

DB Pension Proposals

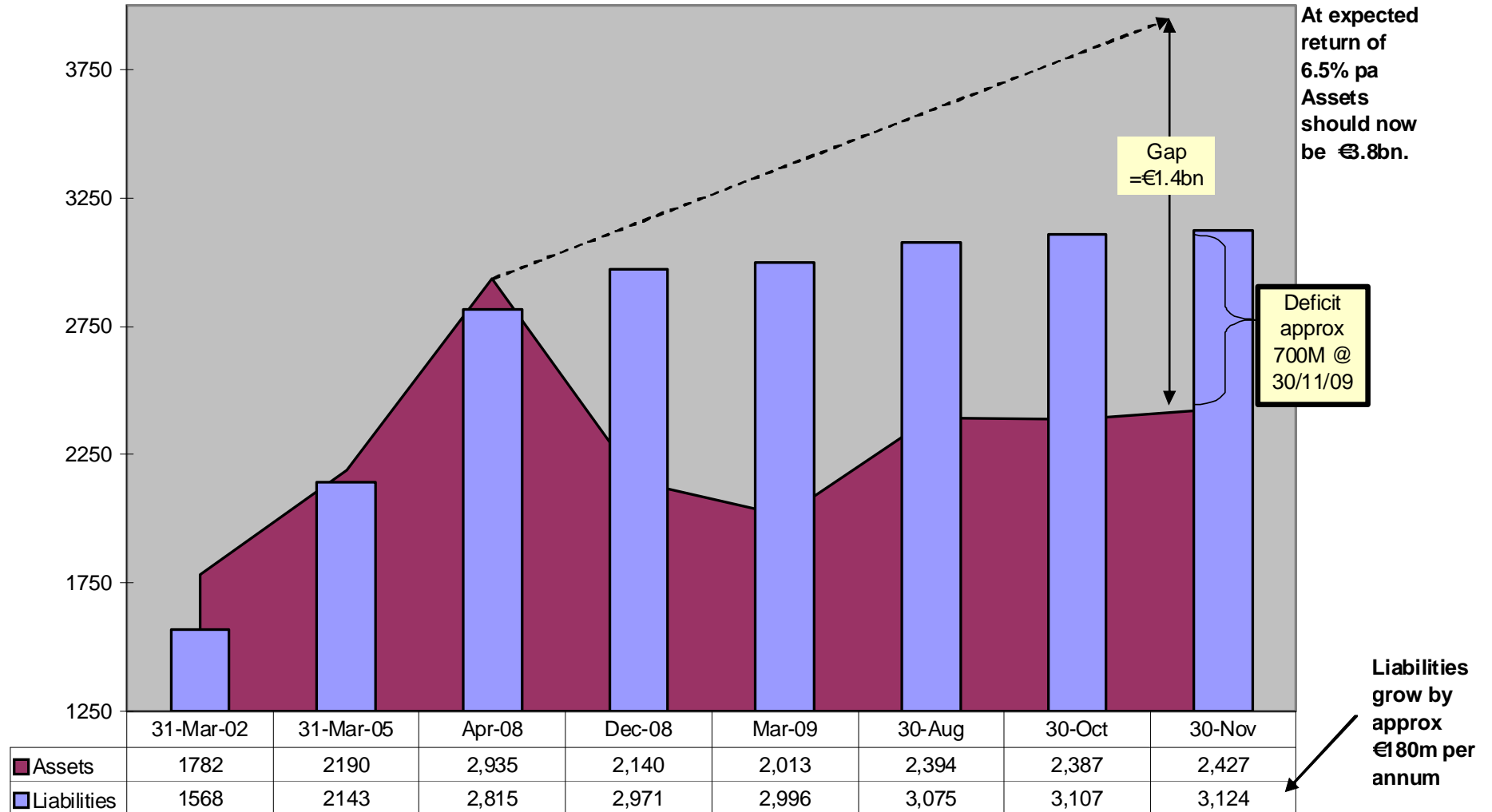
CWU Briefing
25-26 February 2010

Agenda

- What is the problem?
- Can it be deferred?
- What are the options?
- What did the company propose?
- Summary of final proposals

What is the problem?

Assets & Liabilities Mar '02 to Nov '09



What is the problem?

