



Irish Occupational Pensions: An Overview and Analysis of Scale Economies

Presentation to the IAPF
April 2006

- Presenter: Aidan Mahon (MBS)
- Email: mahonaidan@yahoo.com





Overview of Presentation

- Research objectives
- Methodology
- Key descriptives
- Findings
- Economies of scale analysis
- Findings (2)
- Limitations & future trajectories



Research Objectives

- To conduct an analysis of Irish occupational pension schemes across industry sectors.
- To determine the costs involved in administering different pension plans.
- To establish if scale economies exist and if members benefit from their existence.

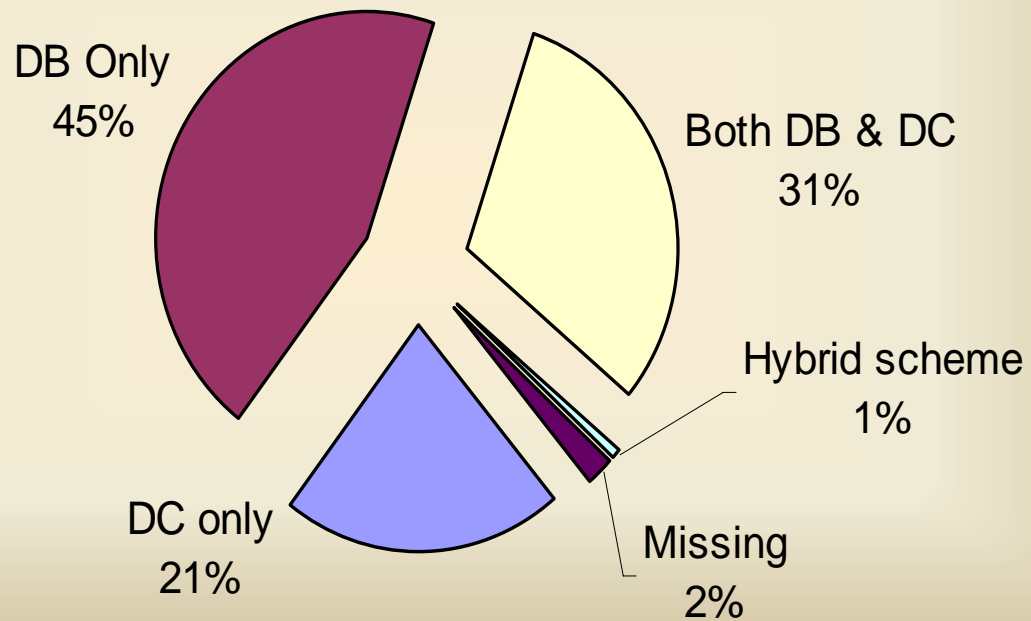


Methodology

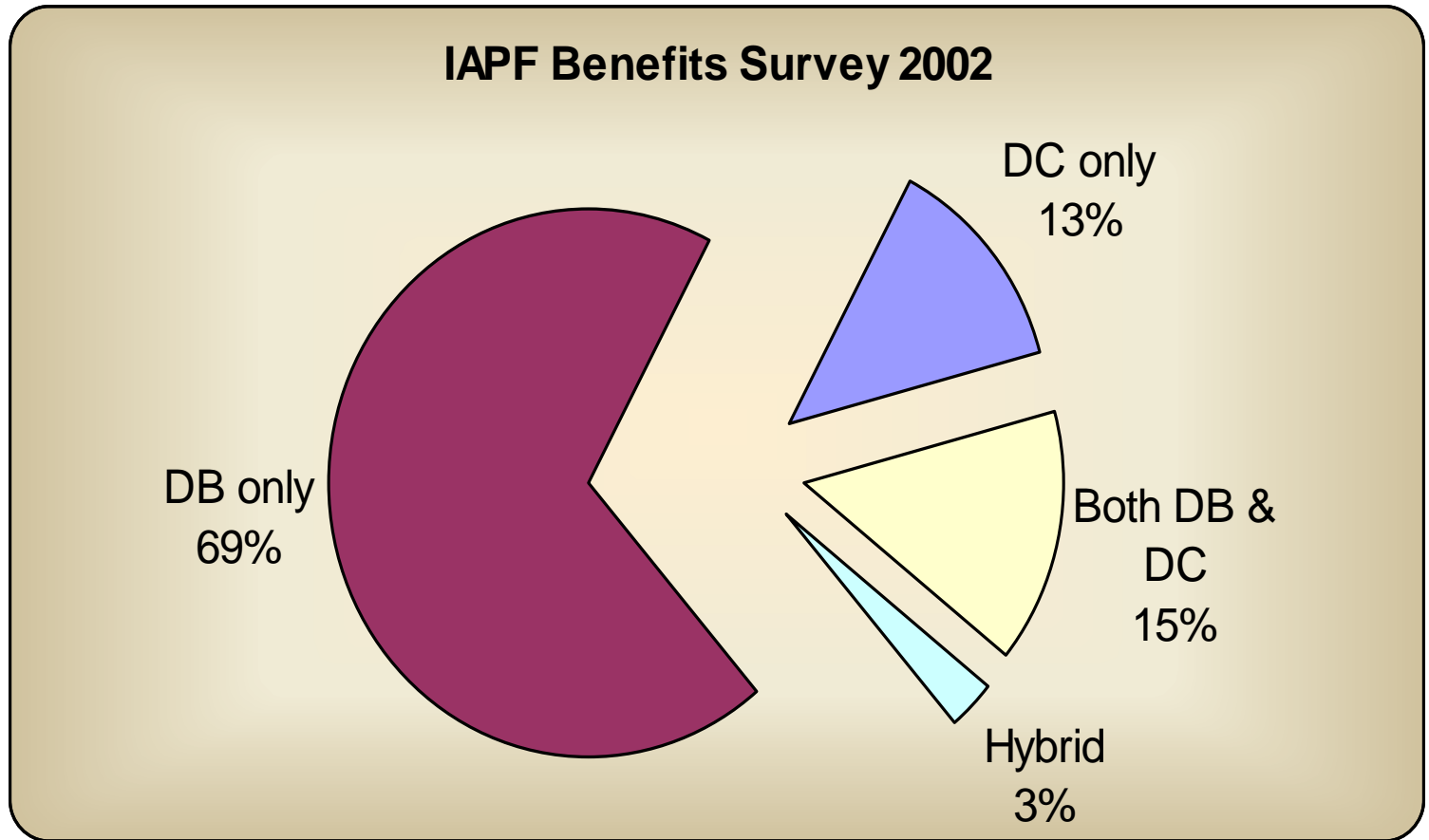
- Triangulated approach
- Postal Questionnaire to the membership of the (IAPF). Dispatched to 284 firms → 45% response rate.
- 4 - Interviews with key people in the industry.
- Econometric Analysis.

Key Descriptives

Breakdown of the type(s) pension plan of respondent firms



IAPF Benefits Survey 2002



Key Descriptives (2)

Key Descriptives across sample pension schemes			
	DB Only	DC Only	Both DB & DC
Mean age of Schemes (years)	32.8	20.0	32.5
