

DAY 2 IAPF BENEFITS WEEK

Welcome - We will be starting at 11am

If you can see this message, then you will be able to view today's session. Please note although you have been muted by the organiser, this will not affect your ability to hear the session. If you find you cannot hear anything when the session commences, please try logging out and then logging into the session again.



Irish Life



WELCOME



Elma Fox
Trustee Manager & Director,
Independent Trustee Limited
IAPF Benefits Committee

THANKS TO OUR SPONSOR



Irish Life

SPEAKERS



Mark Dowsey
Director
Willis Towers Watson

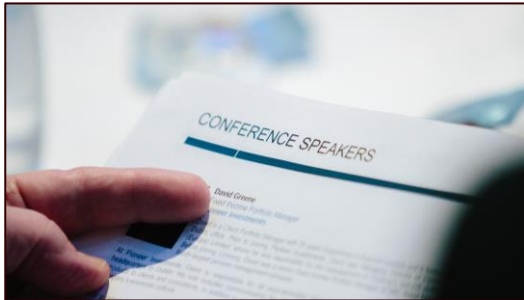


Shane O'Farrell
Head of Product Development
Irish Life

PLATFORM FEATURES

Q&A

Ask questions / make comment via the Q&A feature on the platform



Resource Area

?!?!?

Technical Issues – info@iapf.ie
Log off and log back in again



Irish Life

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IORP II and related items – perspective of a former EU Member State

Mark Dowsey

20 October 2020

Agenda

- IORP II implementation in the UK – to date
- What else needs to be done
- Differences between UK and the Republic
- Other points of note

IORP II – implementation to date UK

- Framework legislation – amending 2004 Act that implemented IORP I – December 2018
- High level and reflects wording of IORP II provisions relating to ‘governance’ pillar (only)

High level - applies to all schemes except

Various
public sector
schemes

Pay as you
go schemes

DC Master
Trusts

Effective system of governance

- Sound and prudent management of scheme activities
- Transparent organisational structure – allocation/segregation of responsibilities
- System of “ensuring transmission of information” (reporting to trustee board?)
- Effective internal control system
- Continuity of performance and contingency plans
- **How ESG incorporated into investment decisions**
- How subject to regular internal review

IORP II – implementation to date UK (2)

- Framework to be built upon through a Code of Practice (that was the original plan); expectation was that it would be through the overhaul of the ‘Internal Controls’ CoP.
- So, nothing further for Parliament to debate/pass
- Code of Practice had been expected for consultation autumn 2019

For schemes with 100+ members

- New Single Modular Code (SMC) expected imminently

SMC - In	SMC- Out (for now)
01 - Whistleblowing	02 - Notifiable Events
04 - Early Leavers	03 - Scheme Funding
05 - Reporting Late Conts (OPS)	10 - Modifications
06 - Reporting Late Conts (PPs)	12 - Material Detriment
07 - TKU	
08 - MNTs	• Key functions and outsourcing
09 - Internal Controls	• Written remuneration policy
11 - Disputes	• Carry out (and document) an “Own Risk Assessment” of the system of governance
13 - Governance of DC	
14 - Public Sector	
15 - Master Trusts	

Differences and similarities



Republic	UK
570 DB schemes	7,751 (2006) 5,524 (2018) 5,436 (2019)
Internal audit function	Evaluation function
IORP II confers “greater interventionist powers ¹ ”	Does it?
PA “will oversee extent and quality of governance”	Nothing explicit
Trustees should consider Board Manual	Nothing (yet)

¹Pensions Authority: IORP II [‘considerations for trustees’](#) published 1 October 2018

Differences and similarities contd

Republic	UK
Sponsor appointed trustees ('collective expertise')	MNTs
Fitness and propriety – CPD and Professional qualifications (CV for KFH)	Stops short of CPD/qualification target (consulted 2016/19, response 2020)
Propriety – evidence of shortcomings; annual confirmation for KFHs	As yet unspecified – cf Master Trust
Minimum four meetings per year; publish dates?	Not specified
Outsourcing key function 'advance notice'	Doubt that this will be in advance