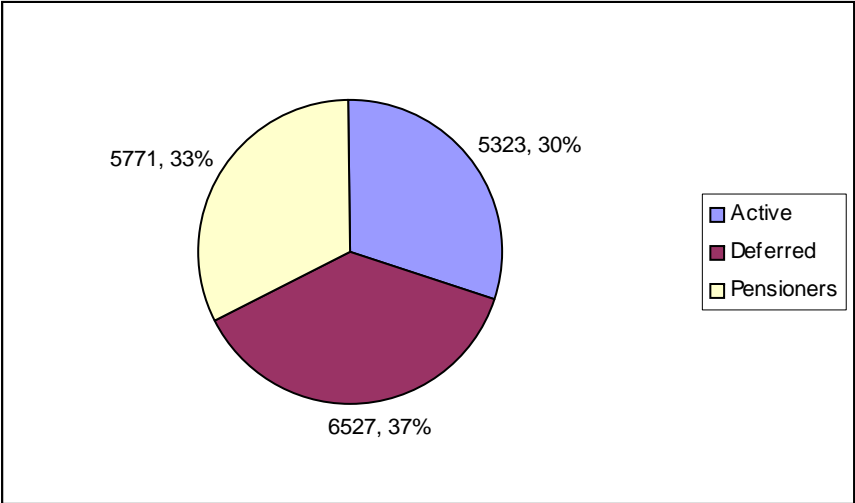
- Pension scheme deficit €623m at end-2009
- Even ignoring deficit, current contributions are not enough to meet cost of accruing benefits:
 - Company is paying 7.8%, members are paying 6.7%
 - Scheme actuary has indicated that extra 7.2% is required (current rate is too low because it was reduced to reflect surplus in 2007, which no longer exists, and because of updated assumptions since then)
 - Would require company to increase contributions from €20m to €36m
- In addition, funding the deficit over the long term would require extra annual contributions of approximately 32% (€76m)
- Company has stated that, in order to maintain competitiveness, it cannot increase its pension contributions

Can the problem be deferred?

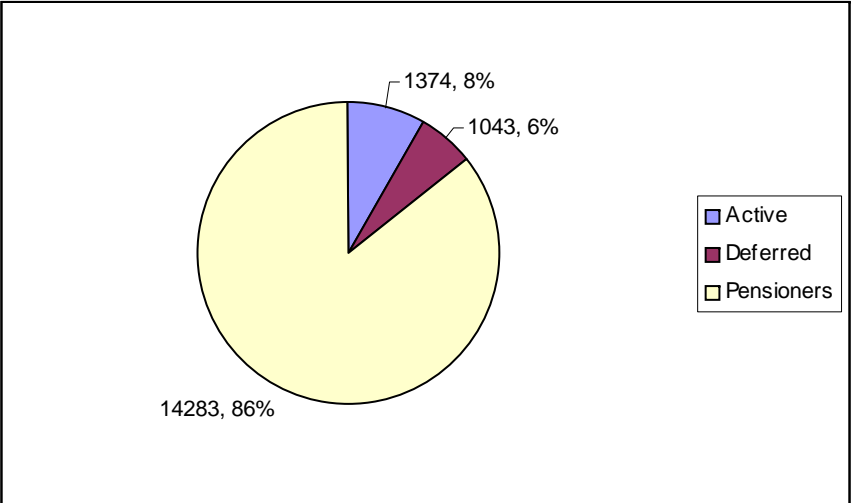
- Ideally, addressing the deficit would be postponed and market recovery would fix the problem over time
- Unfortunately, no guarantee that markets will recover
- As indicated, current contributions are not even enough to pay for accruing benefits, so deficit is worsening
- If we don't take action now, we will face much bigger problem in a few years' time
- Scheme is effectively closed, membership is maturing:
 - 5,700 pensioners and 6,500 deferreds versus only 5,300 actives
 - Average age of active members is 49.9 years
 - In 10 years' time, many of these will have retired
 - Shrinking active population will lead to reducing contributions
 - Imperative to manage the assets more carefully relative to liabilities (de-risking)
 - Less opportunity for strong investment growth
- No option but to address it now

