



SURVEY OF ISSUERS' DEFINED BENEFIT PENSION SCHEME ASSUMPTIONS

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MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

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1. Introduction

IAASA (Ireland's accounting enforcer) has performed a desk top survey on the principal assumptions used by issuers in measuring the assets and liabilities of their defined benefit pension schemes. This publication presents the results of that desk top survey.

International financial reporting standards require entities to recognise a liability equal to the present value of the obligation to pay pensions that have accrued based on employees' service to date. Given the specialised nature of defined benefit pension arrangements, issuers engage actuaries to assist them in making actuarial assumptions and other estimates when accounting for these pension plans in accordance with international accounting standards. IAS 19 *Employee Benefits* requires an entity to deduct the fair value of any plan assets from the carrying amount of the obligation in order to determine the net defined benefit liability or asset.

This survey has focussed on the four assumptions that issuers most frequently address in pension accounting. The assumptions are:

- (a) discount rate;
- (b) rate of increase in salary;
- (c) rate of increase of pensions in payment; and
- (d) inflation.

IAASA's survey is based on the 2015/16 annual financial reports published by all 27 equity issuers falling within IAASA's financial reporting review remit together with Allied Irish Banks plc, a debt issuer (see Appendix).

This document summarises the total amount of the net defined benefit pension liability of each issuer together with a summary of the above listed assumptions for each issuer.

In undertaking this desk top survey, additional information was not sought from the issuers concerned.

2. Purpose of the survey

The primary purposes of the survey were to:

- a) determine the value of the defined benefit pension liabilities of the sampled issuers;
- b) determine trends in issuer's assumptions when calculating the defined benefit pension liabilities; and
- c) provide preparers, auditors and users of financial statements with information to encourage discussion and stimulate debate on the defined benefit pension assumptions and disclosures by issuers.

3. Defined benefit pension liabilities and assumptions

IAASA's desk top survey identified that the total present value of the defined benefit obligation for all issuers included in this survey was €23.7bn while the fair value of the plan assets amounted to €20.7bn. This gives a total net pension liability for all issuers included in this survey of €3bn (2014/15: €4.7bn). Table 1 lists each issuer's net pension liability. Tables 2, 3, 4 and 5 list each issuer's assumptions for discount rates, rates of increase in salary, rate of increase of pensions in payment and inflation respectively.

Table 1 – issuer’s net defined pension liability

No.	Issuer	Present value of defined benefit obligation – current year	Fair value of plan assets – current year	Net liability – current year	Net liability – prior year
		€m ¹	€m	€m	€m
1	Allied Irish Banks plc	6,343	6,197	146	1,064
2	Aryzta AG	80	66	14	11
3	Bank of Ireland	7,548	6,812	736	986
4	C&C Group plc	223	195	28	34
5	CRH plc	2,987	2,399	588	711
6	DCC plc	112.2	111.8	0.4	13
7	FBD Holdings plc	107	116	(9)	54
8	Glanbia plc	440	353	87	115
9	Grafton Group plc	277	254	23	45
10	Greencore Group plc	688	535	153	176
11	Independent News and Media plc	215	135	80	101
12	Irish Continental Group plc	269	264	5	24
13	Kerry Group plc	1,576	1,270	306	473
14	Kingspan Group plc	82	75	7	12
15	Ryanair Holdings plc	14	10	4	4
16	Smurfit Kappa Group plc	2,702	1,884	818	893
17	UDG Healthcare plc	95	86	9	6
	Total	23,758.2	20,762.8	2,995.4	4,727.5

IAASA’s desktop survey identified that 17 of the 28 issuers included in the sample have defined benefit pension schemes. The 11 issuers that do not have defined benefit pension schemes are listed in Section 8 below.

