



Annual Report Summary 2021

The ESB Defined Benefit Pension Scheme



TRUSTEE CHAIRPERSON'S FOREWORD

As Trustee Chairperson, I am pleased to present the 2021 Annual Report Summary for the ESB Defined Benefit Pension Scheme. The Annual Report and its Summary are the primary methods used by the Trustees to communicate with members. We hope our members find them both informative and interesting in giving an insight into the scale and operation of the Scheme.

2021 was a year in which technology played such a massive part in all our lives. It was, for a lot of people, the only connection to the world which made it a very unusual and difficult year. Unlike 2020, which had a brief period of relative normality before Covid upended everything, the pandemic dominated our lives since day one in 2021. We've all had to adapt to a "new" normal, although what that looks like is different for every person. It was with a lot of joy and relief - and perhaps even trepidation - that we witnessed the removal of most Covid restrictions in early 2022 and we hope that Covid remains less of a threat going forward. Our joy was short lived however when we witnessed the outbreak of a needless war in Ukraine and the pointless and devastating loss of many lives. As Martin Luther King, Jr once said, "The past is prophetic in that it asserts loudly that wars are poor chisels for carving out peaceful tomorrows".

In 2021, economies around the globe slowly made great progress towards recovery and re-opening. However, much remains to be done as the recovery was uneven, incomplete and often interrupted by new virus outbreaks and scares. In fact, despite vaccines, significant natural immunity and various restrictive measures - the virus took a larger human toll last year than 2020. Despite all this, it was a good year for a lot of growth assets. As a balanced portfolio, the performance of the ESB Pension Fund is driven primarily by the return of a basket of assets as opposed to the performance of any one particular asset along with manager skill. The Fund recorded a return of 11.0% during the year. The return over the past 3 years was 7.2% p.a., while over the longer term, the Fund returned 5.4% p.a. and 8.2% p.a. over the past 5 and 10 years respectively. Lower asset yields and richer asset prices have brought forward future returns. The payback time for the recent decades' windfalls gains may be approaching.

As noted in previous years, the Scheme is an increasingly mature one where 66% of the members are pensioners. Benefits and payments to leavers totaled €257 million for the year while

total contributions from employees and employer were €60 million. The trend of higher pension payments relative to contributions will only be strengthened over the coming years which has implications for investment strategy and maintaining liquidity to pay pensions.

The Scheme Actuary concluded, in the Interim Actuarial Valuation at the end of 2021, that on an ongoing basis, the Scheme's assets and liabilities could, based on the method and assumptions employed, be considered to be in balance. The ongoing position sets out the Scheme's funding level on the basis that it continues in operation into the future. The regulatory Minimum Funding Standard (MFS) shortfall, which assumes that the Scheme is wound up immediately, was €292 million while the size of the Risk Reserve was €720 million at the end of 2021. In calculating the MFS numbers, the Actuary used a normal retirement age of 60 until such time as the Minister approved the deferred member rule change. This change would allow the Actuary to use a normal retirement date of 66 which would significantly reduce the valuation of the MFS liabilities. The rule change followed the member consultation period last year and ESB's subsequent approval of the rule change.

The Funding Proposal submitted last year expired at the end of 2021. As Ministerial approval for the deferred member rule change was only received in April 2022, the Scheme did not meet the MFS at end of 2021. However, given the rule change approval in April 2022, the significant rise in bond yields and positive investment return up to April 2022, the Scheme met the MFS at that time which is a very noteworthy and positive development.

With the submission of the Funding Proposal to the Pensions Authority last year, the Solvency Test for previous years (2018 and 2019) was conducted in late 2021/early 2022. As Irish inflation was negative (-1.2%) in the 12 months to September 2020, there was no test applicable for 2020. The applicable rates of inflation in the 12 months to the end of September 2018 and September 2019 was 0.9% for each year. In his assessment at that time, the Actuary outlined that the Funding Proposal was on track to meet its objective by the end of 2021, if the terms of the Proposal were implemented in full. The Trustees and the Pensions Implementation Forum both endorsed the Actuary's recommendation that these two pension increases could be awarded and backdated. This was approved by the

Superannuation Committee and was applied in late March 2022. This is a positive development for Scheme members. These two pension increases added c. €83 million to the MFS liability. Irish inflation for the 12 months to September 2021 was 3.7%. The Actuary recommended to the Trustees that the Solvency Test for 2021 should be conducted after a Funding Proposal, if required, is submitted to the Pensions Authority. As the Actuary confirmed in May 2022 that a Funding Proposal is not required in 2022 as the Scheme meets the MFS, the Solvency Test will be undertaken shortly.

