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PROMISES, PROMISES: DEFINED BENEFIT PENSION SCHEMES IN A CYNICAL AGE

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Irish pension funds have experienced considerable financial strains since the start of the millennium. Asset values have reflected the dramatic decline in equity markets globally while, at the same time, liabilities have increased. Underlying forces are operating to bring the current structure of occupational pension provision to a crisis, with recent events only bringing forward its timing. If everything else remains the same, defined benefit pension schemes in Ireland will not recover with a recovery in equity markets. One of the forces inimical to defined benefit pension funds, and the one that is perhaps most easily altered, is the current regulatory structure for such schemes.

INTRODUCTION

Firms were paying pensions to long-serving employees long before the 21st century. The motivation was originally the very humane impulse to provide a decent standard of living in old age to one who had devoted his working life to the company. Pension provision was simply the firm assuming a duty of care to the aged employee.

The Irish State took a broad interest in the provision of occupational pensions by the private sector from its outset, under the Finance Act 1921.[1] This gave tax concessions on contributions and investment income for occupational pension schemes where the scheme was constituted by trust deed and provided benefits approved by the State. Thus began what may be considered to be one of the more important public-private partnerships in Ireland: in return for certain tax concessions the State could regulate the activities of private occupational pension funds.
As the size of pension assets has grown, so too has the regulation exercised by the State. A landmark in this regard was the Pensions Act 1990 which, inter alia, reduced considerably the flexibility that employers and scheme trustees could exercise in the benefits paid to leavers before retirement age and also reduced the flexibility of the funding arrangements allowed to meet the promised benefits. The development of such regulation follows a marked trend in many economies over the last few decades

[1] Enacted when Ireland was part of the United Kingdom, the Act was not repealed by the Irish Free State.

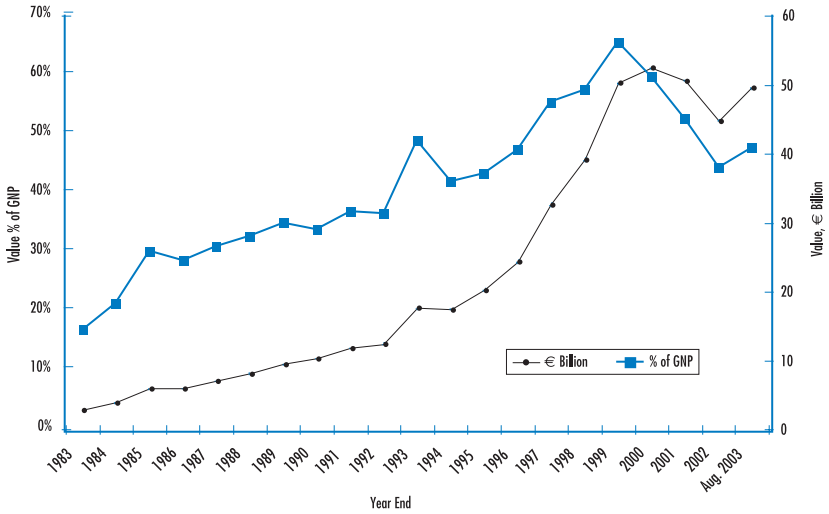
and could be taken to reflect the Zeitgeist of our times; namely, protection for the individual when dealing with financially significant, complex contracts such as pensions.

The beginning of the 21st century has challenged the very continuance of the defined benefit scheme in Ireland and elsewhere. Three consecutive years of unusually poor returns from equity markets has focused on the financial risks borne by employers in promising the target pension. In itself, the poor equity market returns are bearable. However, when coupled with resilient bond markets, increasing life expectancy from a lately recognised "cohort effect", and unusually rapid salary escalation in Ireland, the line up produces a gloomy picture. Finally, stricter regulation and disclosure requirements have lessened the flexibility that pension schemes could previously have exercised to cope with the financial strains. It seems that we have reached a watershed for the defined benefit pension fund.

THE CENTRAL ROLE OF THE DEFINED BENEFIT SCHEME

Figure 1 highlights the growth of Irish pension assets over the last couple of decades to the end of August 2003, both as an absolute amount and as a percentage of Ireland's Gross National Product (GNP).