4. Discount rates

Discount rates are used to calculate the present value of a defined benefit pension obligation and the service and interest cost element of the defined benefit expense. Based on the data in Table 2, IAASA noted an upward trend in the discount rates used by issuers. Thirteen of the seventeen issuers that operate defined benefit pension schemes had increases in their discount rate assumptions. The four² issuers who had reductions in the discount rate assumptions had reporting dates prior to the 31 December 2015. An increase in yields on the highly rated corporate bonds results in a significant increase in discount rates used to value pension liabilities. This in turn can lead to decreases in

¹ For issuers presenting their financial statements in Sterling i.e. Grafton Group plc amounts have been translated into euro at £0.73395:€1, DCC plc amounts have been translated into euro at £0.79155:€1 and Greencore Group plc amounts have been translated into euro at £0.73475: €1

² Aryzta AG – reporting date 31 July 2015, Greencore Group plc – reporting date 25 September 2015, Ryanair Holdings plc – reporting date 31 March 2015 and UDG Healthcare plc – reporting date 30 September 2015

pension liabilities and charges. As noted above, the total net defined benefit pension liability decreased from €4.7bn to €3bn:

Table 2 – issuer's discount rates for issuers' defined benefit pension plans

No.	Issuer	Discount rates – current year	Discount rates – prior year
1	Allied Irish Banks plc ³	Rol: 2.7% UK: 3.9% Other: 2.7%-4.35%	Rol: 2.2% UK: 3.7% Other: 2.2%-4%
2	Aryzta AG	Average: 1.04%	Average: 3.25%
3	Bank of Ireland	Rol: 2.3% UK: 3.8%	Rol: 2.2% UK: 3.7%
4	C&C Group plc	Rol: 2.15% NI: 3.9%	Rol: 1.7% - 1.9% NI: 3.6%
5	CRH plc	Eurozone: 2.61% Britain & NI: 3.95% Switzerland: 0.85% USA & Canada: 4.22%	Eurozone: 2% Britain & NI: 3.95% Switzerland: 1.15% USA & Canada: 3.8%
6	DCC plc	Rol: 2% UK: 3.6%	Rol: 1.5% UK: 3.35%
7	FBD Holdings plc	Rol: 2.4%	Rol: 2.2%
8	Glanbia plc	Rol: 2.25% UK: 3.7%	Rol: 2.1% UK: 3.6%
9	Grafton Group plc	Rol: 2.35% UK: 3.95%	Rol: 2.1% UK: 3.6%
10	Greencore Group plc	Rol: 2.3% UK: 3.9%	Rol: 2.3% UK: 4.1%
11	Independent News and Media plc	Rol: 2.65% NI: 3.8%	Rol: 2.2% NI: 3.5%
12	Irish Continental Group plc	Eurozone: 2.2% UK: 3.75%	Eurozone: 2% UK: 3.65%
13	Kerry Group plc	Eurozone: 2.7% UK: 4% RoW: 3.5% - 4.25%	Eurozone: 2.2%-2.3% UK: 3.7% ROW: 3.65%-4%
14	Kingspan Group plc	UK: 2%-3.8%	UK: 1.5%-3.6%
15	Ryanair Holdings PLC	UK: 3.4%	UK: 4.6%
16	Smurfit Kappa Group plc	Eurozone: 2.4% Rest of Europe: 2.6%-3.9% The Americas: 4.35%-7.82%	Eurozone: 1.95% Rest of Europe: 2.2%-3.6% The Americas: 4%-7.32%
17	UDG Healthcare plc	ROI: 2.7% USA: 4% NI: 4%	ROI: 3% USA: 3.9% NI: 4%

It is also interesting to note that four issuers with 31 December 2015 year ends (i.e. Irish Continental Group plc, Smurfit Kappa Group plc, CRH plc and Kerry Group plc) have disclosed discount rates for the Eurozone ranging from 2.2% to 2.7%. In addition, five issuers (i.e. Allied Irish Banks plc, Bank of Ireland, FBD Holdings plc, Grafton Group plc and Independent News and Media plc) with 31 December 2015 financial year ends have disclosed discount rates for the Republic of Ireland ranging from 2.3% to 2.7%.

