



# Annual Report Summary 2023

The ESB Defined Benefit Pension Scheme

## CHAIRPERSON'S FOREWORD

As Trustee Chairperson, I am pleased to present my second Annual Report Summary for the ESB Defined Benefit Pension Scheme for 2023. 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.

2023 was another exceptionally busy year for the Scheme from both an operational and investment perspective. Operationally, the Scheme moved from transitioning to full implementation of IORPII, a significantly enhanced regulatory environment overseen by the Pensions Authority. While the Scheme's heavily diversified investment portfolio cushioned against the worst of the falls in markets in 2022, 2023 was a good year for investment returns. While the macroeconomic climate was uncertain and volatile for much of the year, towards the latter end of 2023, markets became more confident that interest rates had peaked and the battle to control inflation was largely won. This led to a strong rally in stock and bond markets. Nevertheless, inflation remains a concern and we continue to monitor movements in both inflation and interest rates.

Some of the main highlights for the Scheme were as follows:

- The Actuary confirmed that the Scheme met the Minimum Funding Standard (MFS) including the Risk Reserve at the end of 2023. Crucially, the ongoing actuarial valuation remained 'in balance' at the end of 2023 with a funding level of 101%.
- Following the successful outcome of the Solvency Test for 2023, the Secretary, on behalf of the Committee, wrote to Department of Environment, Climate and Communications (DECC) seeking Ministerial consent to pay a 4% increase in line with Circular 16/2021 Code of Practice for the Governance of State Bodies and also the regulations underpinning the Scheme. As part of this process, Department of Public Expenditure and Reform (DPENDR) was also required to consent to the payment of this pension increase. Following a review process by NewERA, DECC and DPENDR, consent was received from both Departments in February 2024 and the increase was paid in February, backdated to the start of the year. This follows on from the 4% pension increase paid in January 2023.
- The Fund recorded a return of 5.5% during 2023, and despite it being a volatile year for investment markets, this return is largely in line with its 2023 long term target of 5.3%<sup>1</sup>. 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 3.8% p.a., while the Fund returned 4.4% p.a. and 5.3% p.a. over the past 5 and 10 years respectively.

- Much effort was spent by the Trustees and Committee in embedding IORPII (the new regulatory regime for pension funds) into their day-to-day management of the Scheme. The Trustees formed a new Governance, Audit & Risk committee to help manage the additional workload.
- DECC and DPENDR, together with NewERA, have been working on approving the amended set of Scheme rules which was submitted in 2022. These amended rules mainly arose from the implementation of the IORPII Directive. A requirement under IORP is that all pension schemes must be managed under one supervisory body, so the Scheme rules required an update to transfer Committee duties to those of the Trustees. In February 2024, both Ministers approved the amended rules and a Statutory Instrument is currently being prepared by DECC following ESB notification of same to Revenue.
- CARE revaluation of 7.4% was applied from 1<sup>st</sup> January 2024, which reflected 12-month Irish inflation (CPI of 6.4%) to the end of September 2023 plus 1%.
- The Scheme continues to mature which is most evident in the membership number and the cashflow profile. 70% of members are pensioners whereas 21% are contributing members and 9% are deferred members. Benefits and payments to leavers totalled €281 million for the year while total contributions from employees and the employer were €52 million. The trend of higher pension payments relative to contributions will only increase over the coming years which has implications for investment strategy and maintaining liquidity to pay pensions.
- As part of our investment manager governance, Trustee subgroups met with our Irish investment managers at their offices in June and September. This is in addition to our normal meetings where we meet with the Fund's various investment managers.
- The Pensions Authority held an engagement exercise with the Trustees in November 2023 as part of their IORP II implementation engagement with trustees of Irish pension schemes. The Trustees demonstrated to the Authority that they had an effective system of governance in operation for their fiduciary management of the Scheme.
- Deferred member benefit statements, which are now required under IORPII, issued for the first time in December 2023.
- In December 2022 we recommenced the member verification process following the pandemic. Thanks to all for completing and returning your ESB Pension Declaration.

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<sup>1</sup> Target return was 5.25% at the start of 2023 and was increased to 5.5% in November 2023.

- Our member communication event last year was a hybrid event held in October. This year's event will also 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 15<sup>th</sup> October 2024 and if you would like to attend this event, please email [onehr@esb.ie](mailto:onehr@esb.ie) outlining whether you will be attending in person or virtually before 31<sup>st</sup> August 2024.
- A mini-investment strategy review was concluded earlier in the year to ensure the Fund is targeting an optimal investment strategy to achieve the required discount rate (or investment target).

I would like to express my sincere gratitude to my fellow Trustees for their dedication and commitment throughout the past year. They have consistently gone above and beyond, generously donating their time and expertise to fulfill their roles. A special welcome to Bernard Daly, who joined the board in July 2023, replacing Peter Van Dessel. On behalf of all the Trustees, I would also like to acknowledge the invaluable contributions of James O'Loughlin (Secretary to the Fund and Internal Audit Key Function Holder), Krystle Healy (Risk Key Function Holder), Noel Friel (Chief Investment Officer), and indeed the entire team in ESB Pensions. Their continued support and exceptional work is deeply appreciated.