As mentioned in my foreword last year, regulation is becoming more and more onerous for Trustees in Ireland. IORP II, an EU directive transposed into Irish law in 2021, significantly increases the compliance burden for schemes. We are currently working on this and hope to be fully compliant at the end of 2022 in line with Pensions Authority expectations. The Trustees approved the appointment of the two key function holders - James O'Loughlin for Internal Audit and Krystle Healy for Risk. Quarterly data on assets and annual data on liabilities is being submitted to the ECB. Furthermore, we have also initiated policies to comply with the EU Shareholder Rights Regulation 2020, the ESG requirements of IORP II and the EU Sustainable Finance Disclosures Regulations. The Trustees continuously keep under review the legislation and regulations underlying the Scheme.

Due to the pandemic, our member communication event last year was an online live event hosted in October 2021. This year's event will also be a live event on Microsoft Teams in October 2022. If you would like to join this event, please email onehr@esb.ie before 23rd September 2022.

Finally, I wish to note that this is my last Annual Report as Trustee Chairperson. I first served as a Trustee from 1998 to 2006 after which I served as Chairperson from May 2008 when I took over from the late Joe Maher. While I have thoroughly enjoyed serving all of you as Trustee Chairperson, I feel the time is now right for me to hand over and spend more time with my family now that the Scheme's solvency is on a solid footing on both an actuarial and regulatory basis. I was recently looking up some old files and noted how much change the Scheme has seen since 1998 - back then there were 7,831 active members compared to 2,900 today; 4,879 pensioners compared to 8,068 today; the Fund size was €1.6bn compared to €5.5bn today while the asset mix was less sophisticated with the assets mainly in equities (65%), bonds (15%), property (2%) and cash (18%). Returns have been strong since 1998 coming in at 6% per annum. I will really miss the interactions with my fellow Trustees who truly do a remarkable job in managing the Scheme for you and I thank them for their continued confidence in reappointing me as their Chairperson over the years. I will also miss my interactions with ESB and indeed ESB Pensions who work tirelessly on your behalf and provide a truly professional and wonderful service. I wish my successor and my fellow Trustees all the best in the future in managing the Scheme in a tough regulatory and investment environment.

"The past is a foreign country: they do things differently there". L.P. Hartley

Tony Donnelly

Trustee Chairperson

May 2022

Scheme Overview

The Scheme is a funded defined benefit pension scheme as defined by the Pensions Act 1990. The Scheme was established under the Electricity Supply Board (Superannuation) Act 1942 and provides benefits based on pensionable earnings and service for members and their dependants on retirement, death or ill health.

Member Communication in 2021

The Trustees communicate with members through the Annual Report and Annual Report Summary, both of which are available online and in hard copy on request. A consultation process on a Scheme rules change for deferred members was carried out with members last year. In addition, the following communications with members took place during 2021:

- In June, active members received their CARE Benefit Statements based on their accrued benefits as at 31st December 2020.
- A presentation on the Annual Report 2020 was held virtually for members in October.

Scheme Amendments

The deferred member rule change was submitted to the Department in November 2021 and ministerial approval was received in April 2022. This ensures equality between serving and deferred members. It should be noted that this new rule change does not affect anyone who left under a Voluntary Severance (VS) arrangement.

CARE Revaluation

Under the terms of the Pensions Agreement 2010, a Career Average Revalued Earnings (CARE) defined benefit structure was introduced for all active Scheme members from 1st January 2012. CARE revaluation is based on the annual inflation rate to end September each year plus 1%. The 12-month inflation rate until September 2021 was 3.7% according to

the Central Statistics Office (CSO) which means a CARE revaluation of 4.7%.