FIGURE 1: IRISH PENSION FUND ASSETS, BY VALUE (€ BILLIONS) AS % OF IRELAND'S GNP, DEC.1983-AUG.2003



Source: Irish Association of Pension Funds Annual Asset Surveys, 1988-2002; figure for 1983 averaged from estimates presented in Bristow & Ryan (1985) and Keogh & Whelan (1985); values for 1984-1987 and August 2003 are estimated.

Irish pension funds have grown at a real rate of 12% per annum (or, equivalently, a 15% p.a. nominal rate) over the last two decades. As developed in Whelan (2002a), most of the growth in assets has been due to the underlying performance of the investments made rather than the net new money flow into pension schemes. Figure 1, in particular, captures the extent to which the weakness of the national and international equity markets since 2000 has been reflected in the asset values of Irish pension funds.

Despite the healthy growth judged by assets, this public-private partnership has not been altogether a success story. Many employers - and presumably employees - do not find the concessions by the State sufficiently tempting to redirect part of the employee's remuneration package through an occupational pension scheme. At the current time more than three out of every five workers in Ireland are not covered by occupational pensions. They must either provide for themselves or else adjust their lifestyle in retirement to live on the basic State pension.[2] Even for those with occupational pensions, one-third are members of defined contribution arrangements and are made to shoulder the investment risk of their final pension failing to meet their needs.[3] The pronounced trend in newly-established schemes is for those of the defined contribution type and there is some evidence of established defined benefit schemes closing to new entrants.[4]

The defined benefit scheme and the more recent defined contribution scheme are quite different. Under the defined contribution scheme there is no assumed duty of care and no real financial risk; the employer simply promises to make payments of a certain magnitude towards a pension. On retirement, the member is to draw whatever income he can from the accumulated amount.[5] The defined contribution scheme is perhaps best seen as a means to remunerate the employee in a more tax efficient way and, for the employer, it involves essentially only an administrative task – to provide the required administration with sufficient flexibility at minimum cost – not essentially different from the payroll task already required. The defined benefit scheme and its place in the future of the pensions industry is the debating point. The employer sponsoring such a scheme promises the member a pension at retirement, generally related to salary at that time. Accordingly, the employer has a financial interest in a defined benefit scheme, as the assumed duty of care of the members involves considerable financial risk. In particular, it must be asked what would tempt a company in today's climate to favour the defined benefit scheme design, with its significant financial promises, over the straightforward cash payment and administration required under the defined contribution scheme?

[2] Just 38.1% of persons in employment between the ages of 20 and 69 are covered by occupational pensions schemes, according to the *Quarterly National Household Survey, 2nd Quarter 2002*, Central Statistics Office 2003, available at www.cso.ie

IRISH PENSION SCHEMES' INVESTMENT STRATEGIES

Equities became a progressively larger part of the investment portfolio of Irish pension schemes in the latter part of the twentieth century. This trend was not unique to Ireland: most economies that allow freedom of investment to pension funds have witnessed a similar trend. Table 1 overleaf sets out how the asset mix of the average Irish pension scheme has evolved over the last three decades and compares the trend with that in other economies that enjoy similar investment freedom.

TABLE 1: AVERAGE ASSET ALLOCATION (%) OF PENSION FUNDS IN SELECTED ECONOMIES, 1970-2001

Asset Type	Year	Ireland	UK	US	Australia	Canada	Netherlands
Equities	1970	n/a	49	45	15	27	11
	1980	37	52	41	15	26	5
	1990	53	63	46	27	33	20
	2001	65	71	59	63	58	50
Property	1970	n/a	10	0	2	1	16
	1980	19	18	0	13	2	14
	1990	11	9	0	16	3	11
	2001	9	6	2	9	6	6
Total Real Assets	1970	n/a	59	45	17	28	27
	1980	56	70	41	28	28	19
	1990	64	72	46	43	36	31
	2001	74	77	61	72	64	56
Govt. Bonds	1970	n/a	18	7	51	38	10
	1980	34	22	14	33	40	5
	1990	23	11	20	13	39	14
	2001	4	10	35	16	28	17
Other Bonds/ Loans	1970	n/a	14	44	n/a	26	57
	1980	0	2	29	n/a	24	72
	1990	7	3	18	7	12	47
	2001	17	3	1	5	5	26
Cash	1970	n/a	4	1	n/a	5	3

[3] The Pensions Board (2003), Annual Report ans Accounts 2002. Available at www.pensionsboard.ie.

