



Annual Report Summary 2022

The ESB Defined Benefit Pension Scheme

Chairperson's Note

As Trustee Chairperson, I am pleased to present my first Annual Report for the ESB Defined Benefit Pension Scheme for 2022. The Annual Report and its Summary are the primary methods used by the Trustees to communicate with members. We hope our members find this year's report both informative and interesting in giving an insight into the scale and operation of the Scheme.

Following the departure of my predecessor Tony Donnelly last year, I was appointed Chairperson from October 2022. I previously worked in ESB from 1986 to 2012 where I had a number of roles including General Manager Power Generation, Head of Business Service Centre and as Corporate Change Manager I led the negotiations on the Pensions Agreement 2010. So, my pensions experience goes back a long way. I would like to personally thank Tony for his support to me as incoming Chair and for his enormous contribution to the Scheme since becoming a trustee in 1998 and Chairperson in 2008. His energy, enthusiasm, expertise and professionalism will be missed, and I wish him all the best in his "second retirement" from ESB. I am excited and honored to be appointed Chairperson, in what is a pivotal time in the history of the Scheme which celebrated its 80th anniversary last year. We have seen many significant developments over that time – and as in the past, we will continue to address challenges positively as they arise currently and no doubt into the future.

2022 was a busy year for the Scheme. Some of the main highlights of the year that I'd call out which are covered in more detail elsewhere in this Report are as follows:

- The Actuary confirmed that the Scheme met the Minimum Funding Standard (MFS) including the Risk Reserve for the first time in over 20 years. This is a very positive development for the Scheme. This is due to several reasons including higher interest rates, the change in the definition of the normal retirement age and solid investment performance over the past few years. The ongoing actuarial valuation remains 'in balance' which is also crucial.
- Pension increases were awarded last year following the successful outcome of several Solvency Tests for 2018, 2019, 2021 and 2022 (there was deflation in 2020).
- The Fund recorded a return of -4.5% during 2022 which was a tough year for investment markets. 2022 saw global equities fall over 15% and EU government bonds fall over 30%. 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 return over the past 3 years was 2.4% p.a., while the Fund returned 3.2% p.a. and 6.0% p.a. over the past 5 and 10 years respectively.
- The Trustees and Committee spent much time in 2022 ensuring that they were IORP II compliant by the end of 2022. This included agreeing many new policies and process documents and new IORP compliant reporting. The "Key Function Holders" for Internal Audit (James O'Loughlin) and Risk (Krystle Healy) were appointed by the Trustees in December 2021. All existing Trustees were independently assessed to ensure they met the fitness and probity requirements under IORPs. As part of our move to having all our Trustees undertake the professional Trustee exams, four trustees successfully completed this qualification with the remaining Trustees to undertake this qualification in 2023 and 2024.
- An amended set of Scheme rules are with the Minister recommending changes arising from the IORP Directive and other anomalies which arose over the past 80 years of the Scheme's history. A requirement under IORP is that all pension schemes must be managed under one supervisory body, so the Scheme rules were required to be updated to allow for the amalgamation of the Trustees and the Committee.
- CARE revaluation of 9.2% was applied from 1st January 2023 which reflected the 12 month Irish inflation print to the end of September 2022 plus 1%.
- The Scheme continues to mature which is most evident in the membership number and the cashflow profile. 68% of members are pensioners whereas 22% are contributing members and 10% are deferred members.

Benefits and payments to leavers totalled €280 million for the year while total contributions from employees and the employer were €53 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.

This summary covers the overview of the Scheme which includes information on the Trustees and Superannuation Committee members, Scheme amendments, financial accounts, membership profile, solvency position, revaluations and pension increases and the investment allocation and performance.

Due to the pandemic, our member communication event last year was an online live event which took place in October 2022. This year's event will be a hybrid event held on Microsoft Teams with in-person attendance available at ESB Headquarters, 27 Lower Fitzwilliam Street, Dublin 2. This event will be held on 19th October 2023 and if you would like to attend this event, please email onehr@esb.ie outlining whether you will be attending in person or virtually before 31st August 2023.

As Chairperson, I want to express my appreciation of the generous commitment shown by my fellow Trustees. Throughout this period, they have devoted considerable time and effort to their role as Trustees. I also want to acknowledge the very valuable contribution from Peter Van Dessel who after over 11 years' service decided to leave the Trustee board in December 2022. I wish him great success in developing his investment business in the USA. I would also like to put on record the Trustees' appreciation for the support and outstanding work of James O'Loughlin (Secretary to the Fund), Noel Friel (Chief Investment Office) and all the staff in ESB Pensions.

While the Scheme's solvency is currently in a good position, this is a very challenging time for pension funds globally given the economic, geopolitical, regulatory and investment backdrop. We continue to manage the Scheme with the aims of reducing solvency volatility, by de-risking when opportunities allow, and paying pension increases in line with inflation when affordable and being mindful of intergenerational equity. These are

demanding objectives to balance, but we continue to work hard to achieve them.

I am really looking forward to the next few years working with my fellow Trustees, ESB Pensions, ESB and other stakeholders on your behalf.