Disputes Resolution Procedures

The Scheme has a disputes resolution procedure which gives beneficiaries a formal basis for raising complaints. If a complainant is not satisfied with the determination, they can refer their complaint to the Pensions Ombudsman. A copy of the procedure is available from ESB Pensions.

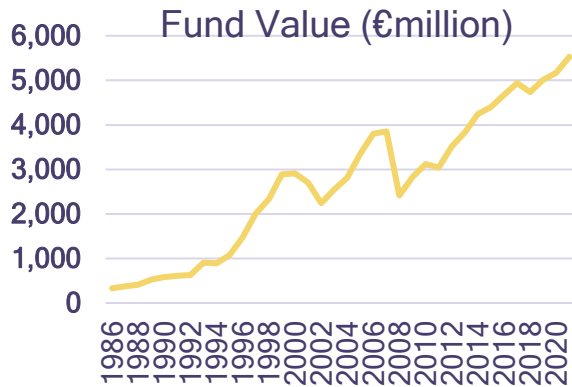
Member Profile

Scheme Member Profile	2020	2021
Contributors	3,161	2,900
Pensioners	7,906	8,068
Deferred members	1,360	1,278
Total Members	12,427	12,246

Fund Performance

Annualised Returns to 31 st December 2021	
1 Year	11.0%
3 Year	7.2%
5 Year	5.4%
10 Year	8.2%

The Fund returned 11.0% in 2021 which was above the 3.4% target with strong contributions (i.e. weight multiplied by return) coming from equities, liability driven and inflation linked bonds portfolio, credit, multi asset funds, hedge funds and the inflation sensitive portfolio (gold, forestry and inflation sensitive multi asset fund). The return over the past 3 years was 7.2% p.a., while over the longer term, the Fund returned 5.4% p.a. and 8.2% p.a. over the past 5 and 10 years respectively. Given the increase in yields, the long-term return target was increased to 3.7% in 2022 on an actuarial basis.



Fund's Allocation at end 2021

Exposures	Weight
Performance Assets	
Equities	17%
Credit	15%
Multi Asset Funds	11%
Property	11%
Inflation Sensitive Assets	10%
Hedge Funds	9%
Infrastructure	6%
Private Equity	1%
Matching/Defensive Assets	
Government Bonds (&LDI)*	13%
Euro Corporate Bonds	4%
Cash	3%

*"LDI" represents "liability driven investing" which is a portfolio of assets designed to hedge out liability risks, mainly interest rate and Inflation, through appropriate swaps.

Pension Increases

Under the terms of the Pensions Agreement 2010, pension increases are based on the level of annual price inflation (to end September in the previous year), subject to an annual Solvency Test, prior to any payment and subject to a cap of 4%. With the submission of the Funding Proposal to the Pensions Authority last year, the Solvency Test for previous years (2018 and 2019) was conducted. As Irish inflation was -1.2% in the 12 months to September 2020, there was no test applicable for 2020. The applicable rates of inflation in the 12 months to the end of September 2018 and September 2019 were 0.9% for each year. Following the positive outcome from the Solvency Test, the Committee approved these

increases which were backdated. Irish inflation for the 12 months to September 2021 was 3.7%. As the Actuary confirmed in May 2022 that a Funding Proposal is not required in 2022, the Solvency Test will be undertaken shortly.

Solvency Position at the end of 2021

In the years between the formal Triennial Actuarial Valuations, the Actuary carries out a less formal Interim Valuation. The formal actuarial valuation is undertaken in accordance with Section 56 of the Pensions Act and is prepared in accordance with relevant actuarial standards and guidelines issued by the Society of Actuaries in Ireland. However, as the Interim Valuation is not a formal valuation, it does not comply with all of the detailed reporting and disclosure requirements of a full valuation. The last Triennial Actuarial Valuation was at the end of 2020.

At the end of 2021, the Scheme Actuary confirmed that the assets and liabilities remained broadly in balance on an ongoing basis with an overall funding level of 98.5%. This is based on a 3.7% discount rate which is marginally higher than last year due to higher bond yields.