[4] A survey by the Irish Association of Pensions Funds (IAPF) estimates that 7% of Irish defined benefit pension funds closed in the three years to February 2002. (IAPF Benefits survey 2002, available at www.iapf.ie.) In the UK it is estimated that two-thirds of the FTSE 100 companies have closed their defined benefit schemes to new entrants (Lifeboat may sink pension funds, Business Editor's Commentary, The Times, 11 November 2003, p23).

[5] Indeed, it is known that the level of contribution to defined contribution schemes is, in aggregate, not sufficient to provide for a pension of half pre-retirement income even when account is taken of the social welfare pension, see Position Paper on Defined Contribution Plans & PRSAs, Society of Actuaries in Ireland, February 2003.

Asset Type	Year	Ireland	UK	US	Australia	Canada	Netherlands
	1980	10	5	8	n/a	9	2
	1990	6	7	9	23	11	3
	2001	2	3	2	5	2	2
Total Monetary Assets	1970	n/a	36	52	n/a	69	70
	1980	44	29	50	n/a	73	79
	1990	36	21	47	43	62	64
	2001	23	16	38	26	35	45
Other assets	1970	n/a	5*	3	n/a	3*	3*
	1980	0	1*	7*	n/a	-1*	2*
	1990	0	1*	7*	14*	2*	5*
	2001	3	7	2	2	1	
% of which foreign	1970	n/a	2	0	n/a	n/a	7
	1980	27	9	1	n/a	4	4
	1990	29	9	1	n/a	4	4
	2001	68	28	12	30	33	67

Source: Whelan (2001a) updated with figures for 2001 from UBS Pension Fund Indicators (2003) for the UK, US, Australia and the Netherlands. Figures for 2001 for Canada were sourced from the Composite Asset Mix Report for 2001 of the Pension Investment Association of Canada (PIAC). The average asset distribution for Irish pension funds was taken from the IAPF Investment Survey for 1990 (excluding insured assets for comparability) and for the Asset Allocation Survey for 2001. Figures for Ireland for 1980 actually relate to 1983 and are calculated from the figures of Bristow & Ryan (1985) quoted in Table 29 of OECD (1994). Figures for 1970 are not available for Ireland but the anecdotal evidence is that the larger Irish pension funds were managed by London-based investment managers at that time so, in all likelihood, would have pursued an investment strategy similar that that of UK funds. In particular, the foreign exposure of the assets would, in all likelihood, have been high at that time.

* Where the percentages do not sum to unity, the figure for 'Other assets' was adjusted and the adjusted figure is marked with an asterisk.

Table 1 shows that equities represent between 50% and 71% of the total portfolio value of pension funds in the economies surveyed, an increase from the range of 15% to 49% that applied in 1970. The rationale behind the high equity content is based on the better performance of equities over the long-term past.[6] However, other arguments can also be used to justify the high equity weighting witnessed in Irish pension funds to date.

Irish capital markets in the past have not provided Irish pension funds with assets to match the nature and term of pension fund liabilities. While no category of asset matches the requirements of the investor seeking to provide wage-linked benefits over

[6] This was explored in Whelan (2001a) in the context of the investment strategy of the National Pensions reserve Fund.

[7] No consistent positive relationship is evident between equity returns and inflation in most economies. For international evidence across 26 equity markets capturing more than 60% of the capitalisation of all equities in the world over the period 1947-1979, see Gultekin, N.B. (1938) *Stock Market Returns and Inflation: Evidence from Other Countries.* Journal of Finance, 38,1,49-65.

[8] See Whelan (2001a) or Whelan (2002b).

future decades, some asset types come closer than others. In particular, two key risks can be identified – reinvestment risk and inflation risk.

Re-investment risk is where some of the future proceeds from investments currently made will have to be invested again in the future as such proceeds are not wanted until later. The terms on which this re-investment can be made depend on future investment conditions, which are unknown. Hence the ultimate payoff depends on future unknown investment conditions. For instance, cash is an asset that leaves the investor most exposed to re-investment risk. At the end of the short investment period of cash instruments, all the proceeds must be invested again at an unknown rate. Bonds are next in the order of exposure to re-investment risk because of their higher running yield and generally shorter maturity, followed by property and equities.