The Scheme's current financial position is reasonably strong and I am pleased to say that progress has been made in increasing the liability matching assets within the overall portfolio. However, pension funds worldwide face significant challenges due to economic uncertainty, geopolitical tensions, evolving regulations, and a complex investment landscape. We are committed to managing the Scheme responsibly by reducing risk where possible and aiming to provide inflation-linked pension increases. These goals require careful balance, but we remain dedicated to achieving them.

**Kieran Sweeney**  
Trustee Chairperson  
May 2024

## 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 dependents on retirement, death or ill health.

## MEMBER COMMUNICATIONS IN 2023

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 2023:

- Pensioners were notified of a 4% pension increase by letter in January 2023, applying from 01/01/2023, for all members who were pensioners on 31/12/2022.
- In June, active members received their CARE Benefit Statements based on their accrued benefits as at 31st December 2022.
- In September, Aon presented to active members of the Scheme as part of Pensions Awareness Week.
- A presentation on the 2022 Annual Report was held virtually for members in F27 in October 2023.
- In December, for the first time as required under IORP, deferred members received their CARE Benefit Statements based on their accrued benefits as at 31st December 2022 online via the Aon portal.

## SCHEME AMENDMENTS

As reference in previous reports, 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 submitted to the Minister of Environment, Climate and Communications (DECC) for approval in November 2022. As per Circular 16/2021, the amended rules also need to be approved by the Minister for Public Expenditure and Reform (DPENDR).

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.

In February 2024, both Ministers approved the amended rules and a Statutory Instrument is currently being prepared by DECC following ESB notification of same to Revenue.

## 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 2023 was 6.4% according to the Central Statistics Office (CSO) which means a CARE revaluation of 7.4% which was applied to all relevant members at the start of 2024.

## MEMBER PROFILE

Scheme Member Profile	2023	2022
<b>Contributors</b>	2,502	2,674
<b>Pensioners</b>	8,194	8,169
<b>Deferred members</b>	1,082	1,173
<b>Total Members</b>	<b>11,778</b>	<b>12,016</b>

## 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 Triennial Actuarial Valuation with an effective date of 31<sup>st</sup> December 2023, the Scheme Actuary confirmed that the assets and liabilities remained "in balance" on an ongoing basis with a funding level of 101%. This was based on a 4.7% discount rate which is lower than that applicable at the end of 2022 (5.25%) due to lower bond yields over the year. This discount rate factors in a 9% move from growth and cashflow, producing assets to liability matching assets executed in the first half of 2024.

The Actuary also confirmed that the regulatory Minimum Funding Standard (MFS) surplus decreased

from €733 million to €533 million over the year, mainly as a result of falling bond yields, pension increases and CARE. This corresponds to a funding level of 111.6%. The Funding Standard Reserve was €404 million which results in an overall MFS surplus of €129 million or a funding level of 102.6%. As the Scheme met the MFS with an effective date of 1<sup>st</sup> January 2024, there was no need for a Funding Proposal.

The ESB Gateway Trust, valued at €49 million at year end, is included in the valuation of the Scheme's assets. This amount is payable on request by the Superannuation Committee to fund the cost of any benefits granted on early 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.

This position for both the Actuarial and MFS valuations include the impact of all approved pension increases and CARE effective from the end of 2023. The next Triennial Valuation will be conducted at the end of 2026.

## SCHEME FINANCIALS

	2022	2023
	€million	€million
<b>Value of Fund at start of year</b>	5,528	5,063
Contributions and Transfers In	53	52
Benefits and payments to leavers	(280)	(281)
Net Return on Investment	(238)	288
<b>Value of Fund at end of year</b>	<b>5,063</b>	<b>5,122</b>

(Numbers are rounded to the nearest million.)

As at 31 December 2022 the value of Fund assets was €5,063 million. During 2023 contributions from ESB and members and transfers in amounted to €52 million. Benefits and payments to leavers amounted to €281 million. Overall, the Fund gained €288 million arising from the increase in the valuation of investments and income less expenses. This resulted in net assets of €5,122 million at 31 December 2023. 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%. Irish inflation for the 12 months to September 2023 was 6.4% and following the successful outcome of the Solvency Test for 2023, the Secretary, on behalf of the Committee, wrote to DECC seeking Ministerial consent to pay the increase in line with Circular 16/2021 Code of Practice

for the Governance of State Bodies and also the regulations underpinning the Scheme. As part of this process, DPENDR was also required to consent to the payment of this pension increase. Following a review process by NewERA, DECC and DEPENDR, consent was received from both Departments in February 2024 and the increase was paid in February, backdated to the start of the year. This follows on from the 4% pension increase paid in January 2023.