Average age of all employees (years)	41.5	36.6	39.6
Average age of Male employees (years)	43.4	39.2	41.7
Average age of Female employees (years)	38.5	32.3	36.9
Average Number of Active members	824.4	211.7	1616.5
Average Number of Retired members	490.2	64.4	486.4
Average Number of deferred members	132.0	30.5	457.3



Findings (1)

- Increasing trend away from DB pension plans towards DC plans.
- FRS 17 and/or IAS 19 deemed to have limited impact on Irish occupational pensions.
- In most cases of ↑ contributions to schemes it is the employer who makes these.
- 2/3's of employers provide access to PRSA's but take-up is minimal.
- Perceived adequacy of a pension arrangement varies significantly according to scheme type and industry of respondent firm...

Perceptions of Adequacy

Perceptions of Adequacy Across Scheme Types		
	DB Only	DC Only
Strongly Agree / Agree	52%	13%
Neutral	14%	26%
Strongly Disagree / Disagree	33%	52%
Missing	0%	9%
Total	100%	100%

Economies of Scale Model

$$(PPE) = \text{Con} + b_1 \text{Act.Mem.} + b_2 \text{Ret.Mem.} + b_3 \text{Def.Mem.} + b_4 \text{TMV} + b_5 \text{IV Cont.} + b_6 \text{IVBM}$$

Reduced to:

$$(PPE) = \text{Con} + b_1 \text{Ret.Mem.} + b_2 \text{TMV}$$

Where:

