the best performing manager over the month with a return of -3.4%. Irish Life Investment Managers delivered the worst performance over the month, with a return of -5.7%. So far this year, pension funds have declined a worrying 32.7% on average, while over the past year pension funds have lost 33.4%.

The average managed fund has shown an extremely disappointing return of -8.5% per annum over the past three years. The five year returns to the end of November are barely positive, with the average managed fund delivering a return of just 0.3% per annum over this period. Irish group pension managed fund returns over the past ten years have been a very disappointing 0.8% per annum on average, well below the Irish inflation rate of 3.8% per annum over the same time horizon. Indeed, none of the managers surveyed outperformed inflation over this period. However, over the past 20 years returns are much stronger with the average fund delivering 6.6% per annum. Only six of the funds covered by the survey have a twenty year track record.

Is there a crisis facing Irish pension schemes?

Although recent reports on the state of the Irish pensions market are a source of concern, there is no need for members or trustees of pension schemes to panic. While many defined benefit schemes are likely to fail the funding standard over the next year, this does not mean that these schemes do not, or will not, have enough money to pay the benefits they have promised to their members. The funding standard is essentially a snap-shot of a scheme's assets and liabilities at a given point in time – if the assets are worth less than the liabilities, then the scheme fails the funding standard and must submit a proposal to the Pensions Board indicating how this position will be improved. However, any value placed on pension scheme liabilities can only be an estimate, as the amounts and timings of the scheme's cashflows are unknown and often many years away. Meanwhile, investing in real assets (those likely to outperform inflation over the long term), such as equities, means accepting short-term volatility. It is only if a scheme winds-up that these paper deficits actually materialize, and schemes typically only wind-up if the employer becomes insolvent. Given this, reports that "50% of schemes are likely to wind-up in the next 12 months" appear highly exaggerated. However, it is quite possible that many schemes will close or restructure; but this would only affect any pension benefits that would accrue in the future, benefits already earned would be protected in this event.

Meanwhile, younger members of defined contribution schemes have many years to ride out current market volatility. Equities have historically provided significantly higher returns over the long-term than bonds, property or cash, although at the cost of greater volatility. Indeed, statistics from the US show that, over any 30 year period, equities outperform bonds 99.5% of the time. However, when members get closer to retirement and their investment time-frame gets shorter, they should move away from riskier asset classes in order to protect the funds they have accumulated over their working lives. Trustees of defined contribution schemes should ensure that their default investment strategy, in which typically over 80% of members are invested, automatically transfers older members' funds into less risky assets.

Tables

1. Group Pension Managed Fund Returns to 30th November 2008

	1 Month %	11 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	20 Years % p.a.
AIB Investment Managers	-5.0	-33.5	-34.1	-7.1	1.1	0.2	6.1
Bank of Ireland Asset Management	-5.1	-31.3	-32.4	-10.2	-1.5	1.2	7.3
Canada Life/Setanta	-4.7	-28.5	-29.2	-7.7	0.9	1.2	
Eagle Star	-3.4	-28.8	-29.4	-5.4	2.9	1.6	
Friends First/F&C	-3.8	-35.1	-36.0	-9.5	-0.5	0.1	6.5
Hibernian Investment Managers	-5.5	-35.1	-35.7	-9.0	-0.2	0.5	6.6
Irish Life Investment Managers	-5.7	-36.2	-36.8	-10.1	-0.2	0.8	6.3
KBC Asset Management	-5.0	-34.7	-35.6	-9.9	-1.2	-0.8	
Merrion Investment Managers	-4.9	-32.0	-32.2	-7.8	0.5	2.9	
Standard Life Investments	-3.9	-32.0	-32.9	-8.2	0.9	0.3	6.5
Average	-4.7	-32.7	-33.4	-8.5	0.3	0.8	6.6

2. Equity Market Index Returns to 30th November 2008

Region	1 Month		11 Months	
	%		%	
	<i>Local Ccy</i>	<i>Euro</i>	<i>Local Ccy</i>	<i>Euro</i>
Ireland	-16.2	-16.2	-62.1	-62.1
UK	-1.5	-6.5	-30.9	-38.6
North America	-7.1	-7.3	-37.0	-28.6
Eurozone	-6.1	-6.1	-44.2	-44.2
Rest of Europe	-5.2	-8.7	-36.2	-35.0
Japan	-4.4	-1.4	-43.6	-23.8
Pacific Basin	-5.2	-8.2	-44.0	-47.3

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