³ Allied Irish Banks plc is a debt issuer

5. Rate of increase in salary assumptions

IAASA noted a small number of issuers had an upward trend in salary increase assumption. However, the rate of increase is not substantial. For the majority of issuers, IAASA has noted, either a downward trend in salary assumptions for certain issuers and for other issuers, no amendments were made to salary assumptions from the prior year. IAASA considers that these trends maybe as a result of low inflationary expectations (see Table 5). Table 3 below lists the rate of salary increase assumptions for each issuer included in this survey:

Table 3 – Rate of increase in salary assumptions

No.	Issuer	Rate of increase in salaries – current year	Rate of increase in salaries – prior year
1	Allied Irish Banks plc	N/a	N/a
2	Aryzta AG	Average: 1.78%	Average: 2.09%
3	Bank of Ireland	Rol: 2.1% UK: 3.8%	Rol: 2% UK: 3.75%
4	C&C Group plc	Rol: 0%-2.5% NI: 3.4%	Rol: 0%-2.5% NI: 3.5%
5	CRH plc	Eurozone: 3.64% Britain & NI: 4% Switzerland: 1.75% USA & Canada: 3.29%	Eurozone: 3.75% Britain & NI: 4% Switzerland: 2.25% USA & Canada: 3.5%
6	DCC plc	Rol: n/a UK: 3.05%	Rol: n/a UK: 3.1%
7	FBD Holdings plc	Rol: n/a	Rol: 0%-2.5%
8	Glanbia plc	Rol: 2.4% UK: 3.75%	Rol 2.5% UK: 3.7%
9	Grafton Group plc	Rol: 2.6% UK: 0%	Rol: 2.5% UK: 0%
10	Greencore Group plc	Not disclosed	Not disclosed
11	Independent News and Media plc	Rol: n/a ⁴ NI: n/a	Rol: n/a NI: n/a
12	Irish Continental Group plc	Eurozone: 1% UK: 1.44%	Eurozone: 1% UK: 1.44%
13	Kerry Group plc	Eurozone: 1.8%-2.5% UK: 3.1% RoW: 3%	Eurozone: 1.6%-3% UK: 3% RoW: 5%
14	Kingspan Group plc	UK: 0%-2%	UK: 0%-2%
15	Ryanair Holdings PLC	UK: 1.75%	UK: 1.75%
16	Smurfit Kappa Group plc	Eurozone: 1.5%-3.18% Rest of Europe: 2.25%-3.7% The Americas: 3%-5.5%	Eurozone: 1.62%-2.5% Rest of Europe: 2.5%-3.6% The Americas: 2.41%-5.5%
17	UDG Healthcare plc	Rol: 2.75% USA: 2.75%-4% NI: 0%	Rol: 2.75% USA: 2.75%-4% NI: 0%

It is interesting to note that of the four issuers who disclosed the rate of increase in salary assumptions for the Eurozone, CRH plc had the largest salary increase assumption of 3.64% while the other three issuers (i.e. Irish Continental Group plc, Smurfit Kappa Group plc and Kerry Group plc) have salary increase assumptions for the Eurozone ranging from 1% to 3.18%.

⁴ Accrued benefits are not linked to salary increases

6. Rate of increase of pensions in payment assumptions

IAASA noted that the rate of increase of the pensions in payment assumption remained stable between the issuers' current year and prior year financial statements. An increase/decrease in the rate of pensions in payment will result in an increase/decrease in the defined benefit obligation at the reporting date. Table 4 lists each issuer's rate of increase of pensions in payment assumption:

Table 4 – Rate of increase in pension payment

No.	Issuer	Rate of increase in pension payment – current year	Rate of increase in pension payment – prior year
1	Allied Irish Banks plc	Rol: 1.45% UK: 3% Other: 0%-3%	Rol: 1.4% UK: 3% Other: 0%-3%
2	Aryzta AG	Average: 0%	Average: 2.54%
3	Bank of Ireland	Rol: 1.04% UK: 2.21%	Rol: 0.96% UK: 2.17%
4	C&C Group plc	ROI: 1.5% NI: 1.7%	Rol: 1.5% NI: 1.7%
5	CRH plc	Eurozone: 1.75% Britain & NI: 3%-3.2% Switzerland: 0% USA & Canada: 0%	Eurozone: 1.75% Britain & NI: 3%-3.2% Switzerland: 0% USA & Canada: 0%
6	DCC plc	Rol: 1.25%-2.5% UK: 1.53%-3.05%	Rol: 1.25%-2.5% UK: 1.55%-3.1%
7	FBD Holdings plc	Rol: 0%	Rol: 0%-1.5%
8	Glanbia plc	Rol: 0% UK: 2.1%-2.8%	Rol: 0% UK: 2.05%-2.8%
9	Grafton Group plc	ROI: 0% UK: 3.35%	ROI: 0% UK: 3.3%
10	Greencore Group plc	Rol: 0% UK: 2.9%	Rol: 0% UK: 3%
11	Independent News and Media plc	ROI: nil NI: 2.3%-3.3%	Rol: nil NI: 2.2%-3.1%
12	Irish Continental Group plc	Eurozone: 0.6%-0.7% UK: 2.9%	Eurozone: 0.6%-0.75% UK: 2.9%
13	Kerry Group plc	Eurozone: 1%-1.5% UK: 2.1%-3.1% RoW: 0%	Eurozone: 1%-1.3% UK: 2%-3% RoW: 0%
14	Kingspan Group plc	UK: 0%-1.8%	UK: 0%-1.9%
15	Ryanair Holdings PLC	UK: 2.90%	UK: 2.90%
16	Smurfit Kappa Group plc	Eurozone Nil -1.7% Rest of Europe: Nil -2.54% The Americas Nil-2.88%	Eurozone: Nil - 1.7% Rest of Europe: Nil-3% The Americas: Nil-2.5%
17	UDG Healthcare plc	Rol: 0%-1.75% USA: 0% NI: 1.8%-3.3%	Rol: 0%-1.75% USA: 0% NI: 1.9%-3.3%

It is also interesting to note that five issuers with schemes in the Republic of Ireland have assumptions which indicate that there will be no increase to the pensions in payment. The five issuers concerned are FBD Holdings plc, Glanbia plc, Grafton Group plc, Greencore Group plc and Independent News and Media plc.

7. Inflation assumptions

Higher inflation can lead to higher defined benefit pension liabilities. Inflation influences other assumptions, for example, rate of increase in salary and pension payments. IAASA noted that the inflation assumptions remained flat between the issuers' current financial year end and prior year end. One of the reasons as to why there is very little movement in the inflation assumption is that inflation is a long term assumption.

Table 5 – Inflation assumptions

No.	Issuer	Inflation assumption – current year	Inflation assumption – prior year
1	Allied Irish Banks plc ⁵	Rol: 1.5% UK: 3% Other: 1.5%-3%	Rol: 1.75% UK: 3% Other 1.75%-3%
2	Aryzta AG	Not disclosed	Not disclosed
3	Bank of Ireland	Rol: 1.60% UK: 2.3%	Rol: 1.50% UK: 2.25%
4	C&C Group plc	Rol: 1.5% NI: 3%	Rol: 1.5% NI: 3.1%
5	CRH plc	Eurozone: 1.75% Britain & NI: 3% Switzerland: 0.75% USA & Canada: 2%	Eurozone: 1.75% Britain & NI: 3% Switzerland: 1.25% USA & Canada: 2%
6	DCC plc	ROI: 1.5% UK: 3.05%	Rol: 1.6% UK: 3.1%
7	FBD Holdings plc	Rol: 1.5%	Rol: 1.5%
8	Glanbia plc	Rol: 1.3%-1.4% UK: 2%-3%	Rol: 1.2%-1.5% UK: 1.95%-2.95%
9	Grafton Group plc	Rol: 1.4% UK: 2.5%	Rol: 1.3% UK: 3.3%
10	Greencore Group plc	Rol: 1.65% UK: 3.05%	Rol: 1.65% UK: 3.2%
11	Independent News and Media plc	Rol: 1.75% NI: 2.3%	Rol: 1.75% NI: 2.2%
12	Irish Continental Group plc	Eurozone: 1.5% UK: 3.1%	Eurozone: 1.5% UK: 3.1%
13	Kerry Group plc	Eurozone: 1.5% UK: 3.1% RoW: 2.5%	Eurozone: 1.3% UK: 3% RoW: 2.5%
14	Kingspan Group plc	UK: 1.5%-1.9%	UK: 2%
15	Ryanair Holdings PLC	UK: 3%	UK: 3.30%
16	Smurfit Kappa Group plc	Eurozone 1.7% Rest of Europe: 1.5%-3.2% The Americas: 0.7%-3.5%	Eurozone: 1.5% Rest of Europe: 1.5%-2.6% The Americas: 2%-3.5%
17	UDG Healthcare plc	ROI: 1.75% USA: 2.75% NI: 2.5%	ROI: 1.75% USA: 2.75% NI: 2.5%