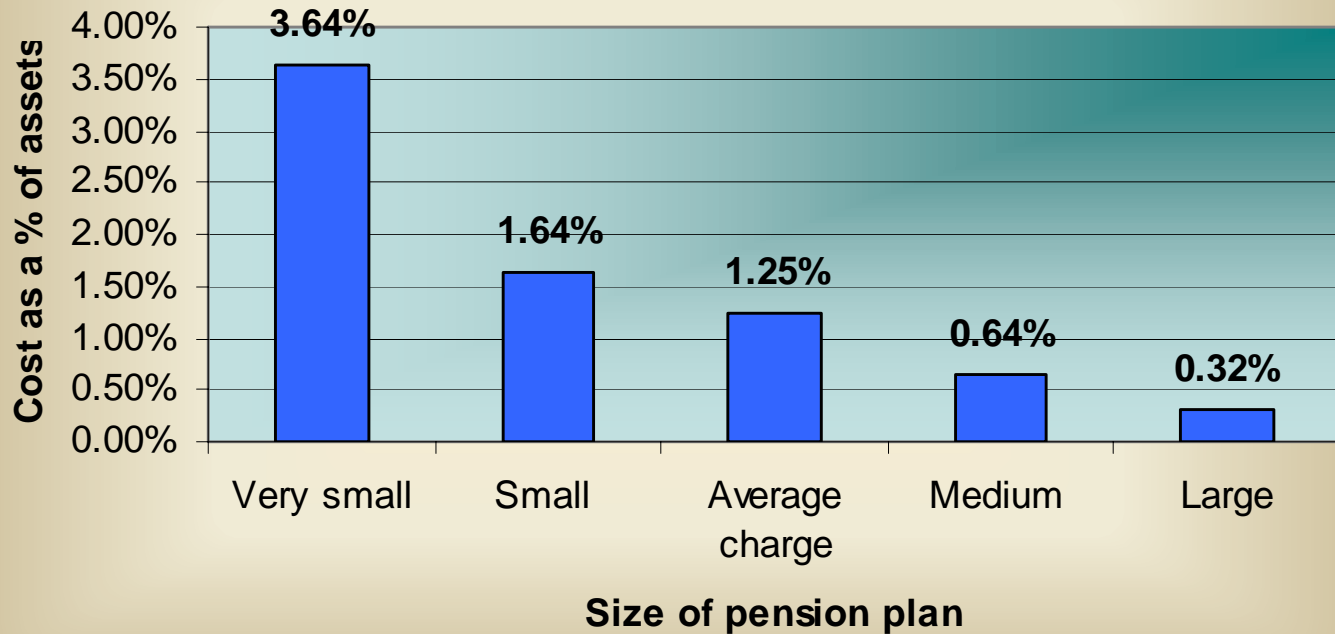
PPE	=	Pension Plan Expense
Con	=	Constant term
b	=	Coefficients
Ret.Mem.	=	Retired Membership of the scheme
TMV	=	Total Market Value of the pension fund

Having run the model for the data set obtained for the questionnaire this implies:

$$\text{PPE (€)} = 66587 + 0.00135199 (\text{TMV}) + 348.875 (\text{Ret.Mem})$$

Economies of Scale

Pension Plan Expenses by Pension Plan Size





Economies of Scale (2)

- Expense ratio (% of pension fund assets absorbed by costs associated with the operation of their pension schemes).
- For respondent schemes = 125 bps
- Bateman & Mitchell (2002) corresponding figures for Aust. = 109 bps, for US = < 90 bps
- Possibly due to differences in mean scheme size.
- Economies of Scale are important from both an employer and employee perspective.
- Smaller schemes do not appear to be able to leverage the same value from service providers.



Findings (2)

- Pensions viewed as complex and the regulatory burden deemed heavy and complex.
- Pensions are not well understood by the public.
- Pensions industry has image and communication problems.
- Despite PRSA's and repeated pension awareness campaigns perception of no significant ↑ in pension coverage.
- Govt. target of 70% pension coverage considered unattainable in a voluntary system.



Summary

- Evidence of Economies of Scale in the operation of Irish occupational pensions is consistent with international literature(Caswell (1976) U.S. & Bateman & Mitchell (2002) Aust. & U.S)
- Perhaps there are methods for smaller schemes to leverage value.
- The prevalence of DC schemes is increasing.
- Perceptions of Adequacy differ by scheme type and industry.



Limitations / Future Trajectories

- Cost model employed on a limited data set.
- Identifies costs at one point in time, trend needs to be identified.
- Future research trajectories:
 - Inter-industry analysis. (adequacy, coverage & cost)
 - Examine costs from service provider perspective
 - International comparisons



Acknowledgements

- To all at the IAPF
- To all respondents to the questionnaire and interviewees
- To all at W.I.T Business School, especially to my research supervisor Dr. Sheila O'Donohoe(W.I.T) and External Examiner Dr. Shane Whelan (U.C.D)



Conclusion of Presentation

■ Any Questions?

■ Contact:

– Aidan Mahon

Ph: 087-7618574

Email: mahonaidan@yahoo.com