Another significant risk for pension funds is unanticipated inflation. Trustees of pension funds ideally seek an investment that can generate a positive real return, irrespective of the actual inflation level. Long-term bonds are clearly most exposed as they give a nominal level income, irrespective of how inflation changes in the future. The current yield on bonds reflects the markets' best estimate of future inflation, including an inflation risk premium. However, the yield is prone to change quickly and dramatically when current expectations on inflation change – an all too often occurrence to which the fixed interest investor is fully exposed. Next, in order of exposure to the risk of unanticipated inflation, are equities.[7] The very short-term nature of cash investments means that the interest rate on cash can respond quickly and with little capital loss to a changing inflationary environment.

Arguments such as those above have been used to justify the current high equity content of pension funds. In particular the risk of future inflation is material as it threatens to undermine the original rationale for pension schemes - to provide a decent standard of living to the retired. However, perhaps the primary reason that equities are favoured is their historically better performance over long periods in the past.[8]

THE REGULATORY FRAMEWORK FOR DEFINED BENEFIT SCHEMES

The Irish State has sought to influence the evolution of the asset allocation of Irish pension funds over the last couple of decades, attempting to increase their exposure to Irish assets. As outlined in Whelan (2002a, 2001b), the impact of such measures after the removal of exchange controls at the end of 1988 has been very modest. However, regulations recently introduced for Irish pension funds, that are designed to provide greater security for beneficiaries, could indirectly have a significant impact on their future asset distribution.

First, the Pensions Act 1990 required that the early leaver be given a "preserved benefit" (defined in Part A of the Second Schedule to the Act) and that that part of the preserved benefit that could be deemed to have accrued after the year 1990 was to be revalued each year by the lesser of inflation or 4% (Section 33(5)) until the sooner of death or normal retirement age. The general effect of this provision was to increase the benefits payable from a scheme when a member left early, the amount varying from scheme to scheme but often the increase was equal to the total increase entailed by the revaluation.

Secondly, the Act introduced the requirement for Irish pension schemes to have an actuary (the "Scheme Actuary") undertake a periodic review to ensure that the assets of the scheme taken at market value exceed the liabilities on termination (as defined in the Act). If a shortfall were to be revealed, it must be disclosed to interested parties and a short-term funding plan agreed with the newly-established regulator, the Pensions Board, to make good the deficit. The liabilities on termination are defined (Third Schedule) to be the benefits payable under the Rules of the Scheme (as amended in the case of the early leaver above) with in-service members assumed to be early leavers at the valuation date. The Pensions (Amendment) Act 2002 materially changed the value of early leavers' benefits and the termination liabilities, when it removed the provision that the revaluation should only apply to that part of the benefit deemed to have accrued after the year 1990. Now all the benefit is subject to revaluation.

In addition to the above provisions under the Pensions Acts, taxation acts and regulations also apply and, in particular, demand that action be taken to reduce the amount of surplus that can be maintained within a pension fund once it exceeds a certain level.

The Society of Actuaries in Ireland has issued guidance to actuaries on how the detailed provisions of these Acts and the associated Regulations should be interpreted, in particular outlining bases to ascertain a minimum value for the benefits.[9] Thus, Irish pension funds are faced with an unprecedented level of regulation, which poses an investment dilemma.

[9] See in particular Society of Actuaries in Ireland (2003), Guidance Note 3 and Guidance Note 11.

DEVELOPMENTS AFFECTING IRISH PENSION FUNDS

The decline in equity markets and the impact that it has had on occupational pension schemes in Ireland and elsewhere has been the subject of much public comment. In particular, the advice of actuaries to such schemes has been the subject of criticism. An editorial in the Financial Times on 31st January 2003 puts the point starkly:

> "Wherever you go in the industrialized world, it is difficult to escape stories of crises in pension systems. Unfortunately they are not exaggerated…. But in the UK and the US, the actuarial profession should face the same harsh scrutiny that accountants have endured in the period following Enron's collapse. Actuarial advice about long-term asset values and pension fund liabilities in the 20-year bull market of the 1980s and 1990s, often accompanied by bewildering mathematical complexity, failed to pass simple reality checks. If liabilities are essentially fixed and pension funds relatively mature, equities are unlikely to be the appropriate asset to hold…Actuaries have a lot of explaining to do."