eircom Pension Fund Demographics

Actual
Sept'09



Estimated
2022

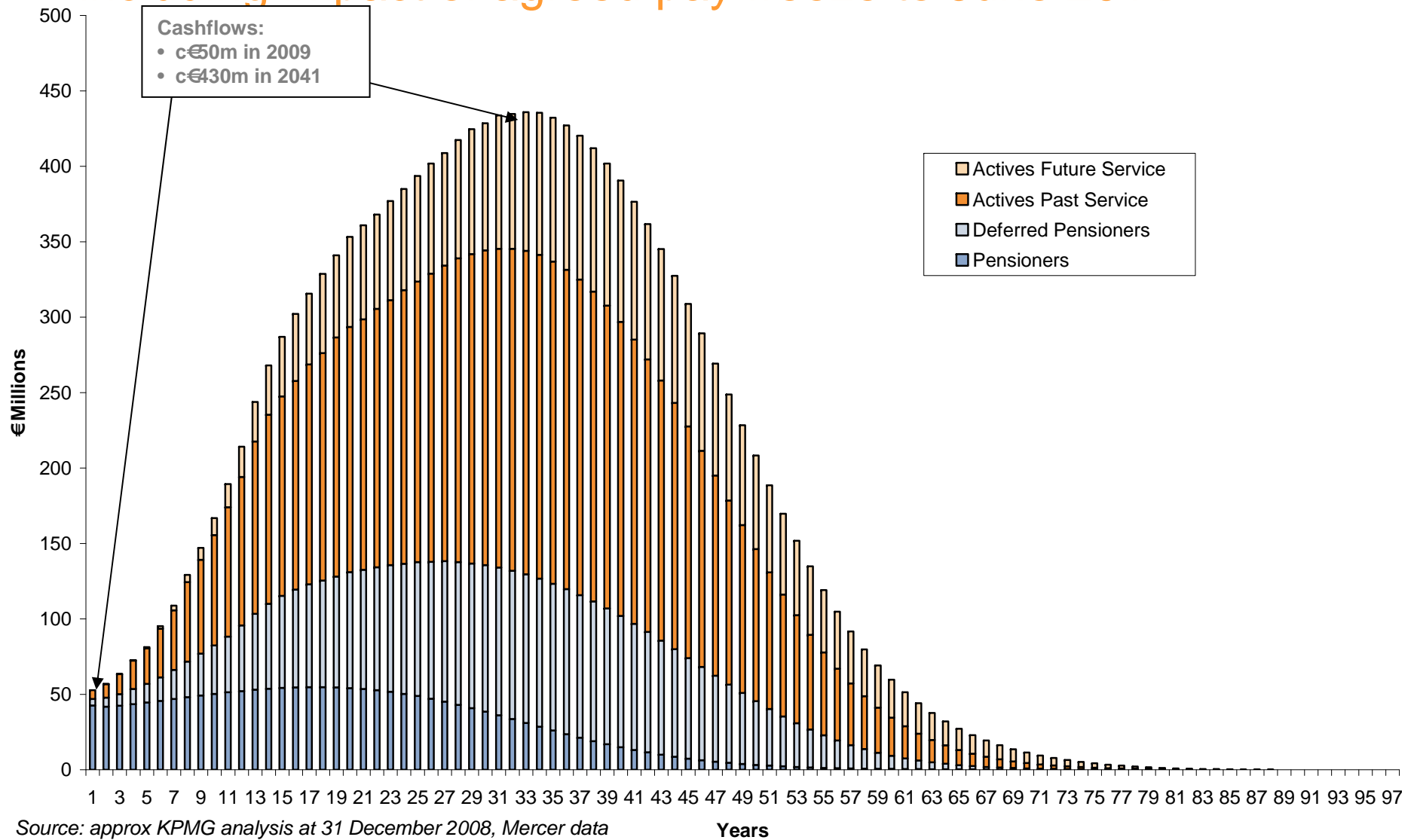


Life Expectancy	Current Retirees		Future Retirees	
	Male	Female	Male	Female
30-Sep-07	85.7	88.8	86.8	89.8
31 March '05	84.0	87.0	85.2	88.2
31 March '02	81.0	85.1	81.6	85.9
21 Dec '98	80.3	84.3	81.0	85.1

Increase of over 5 Years in a decade (25%)

Each 1 yr increase adds €65m to liability

Projected benefit cash flows – Current benefits including impact of agreed pay freeze to June 2011