It is interesting to note that five issuers (i.e. Allied Irish Banks plc, Bank of Ireland, FBD Holdings plc, Grafton Group plc and Independent News and Media plc) each of which has a 31 December 2015 financial year end have disclosed inflation rate assumptions for the Republic of Ireland ranging from 1.4% to 1.75%. In addition, four issuers (i.e. CRH plc, Irish Continental Group plc, Kerry Group plc

⁵ Allied Irish Banks plc is a debt issuer

and Smurfit Kappa Group plc) who also have 31 December 2015 financial year end have disclosed inflation rate assumptions for the Eurozone ranging from 1.5% to 1.75%.

8. Issuers that have no defined benefit pension schemes

The following issuers have no defined benefit pension schemes:

1. Irish Residential Properties REIT plc;
2. Mainstay Medical International plc;
3. Kenmare Resources plc;
4. Aminex plc;
5. Green REIT plc;
6. Hibernia REIT plc;
7. Datalex plc;
8. Paddy Power Betfair plc;
9. IFG Group plc;
10. Permanent TSB Group Holdings plc; and
11. Cairn Homes plc.

9. Other finding arising from the Survey – Maturity profile of the defined benefit obligation

Paragraph 147(c) of IAS 19 *Employee Benefits* states:

'To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

-
- (c) *Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.'*

Of the seventeen issuers that have defined benefit pension schemes, eight issuers did not disclose the information required by IAS 19.147(c).

Issuers are reminded that the information required by IAS 19.147(c) must be disclosed in financial statements.

10. Conclusions

Variation in actuarial assumptions can have a material impact on issuers' defined benefit obligations. It is IAASA's expectation that Boards and Audit Committees will continue to carefully assess the assumptions used by actuaries in preparing actuarial valuations. In addition, Boards and Audit Committees should carefully consider the disclosure requirements of IAS 19 and ensure that all required information is disclosed in the financial statements.

Issuers included in this survey

The issuers falling under IAASA's financial reporting examination remit which were selected for inclusion in this defined benefit pension assumptions survey are listed below.

No.	Issuer	Reporting date
1	Allied Irish Banks plc ⁶	31 December 2015
2	Aryzta AG	31 July 2015
3	Aminex plc	31 December 2015
4	Bank of Ireland	31 December 2015
5	C&C Group plc	29 February 2016
6	Cairn Homes plc	31 December 2015
7	CRH plc	31 December 2015
8	Datalex plc	31 December 2015
9	DCC plc	31 March 2016
10	FBD Holdings plc	31 December 2015
11	Glanbia plc	2 January 2016
12	Grafton Group plc	31 December 2015
13	Green REIT plc	30 June 2015
14	Greencore Group plc	25 September 2015
15	Hibernia REIT plc	31 March 2016
16	IFG Group plc	31 December 2015
17	Independent News and Media plc	31 December 2015
18	Irish Continental Group plc	31 December 2015
19	Irish Residential Properties REIT plc	31 December 2015
20	Kenmare Resources plc	31 December 2015
21	Kerry Group plc	31 December 2015
22	Kingspan Group plc	31 December 2015
23	Mainstay Medical International plc	31 December 2015
24	Paddy Power Betfair plc	31 December 2015
25	Permanent TSB Group Holdings plc	31 December 2015
26	Ryanair Holdings plc	31 March 2016
27	Smurfit Kappa Group plc	31 December 2015
28	UDG Healthcare plc	30 September 2015

⁶ Allied Irish Banks plc is a debt issuer