The fall in equity markets when coupled with stable or strengthening bond markets has ensured that the fall in the value of the assets of pension schemes has not been matched by a fall in the value of liabilities on market-based valuation methodologies.

However, aside from the poor return on pension assets relative to the growth of the liabilities, there have been other developments detrimental to the finances of defined benefit pension schemes over the last three years. One less publicized factor has been the increasing realisation that mortality rates are improving faster than previously projected at the older ages, leading to increased reserves and funding for pensions to reflect the expected longer term of payment. A recent report by the a working party of the Society of Actuaries in Ireland now estimates that life expectancy for an Irish male at age 65 will increase from the 13.7 years recorded in 1996 to 19.5 by the calendar year 2056 while life expectancy for an Irish female aged 65 will increase from 17.4 in 1996 to 23.4 in 2056.[10] A second factor, perhaps more material, is that there has been a significant change to the regulation of pension funds in Ireland with, as outlined earlier, the Pensions (Amendment) Act 2002 increasing the liabilities of Irish pension funds. Recent estimates put the proportion of Irish defined benefit pension funds failing this regulatory standard at 50%.[11]

[10] Harney et al. (2003)

[11] See, for instance, Heffernan, E. (2002), in the contribution to the debate Defined Benefit Pensions Represent the Best Way of Providing for the Working Population's Retirement provision, faculty of Actuaries, 18th November 2002 and reproduced in British Actuarial Journal (2003), 9, I, 125-126.

Finally, the whole investment backdrop for defined benefits schemes changed when the Irish pound became a founding member of the euro from 1999. From that time, Irish investors have access to the considerably deeper and more liquid euro markets to match Irish liabilities. This extended market of assets denominated in the domestic currency has allowed Irish pension funds to find an asset portfolio that matches their liabilities reasonably closely.

THE FUTURE EVOLUTION OF THE ASSET ALLOCATION

Two related issues have been identified as likely to have an impact on the future evolution of the asset allocation of Irish pension funds. The first centres on the debate on the most suitable investment strategy for such schemes. The second is more unique to Irish pension funds, and concerns the impact that recent regulation could reasonably be expected to have on the investment strategies pursued. At the heart of both issues is the notion of investment risk and the level of risk that it is acceptable for pension funds to bear.

Irish pension schemes now have two investment targets. One target is to provide, from the existing assets and the members' and sponsoring employer's future contribution rates, the benefits promised under the rules when they fall due. A constraint generally introduced when attempting to meet this target is that the future contribution rate should remain as low as possible and be a reasonably stable percentage of payroll.

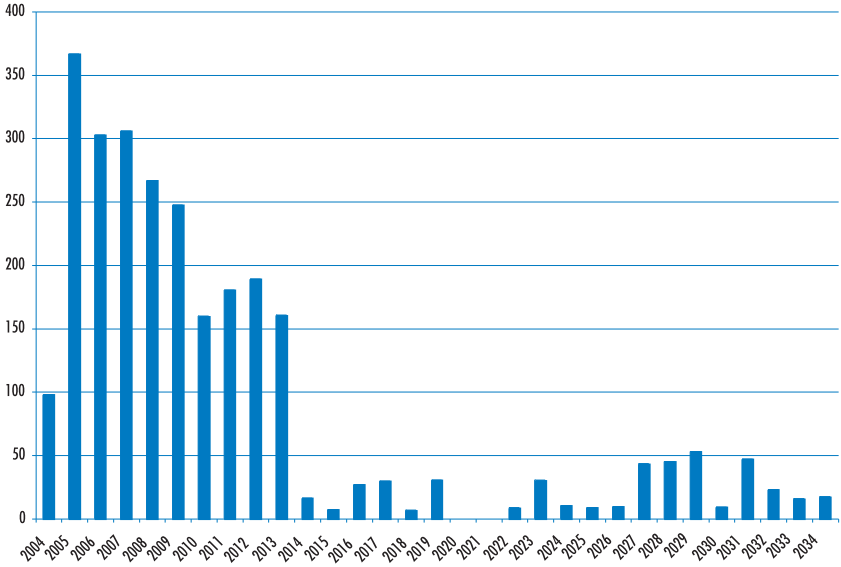
The other investment target is to ensure that, at any point in time, the value of the assets exceed the value of the termination liabilities. Now, prior to the Pensions Act 1990 and subsequent amendments (especially the Pensions (Amendment) Act 2002), the value of the termination liabilities was generally a small percentage of the value of the assets of the typical scheme, so that the second target could be ignored in practice when setting the investment strategy. However, now the termination liabilities of Irish pension funds form a high percentage of the value of the assets such that attention must now be given to this latter target. This creates an investment dilemma as follows: the investment strategy that produces an acceptably low risk of showing a deficit on future termination valuations will generally not coincide with the investment strategy that produces the desired low and stable future contribution rate.