Kieran Sweeney,
Trustee Chairperson
May 2023

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 Communications in 2022

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. The following communications with members took place during 2022:

- In June, active members received their CARE Benefit Statements based on their accrued benefits as at 31st December 2021.
- Pensioners were notified of pension increases by letter in February and September 2022.
- There was a consultation process with employees in September 2022 for a period of 21 days, regarding amendments to the Scheme rules.
- A presentation on the Annual Report 2021 was held virtually for members in October 2022.
- In December 2022 Pensioners received their ESB Pension Declaration form for completion.

Scheme Amendments

As notified in the 2020 and 2021 Annual Reports, in March 2020, as part of the proposed Minimum Funding Standard (MFS) solution, the rules of the Scheme were updated to require retirements prior to the state pension age to be specifically approved by the Superannuation Committee. This rule change was submitted to and approved by the Minister in December 2020. This then allowed for the MFS Funding Proposal to be submitted to the Pensions Authority that aimed to address the MFS shortfall by the end of 2021. In bringing that rule change through the approval process with the Department and NewERA, it was pointed out that by changing the rules as submitted, only active staff would be subject to the approval process by the Superannuation Committee and not deferred members. On further consideration it was felt that this anomaly needed to be addressed and at the October 2021 Board meeting, the ESB Board approved a rule change to make the approval by Superannuation Committee a requirement for deferred members also. This is seen as ensuring 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. As per the Scheme rules, there followed a consultation process with employees in November for a period of 21 days. This change was submitted for approval to the Minister early in 2022 which was received in April 2022.

With the advent of the IORP II Directive, ESB established a Governance Structure Review Group (“Review Group”) to work with ESB Pensions with a view to making recommendations on changes to the Scheme’s governance to ensure compliance with the Directive. External legal advice was also sought as part of this exercise. Following careful consideration, the Review Group recommended that the number of Trustees should be increased (to encompass some of the existing members of the Superannuation Committee). The Trustees would then take on all roles relating to the administration and governance of the Scheme and the Superannuation Committee would then cease to exist. This would result in a governance structure that meets the requirements of the Regulations while retaining the experience and knowledge of the Superannuation Committee. This proposal was reflected in an amended set of

Scheme rules that were approved by the ESB Board and are now with the Minister for approval. As per the Scheme rules, there was a consultation process with employees in September 2022 for a period of 21 days. The amended rules include the appointment of two additional Trustees (one nominated by ESB and one nominated by members following election), bringing the total number of Trustees to nine.

In addition to the changes required to bring the Scheme into compliance with the Regulations, other (non-material) changes are also proposed. These include presentational changes and clarifications such as the inclusion of rule sub-headings, which are intended to make the rules easier to navigate. The proposed rule changes also reflect changes to the normal retirement date to reflect the option to retire at age 67 (from 2023) and age 68 (from 2028) as a result of a change in HR policy communicated by ESB in July 2022. It is important to note that the proposed rule changes do not amend either the benefits payable under the Scheme or ESB’s contribution obligations to the Scheme. In addition to recommending the changes to the ESB Board, ESB Pensions briefed the Trustees, the Superannuation Committee and the Group of Unions on the requirements of IORP II and the proposed changes to the Scheme’s governance. At the time of writing, the Trustees are awaiting formal Ministerial approval for the amended rules.

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 2022 was 8.2% according to the Central Statistics Office (CSO) which means a CARE revaluation of 9.2% which was applied to all relevant members at the start of 2023.

Member Profile

Scheme Member Profile	2022	2021
Contributors	2,674	2,900
Pensioners	8,169	8,068
Deferred members	1,173	1,278
Total Members	12,016	12,246

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.

Solvency Position

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.

The ESB Gateway Trust, valued at €47 million, is included in 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 normal retirement date that the Committee cannot, on the basis of advice from the Scheme Actuary, be absorbed by the Scheme's resources.

At the end of 2022, the Scheme Actuary confirmed that the assets and liabilities remained broadly in balance on an ongoing basis with a funding level of 101.4%. This is based on a 5.25% discount rate which is higher than last year's (3.7%) due to the significant increase in bond yields over the year.

The regulatory MFS position moved from a shortfall of c. €290 million to a surplus of €733 million at the end of 2022 while the Risk Reserve Requirement was €396 million. This reflects an MFS solvency ratio of 117% or 107% (including the Risk Reserve) at the end of 2022. As the Scheme met the MFS at the end of 2022, there was no need for a Funding Proposal. This change in position was due to the rule change approved by the Minister in April 2022 and the significant increase in bond yields over the year.

This position for both the Ongoing Actuarial and MFS valuations at the end of 2022 includes the impact of all approved pension increases and CARE effective from the end of 2022. The next Triennial Valuation will be conducted at the end of 2023.