The regulatory MFS shortfall was €292 million at the end of 2021 while the Risk Reserve requirement was €720 million so the Scheme did not meet the MFS at year end. Importantly, this was using a normal retirement age of 60 for all members. However, given the rule change approved by the Minister in April 2022, the positive Fund performance and significant increase in bond yields up to April 2022, the Scheme met the MFS at that time and therefore no Funding Proposal is required.



Scheme Financials

		2020 (€m)		2021 (€m)
Value of Fund at start of year		5,010		5,171
Contributions and Transfers In*	348*		60	
Benefits and other expenditure	(253)		(257)	
Net Return on Investments	<u>67</u>		554	
Change in Fund value during year		<u>162</u>		<u>357</u>
Value of Fund at end of year		5,171		5,528

* Final payment from ESB arising from the 2010 Pensions Agreement paid in 2020. (Numbers in table are rounded to the nearest million.)

The ESB Gateway Trust, which contains €47 million, is consolidated into the valuation of the Scheme's assets. This amount will be payable on call by the Superannuation Committee to fund the cost of any benefits granted on earlier retirement between ages 60 and 66 that the Committee cannot, on the basis of advice from the Scheme Actuary, be absorbed by the Scheme's resources.

Superannuation Committee, Trustees, Forum and Officers

The Trustees and the Superannuation Committee are responsible for overseeing all aspects of the Scheme. The Trustees have overall responsibility for the investment of the Fund's assets. The Superannuation Committee oversees the payment of benefits to members and their dependants. ESB is the Registered Administrator for the Scheme and day to day administration was provided by Capita (which has since moved to Aon Solutions Ireland Limited) and ESB Enterprise Services.

The Pensions Implementation Forum was established after the Pensions Agreement 2010 to ensure that the parties to the Scheme are fully conversant with and have a shared understanding in relation to the associated management of the Scheme risks. It is made up of representatives of the Trustees, the Committee, the ESB Group of Unions and ESB.

ENQUIRIES

Staff Enquiries
esbdbpension@aon.ie

Pensioner Enquiries
 01-702 6699 (Option 3)
pensions@esb.ie

ESB Pensions
 27 Lower Fitzwilliam St, Dublin 2, D02
 KT92

ESB Intranet Site
 ESB Pensions

This is a summary version of the Annual Report for members. If you would like a copy of the full Annual Report, you can request one by emailing onehr@esb.ie

Trustees, Superannuation Committee and Officers

Trustees

Tony Donnelly	Chairperson
Anne Marie Kean	
Adrian Kelly	
Jeremiah Murphy	(from July 2021)
David Naughton (RIP)	(until March 2021)
Pat Naughton	
Peter Van Dessel	
Anthony Walsh	

Superannuation Committee

John Carton	Chairperson
Ann Carroll	
Adrian Fox	
Lorna Heron	(from April 2021)
Arthur Hutchinson	(until March 2021)
Sean Kelly	
Louise Murphy	
Margaret O'Connor	
John O'Sullivan	
Claire Quane	
David Sexton	

Secretary to Trustees and Superannuation Committee

James O'Loughlin

Key Function Holders

Risk	Krystle Healy
Internal Audit	James O'Loughlin

Pensions Implementation Forum

Tom McMahon	Chairperson
Tony Donnelly	
Jim Dullaghan	
Arthur Hutchinson	(until March 2021)
Adrian Kelly	
Margaret O'Connor	
Fran O'Neill	
Gerard Tallon	
Peter Van Dessel	
David Sexton	(from April 2021)

ESB Pensions

Pensions and Insurance Manager

James O'Loughlin

Investment Team

Noel Friel - Pensions Chief Investment Officer

Ciara Quinn - Investment Analyst

Pension Services Team

Susan Cahill - Regulatory & Accounting Manager

Krystle Healy - IORP II Implementation Manager

Dave Curran - Risk and Governance Manager

Jennifer Hickey - Pension Administration Specialist

Claire O'Brien - Pension Administration Specialist

Lisa Donegan - Fund Accountant