A CASE STUDY

The following reFor concreteness, let us consider a person aged 55 years who is a member of a scheme that promises a pension from age 65 of half his salary at the time of retirement, the pension subject to a fixed rate of increase while in payment. Let us further assume that the person will die on his 85th birthday. Now, the value of the preserved benefit under the Pensions Acts is to be revalued by the lesser of inflation or 4% in any year, up to vesting at age 65. Given that the average revaluation rate can be reliably estimated, the liability is a series of (estimated) nominal amounts falling in a regular pattern, beginning in 10 years' time and ending in 30 years' time.

The maturity profile of the euro-denominated sovereign debt market is analysed in Figure 2.

FIGURE 2: OUTSTANDING NOMINAL AMOUNT OF EURO-DENOMINATED GOVT. BONDS OVER 1 YEAR, BY CALENDAR YEAR OF MATURITY, BILLIONS, AS AT SEPT. 2003



Source: Calculated from data kindly provided by Citigroup.

The total size of the euro-denominated sovereign bond market is €2,700 billion, while the total size of Irish pension funds at the same time (September 2003) is of the order of €50 billion. Accordingly, the euro sovereign bond market is over 50 times larger. The outstanding nominal amount tends to be concentrated in the next 10 years, with relatively light and patchy volumes outstanding from 2014 onwards and nothing beyond 2034. The Figure thus indicates that a pattern of fixed amounts falling due anywhere within the next three decades can adequately be matched by euro-denominated bonds, especially now that many such bond issues are strippable.

It follows that we can identify a bond portfolio matching the revalued preserved payments due to the 55 year-old person, subject only to the extent that we can reliably estimate the rate of revaluation prior to vesting. This points to a predominantly bond-based portfolio to match the termination liabilities.

The benefits due to the same 55 year-old person, assuming he stays in service to normal retirement age, is a pension of half his salary at the time of retirement, the pension subject to a fixed rate of increase while in payment. In order to estimate the payments falling due after 10 years' time now requires estimation of the person's wage increases over the next decade. This problem can be decomposed into estimating the general rate of inflation over the next decade and the real rate of wage increase. The latter might be estimated to a reasonable accuracy,[12] leaving us to allow for the rate of inflation over the next decade.

Ireland does not have a developed market in index-linked bonds; so, it could be argued that a freely traded security directly matching this rate of escalation is not available.[13] However, since 1998 the French government has issued some bonds with payments linked to French inflation [14] and some bonds with payments linked to euro zone inflation (excluding tobacco).[15] The index-linked market in the euro zone is nowhere near as developed as the conventional bond market, with few recent issues of comparatively small nominal value. For Irish pension funds there is also the associated basis risk of how French or euro zone inflation might differ from Irish inflation. However, this index-linked market does provide the most closely m atching asset and thus can be used to construct a portfolio most closely m atching the benefit outgo.