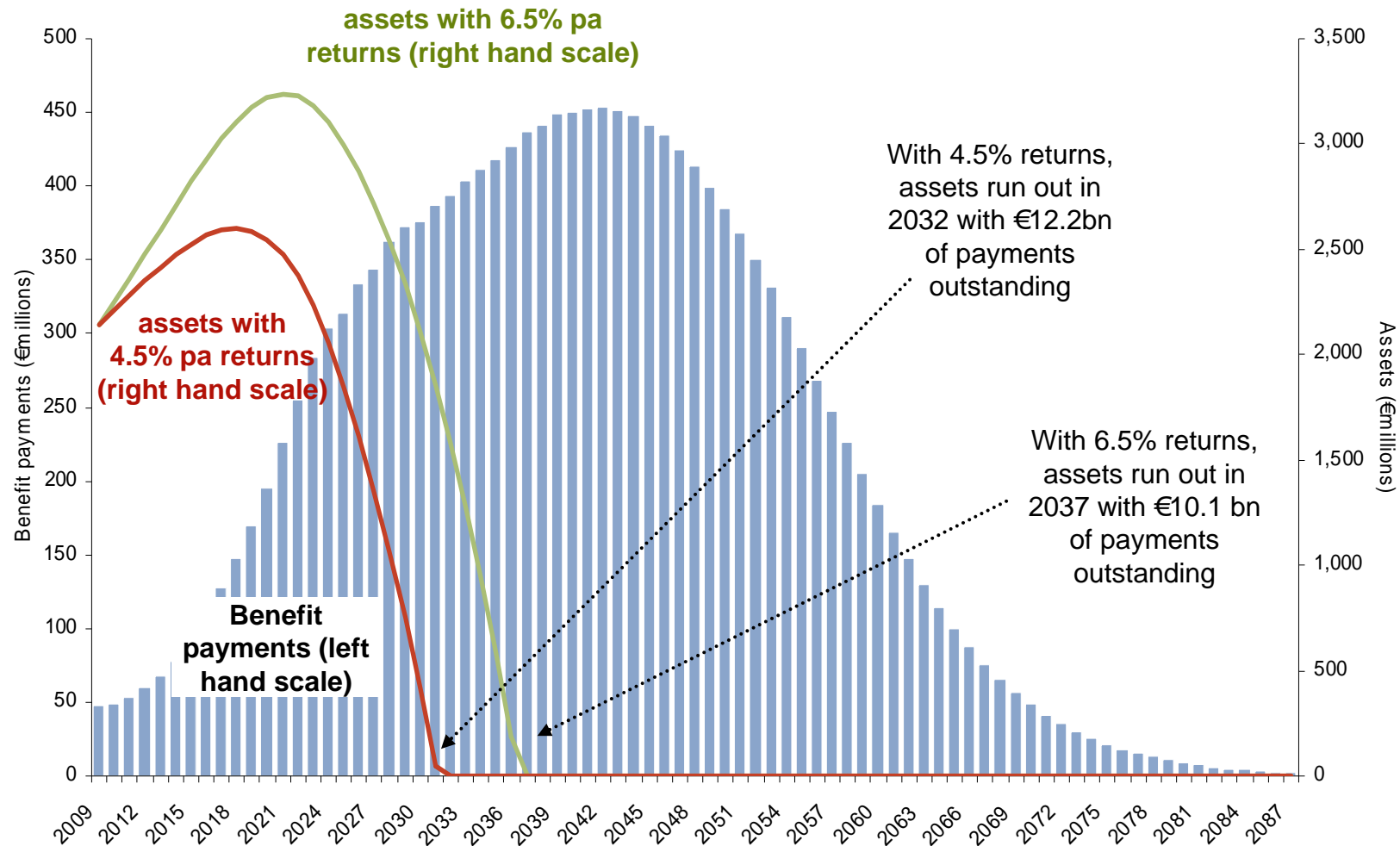


Source: approx KPMG analysis at 31 December 2008, Mercer data

Note: Assumes pay & pension inflation of 4.0% pa in perpetuity, and longevity as per 2007 valuation Basis A

Results of taking no action

- Current assets and contributions (6.7% member / 7.8% company) lead to a significant future shortfall of assets