Scheme Financials

	2021 €million	2022 €million
Value of Fund at start of year	5,171	5,528
<i>Contributions and Transfers In</i>	60	53
<i>Benefits and payments to leavers</i>	(257)	(280)
<i>Net Return on Investment</i>	554	(238)
Value of Fund at end of year	5,528	5,063

At 31 December 2021 the value of Fund assets was €5,528 million. During 2022 contributions from ESB and members and transfers in amounted to €53 million. Benefits and payments to leavers amounted to €280 million. Overall, the Fund lost €238 million arising from the decrease in the valuation of investments and income less expenses. This resulted in net assets of €5,063 million at 31 December 2022. This net asset includes the Gateway Trust which is included in the overall Fund.

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 in 2021, the Solvency Test for previous years (2018 and 2019) was then conducted. Irish inflation was -1.2% in the 12 months to September 2020, therefore no test was 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 applied in March 2022 and backdated to the respective applicable dates.

Irish inflation for the 12 months to September 2021 was 3.7% and following the successful outcome of the Solvency Test for 2021, this increase was awarded by the Committee in July 2022 and backdated to the start of the year. The 12 month Irish inflation to the end of September 2022 was 8.2% and following the successful outcome of the Solvency Test for 2022, a 4% increase (which is the capped amount under the Pensions Agreement 2010) was awarded by the Committee in December 2022 to take effect from the 1st January 2023. In total, 9.5% of pension increases were awarded during 2022.

Fund Performance

	1 Yr	3 Yr	5 Yr	10 Yr
Fund Return	-4.5%	2.4%	3.2%	6.0%

2022 was a challenging year for most asset classes given the significant increase in interest rates and inflation and geopolitical developments with equities and bonds experiencing falls of 15% to 30%. The Fund returned -4.5% in 2022 which was below the 3.7% target with positive contributions coming from hedge funds, property, infrastructure, credit and private equity. However, negative contributions from government and investment grade corporate bonds, equities and cash more than offset these positive contributions. The return over the past 3 years was

2.4% p.a., while the Fund returned 3.2% p.a. and 6.0% p.a. over the past 5 and 10 years respectively. Given the increase in yields, the long-term return target was increased to 5.25% from 2023 on an actuarial basis.

Fund Allocation at end 2022

	Strategic Asset Allocation	Actual Allocation At End 2022
Matching/Defensive Assets	25%	23%
Cash	3%	4%
Euro Corporate Bonds	10%	7%
Government Bonds/LDI	12%	12%
Performance Assets	75%	77%
Credit	18%	17%
Equities	18%	15%
Infrastructure	13%	10%
Property/Forestry	10%	14%
Hedge Funds	9%	9%
Multi-Asset	5%	10%
Private Equity	2%	2%

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 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.

IORP II Provisions

The European Union (Occupational Pension Schemes) Regulations, 2021 (the Regulations) were signed into Irish Law on 22 April 2021. The transposed Regulations introduced new requirements and changes to the Pensions Act, 1990, as amended (“the Act”). IORP II sets out the minimum standards for the management and supervision of pension schemes to protect the entitlements of members and beneficiaries. The Code of Practice for trustees of occupational pension schemes and trust Retirement Annuity Contracts (RACs) was published by the Pensions Authority on 18th November 2021 with the expectation that all schemes would be fully compliant by 1st January 2023.

IORP II introduces many new obligations on Irish pension schemes including:

- Minimum qualification and experience standards for trustee boards.
- The appointment of key function holders for risk management, actuarial and internal audit.
- Requirement for written policies on risk management, internal audit, remuneration and, where relevant, actuarial and outsourced activities.
- Standards for internal controls, administrative and accounting procedures, contingency plans.
- Communications and information to be provided to active members, prospective members, deferred members, those nearing retirement and pensioners.

An IORP II readiness plan was put in place for the DB Scheme and throughout 2022 the Trustees and the Superannuation Committee were briefed monthly on IORP II. At the December 2022 Trustee meeting all new IORP policies were approved by the Trustees.

Key Function Holders

Under IORP II, Trustees must appoint “Key Function Holders”. The Trustees approved the appointment of the two key function holders: James O’Loughlin for Internal Audit and Krystle Healy for Risk in December 2021.

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 - Home \(sharepoint.com\)](#)

[Pensions \(esbstaffservices.com\)](#)

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, Forum and Officers

Trustees

Kieran Sweeney	Chairperson (from Oct 2022)
Tony Donnelly	Chairperson (until Sept 2022)
Anne Marie Kean	
Adrian Kelly	
Jeremiah Murphy	
Pat Naughton	
Peter Van Dessel	(until Dec 2022)
Anthony Walsh	

Superannuation Committee

John Carton	Chairperson
Ann Carroll	
Adrian Fox	
Lorna Heron	
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	(until Sept 2022)
Jim Dullaghan	
Adrian Kelly	
Kieran Sweeney	(from Oct 2022)
Margaret O'Connor	
Fran O'Neill	
Gerard Tallon	
Peter Van Dessel	(until Dec 2022)
David Sexton	

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
Colm O'Raghallaigh – Regulatory & Accounting Manager (seconded)
Krystle Healy - IORP II Implementation Manager
Jennifer Hickey - Pension Administration Specialist
Claire O'Brien - Pension Administration Specialist
Dave Curran - Risk and Governance Manager
Lisa Donegan - Fund Accountant