[12] See, for instance, Whelan (2002b), where a wage and inflation series for Ireland over the twentieth century is analysed to show a reasonably stable relationship between the two.
[13] There are just two stocks with payments linked to Irish inflation – the (government guaranteed) Housing Finance Agency bonds of 2008 and 2015. Both are small issues, with a combined market value of less than € 1/2 billion.
[14] The OATi 2009, 2013, and 2029 with combined nominal outstanding at the start of 2003 of about €14.5 billion. Source: Agency France Trésor.
[15] The OAT€i 2012 and 2032 (of nominal amount outstanding of approximately €6.5 billion and €4 billion respectively. Source: Agency France Trésor (www.francetresor.gouv.fr/oat/us/indexus.cgi).
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The above considerations have allowed identification in general terms of the most closely matching portfolio to the stylised pension liabilities in the case study. The portfolio mix depends on whether the termination liability or on-going benefits are targeted, but in either case it comprises only conventional bonds and eurozone index-linked securities. In particular, a role for equities in the most closely matching portfolio has not been identified.

If the case study is generalised to consider pension payments linked to inflation, or persons aged over 55 years, clearly similar arguments apply and we again identify portfolios consisting of just bonds (conventional and index-linked) to be the closest matching portfolio to the liabilities. For persons younger than 55, there is no (sovereign guaranteed) security matching payments falling due after 2032 for inflation-linked benefits or 2034 for nominal payments. However, the market allows us to provide a nominal amount or inflation-linked amount in three decades' time and this can be used as a stepping-stone to provide payments falling due after the three decades. Applying this logic entails that solving for the most closely matching asset for nominal or index-linked liabilities after 30 years' is perhaps best done by extrapolating the yield curve beyond the present cut-off and price on the basis that longer dated securities at the extrapolated yield exist. The investment strategy to allow for these very long-term payments would be to invest the estimated amount in the longest dated bonds.

The above argument leads to a conclusion very similar to that advocated for UK pension funds in Speed et al (2003); namely, that the most closely matching asset for Irish pension fund liabilities is composed mainly of conventional and index-linked bonds. It also makes clear that there is generally no simple matching asset for pension fund liabilities and some judgement must be used to identify the closest matching portfolio. It should be noted, in particular, that the above argument leads to a portfolio which has - if history is any guide - a lower expected long- term return than a portfolio predominantly comprising equities. This entails that the first target, to provide the benefits as they fall due at the lowest stable contribution rate, is compromised to some extent.

[16] Oscar Wilde (1892) Lady Windemere's Fan

CONCLUSIONS

We have reached a watershed in the provision of occupational pensions in Ireland. On the one hand, there is the defined contribution scheme, which is simply a cash payment made independent of the needs of the individual and his dependents. On the other hand, there is the defined benefit pension plan, a trust that, perhaps anachronistically, still takes responsibility for the welfare of its members.

Recent changes to the regulation of occupational pension funds in Ireland has demanded that defined benefit plans must demonstrate that the assets of the scheme are sufficient at all times to meet the termination liabilities of the scheme (these latter liabilities defined under the regulations and representing a significant percentage of the on-going liabilities). These regulations emphasise short-term mismatch risks and encourage a move to assets that most closely match the termination liabilities. This entails a move of Irish pension assets anyway from equities towards bonds as, on arguments made earlier, a bond portfolio most closely matches this liability.

The move towards bonds can be expected to increase the long-term costs of operating defined benefit plans as, if history is a guide, bonds have considerably lagged the performance of equities in the long term. The consequence is that regulation designed to protect pension members has actually increased the long-term costs of running these schemes, by an unquantifiable but material amount. As the decision to establish such schemes, or to keep them open to new employees, or even to continue their operation is essentially a matter for the sponsoring employer, we can expect the increased cost burden (and its lack of transparency) to discourage new defined benefit schemes, close existing ones to new employees and, perhaps, even lead to the wind-up and conversion of existing schemes to the defined contribution type.

The underlying reason for the regulation of occupational pension schemes is protection of the members and other beneficiaries. As currently enacted, it demands a price be put on the pension promise and attempts to ensure that the trust maintains assets to at least that value, in good times and bad. Regulation is not attempting to ascertain whether the sponsoring employer is making reasonable and fair provision for the promise but demanding that the employer underwrites the risk that the trust's assets track the changing price the market puts on the future benefits. The current regulation of occupational pension schemes is what Oscar Wilde would expect in a cynical age for "the cynic knows the price of everything and the value of nothing".[16] Perhaps, the level of guarantee now demanded is so high that it is unrealistic to expect companies to provide for pensions in the future – maybe pension provision should be left up to the individual or the State.

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