Options Considered by Company

- Cease DB, with DC for future service
- Remove future pension increases, or restrict them to a low rate
- Reduce accrual rate from $1/80^{\text{th}}$ to $1/100^{\text{th}}$
- Change minimum retirement age from 60 to 65
- Freeze pensionable salaries for 3-5 years
- Place cap (e.g. 1% or 2% p.a.) on future pensionable salary increases
- Base benefits on career average salary rather than on final salary
- Increase member contributions by 3% of salary

Company's Original Proposals

- Close DB scheme to new entrants. For new entrants, a DC scheme would be provided with maximum contributions of 5% (employee) and 7½% (company)
- DB scheme:
 - Minimum retirement age 65 for future service
 - Freeze on pay for pension purposes to end 2013
 - Subsequent increases in pensionable pay limited to lower of CPI and 2½% in any year
 - Pension increases still linked to pensionable pay and therefore similarly restricted (none to 2013, lower of CPI and 2½% p.a. thereafter)
 - Company contributions increased to 8.5%, with a floor of €20m

Impact of proposals on deficit

	Surplus/Deficit	Co. Rate	Co. Cost
1 Position at 31/12/2009	-€402m	13.7%	€33m
2 Trustees' new basis	<u>-€221m</u>	<u>+1.3%</u>	<u>+€3m</u>
(extra life expectancy, lower return)	-€221m -€623m	15.0%	€36m
3 Pay & pension freeze to 2013	<u>+€160m</u>	<u>-0.4%</u>	<u>-€1m</u>
	-€463m	14.6%	€35m
4 Pay & pensions grow at CPI max. 2½%	<u>+€490m</u>	<u>-3.7%</u>	<u>-€9m</u>
(after 2013)	€27m	10.9%	€26m
5 Retirement age 65 for future service	<u>-</u>	<u>-3.4%</u>	<u>-€8m</u>
	€27m	7.5%	€18m

Note: The contribution rates above are the cost of funding future-service benefits only, and compare with a current company contribution rate of 7.8% of pensionable salaries.

Unions' Position

- Many meetings with company, also with pension scheme trustees
- Recognition of company's financial position, and of trustees' need to de-risk the fund
- Proposed change in retirement age not acceptable
- Pushed for higher cap than 2½% p.a. on increases in pensionable salary after 2013 (4% p.a. sought)
- Staff who have not reached maximum salary on pay band should be allowed to do so before cap would apply
- Similar protection for staff on personal contracts or service agreements
- Extra DC contributions in respect of salary above restricted pensionable salary
- Better DC scheme for new entrants

Summary of Current Proposals

Objectives:

- Protect and sustain the future viability of the pension scheme
- Protect the financial stability of the company
- Remediate the pension fund deficit
- Reduce long-term risk for the fund and the company
- Locks in the company annual cash funding contribution to approximately €20m p.a. minimum

Summary of Current Proposals (ctd.)

Proposals:

- DB scheme closed to new entrants, but continues for existing members.
- Minimum retirement age remains at 60.
- Freeze on pay for pension purposes to 31 December 2013; any increase in salary to be paid by means of a non-pensionable allowance.
- Subsequent increases in pensionable pay limited to lower of CPI and a specified maximum rate. The maximum rate is:
 - 4.00% p.a. for 2014, 2015, 2016 and 2017
 - 3.25% p.a. for 2018, 2019 and 2020
 - 2.50% p.a. for 2021 and beyond.
 - The increase cannot exceed the % increase in actual pay awarded in the year.
- Pension increases are linked to pensionable pay and therefore similarly restricted.
- Pay freeze or capping mechanism above does not apply to increments within the graded pay scales; similar principle to apply for non-graded staff.
- Company contributions increased to 8.5%, with a floor of €20m, for 2010-13.

Other Proposals

DC scheme:

- Mandatory for new entrants
- Voluntary option to transfer for existing DB staff
- DB staff whose actual salary diverges from pensionable salary by more than €1,500 eligible for DC contributions in respect of the excess
- Contributions of:
 - 4% from employee and 6% from company (standard level)
 - 6% from employee and 9% from company (upper level)

Review mechanism:

- Regular reviews will take place with regard to ongoing position of scheme and company
- Positive or negative developments to be subject of further consultation