In reaching their decision to approve a pension increase, the Committee took account of a range of factors, including the Scheme's Rules, the advice of the Scheme Actuary, views from the Trustees and the Forum, updated financial and investment information, the Scheme's long-term objectives, the current and projected future financial circumstances of the Scheme, and the cost of discretionary increases. The Committee, and indeed the Trustees, also considered the increase in the consumer price index (CPI) over the 12-month period to the end of September 2023 (6.4%), the interests of all members, past practice, sustainability, and risk (in particular, investment risk).

## FUND PERFORMANCE

2023 was a strong year for most asset classes due mainly to better-than-expected economic growth, lower than expected inflation and stimulative liquidity conditions. Over the year, the Fund returned 5.5% versus a benchmark of 5.3%. Solid returns from equities, bonds and credit boosted returns while property, infrastructure and hedge funds detracted from returns. Over the longer term, the Fund has returned 5.3% p.a. versus a benchmark of 4.4% p.a. over the past 10 years. Given the decrease in yields over 2023, the long-term return target was reduced from 5.25% at the end of 2022 to 4.95% at the end of 2023 on an actuarial basis. This discount rate includes a 2% move from growth and cashflow producing assets carried out in April 2024. This target increased to 5.6% by the end of October 2023 arising from higher yields up to that point but had lowered by year end due to lower bond yields and a derisking move carried out towards year end.

	1 Yr	3 Yr	5 Yr	10 Yr
<b>Fund Return</b>	5.5%	3.8%	4.4%	5.3%
<b>Benchmark</b>	5.3%	4.3%	4.1%	4.4%

## FUND ALLOCATION AT END 2023

Asset class	End 2022	End 2023	Strategic Asset Allocation
<b>Liability Matching Assets</b>	<b>23.0%</b>	<b>28.1%</b>	<b>28%</b>
Cash	4.3%	5.3%	3%
<b>Euro Investment Grade Corporate Bonds</b>	6.6%	8.3%	11%
<b>Government Bonds/LDI</b>	12.1%	14.5%	14%
<b>Cashflow Producing Assets</b>	<b>41.7%</b>	<b>40.8%</b>	<b>39%</b>
Credit	17.0%	18.3%	17%
Infrastructure	10.2%	11.6%	12%
Property/Forestry	14.5%	10.9%	10%
<b>Growth Assets</b>	<b>35.3%</b>	<b>31.1%</b>	<b>33%</b>
Equities	14.5%	16.0%	17%
Hedge Funds	8.9%	8.6%	9%
Multi-Asset	10.4%	4.8%	5%
Private Equity	1.5%	1.7%	2%

## IORP II PROVISIONS

The European Union (Occupational Pension Schemes) Regulations, 2021 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 introduced 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. Throughout 2023 the Trustees have been embedding IORP II into the day-to-day management and governance of the ESB DB Pension Scheme. All of the Trustees have completed a Pensions Authority recognised professional trustee qualification.

## SUPERANNUATION COMMITTEE, TRUSTEES, FORUM AND OFFICERS

The Trustees and the Superannuation Committee are responsible for overseeing all aspects of the Scheme with ESB and Aon Solutions Ireland Ltd being the Registered Administrators. 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 dependents. 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 set up post 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 from the Trustees, the Superannuation Committee, the ESB Group of Unions and ESB.

## ENQUIRIES

**Staff Enquiries:** [esbdbpension@aon.ie](mailto:esbdbpension@aon.ie)  
**Pensioner Enquiries:** 01-702 6699 (Option 3) or [pensions@esb.ie](mailto:pensions@esb.ie)  
**ESB Pensions** 27 Lower Fitzwilliam St, Dublin 2, D02, KT92  
**ESB Intranet Site** [Defined Benefit \(sharepoint.com\)](#)



Trustees	
Kieran Sweeney	Chairperson
Bernard Daly	(from July 2023)
Anne Marie Kean	
Adrian Kelly	
Jeremiah Murphy	
Pat Naughton	
Anthony Walsh	
Superannuation Committee	
John Carton	Chairperson (until June 2023)
Ann Carroll	
Niamh Curtis	(from February 2023)
Martina Comerford	(from August 2023)
Adrian Fox	
Lorna Heron	
Sean Kelly	
Louise Murphy	(until January 2023)
Margaret O'Connor	Chairperson (from July 2023)
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	
Fran O'Neill	Chairperson
Bernard Daly	(from July 2023)
Jim Dullaghan	
Adrian Kelly	
Kieran Sweeney	
Tom McMahan	Secretary
Margaret O'Connor	
Gerard Tallon	
David Sexton	
ESB Pensions at the of End 2023	
James O'Loughlin	<i>Pensions and Insurance Manager</i>
Noel Friel	<i>Pensions Chief Investment Officer</i>
Ciara Quinn	<i>Investment Analyst</i>
Susan Cahill	<i>Regulatory &amp; Accounting Manager</i>
Lisa Donegan	<i>Fund Accountant</i>
Krystle Healy	<i>IORP II Implementation Manager</i>
Jennifer Hickey	<i>Pension Administration Specialist</i>
Claire O'Brien	<i>Pension Administration Specialist</i>

*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](mailto:onehr@esb.ie).*