Differences and similarities contd

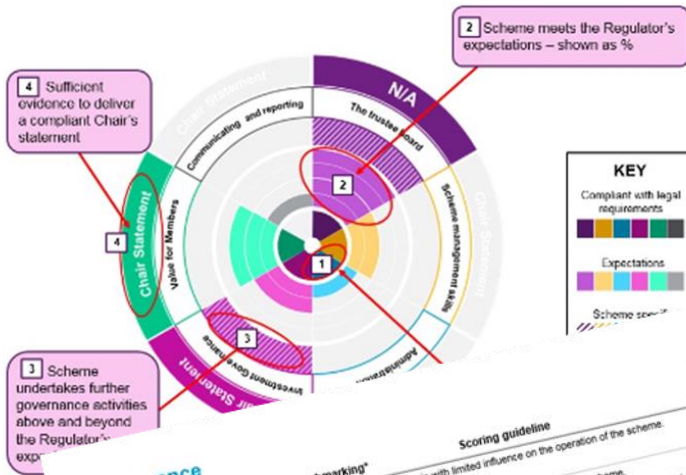
Republic	UK
Explicitly 'forward looking', scenario-based and stressed future assessment; understanding solvency, sustainability and risk	Integrated risk management – twin-speed 'fast-track' (TPR-specified assumptions) or 'bespoke' – explain
Scheme categorisation – (1) Likely to pay benefits, (2) Action needed on governance, admin, risk management and/or funding (3) cutback/wind up	No ability to cut back benefits. Winding up with solvent employer forces insured buy out

- Framework is IORP II, but the above denotes PA and TPR interpretation of what this looks like in practice
- Both seem non-granular on Own Risk Assessment (pending SMC?)

Other points of note/interest/discussion

- **Publishing** the SIP
- **Publishing** the annual report and accounts
- Disclosure
 - costs/charges, deferreds
 - prospective members, pre-retirement and during pay-out
- Cross-border activity (and transfers) including tweak to fully funded
- Depositary appointment for DC (permissive)
- Impact on schemes and trustees to date - VFM assessments and direct action required in UK if scheme 'fails' that measure
- The difference Brexit will/won't make to the signalled changes

Evolution (over past 6 or 7 years)



Covenant, Funding and Investment

Topic	Actual / Target / Benchmarking*	Scoring guideline
6 Understanding and quantifying risk appetite and impact		0 Never considered. 1 Have discussed the scheme's risk capacity at trustee meetings but not factored it into the running of the scheme. 2 In addition to considering risk capacity, have considered risk appetite of the trustees through analysis (such as VaR) and this has influenced the scheme's risk management decisions. 3 A clearly defined risk appetite is understood and agreed by the trustees and sponsor. Risk appetite informs all significant actions and is aligned with the journey plan. 4 Have explored the consequences of different risk capacities and appetites. Have developed an understanding of how risk capacity and appetite might be affected by different business and economic scenarios.
7 Risk assessment – funding		0 Statutory minimum – main funding risks identified in the triennial actuarial valuation report but with no trustee involvement. 1 Main funding risks assessed only during for formal valuation, with trustee involved but with minimal consideration of interaction with other key risks. 2 The potential financial impact of risks that could affect the scheme have been assessed in light of the scheme's financial position and investment strategy. 3 Have assessed the likelihood of material risks occurring (e.g. high / medium / low) in combination with the potential financial impact of those risks on the scheme and sponsor covenant. 4 Have quantified the main funding risks and identified interdependencies with covenant and investment risks through consideration of economic scenarios.

Q&A

Mark Dowsey

Director

Willis Towers Watson

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THANK YOU

Mark Dowsey
Director
Willis Towers Watson



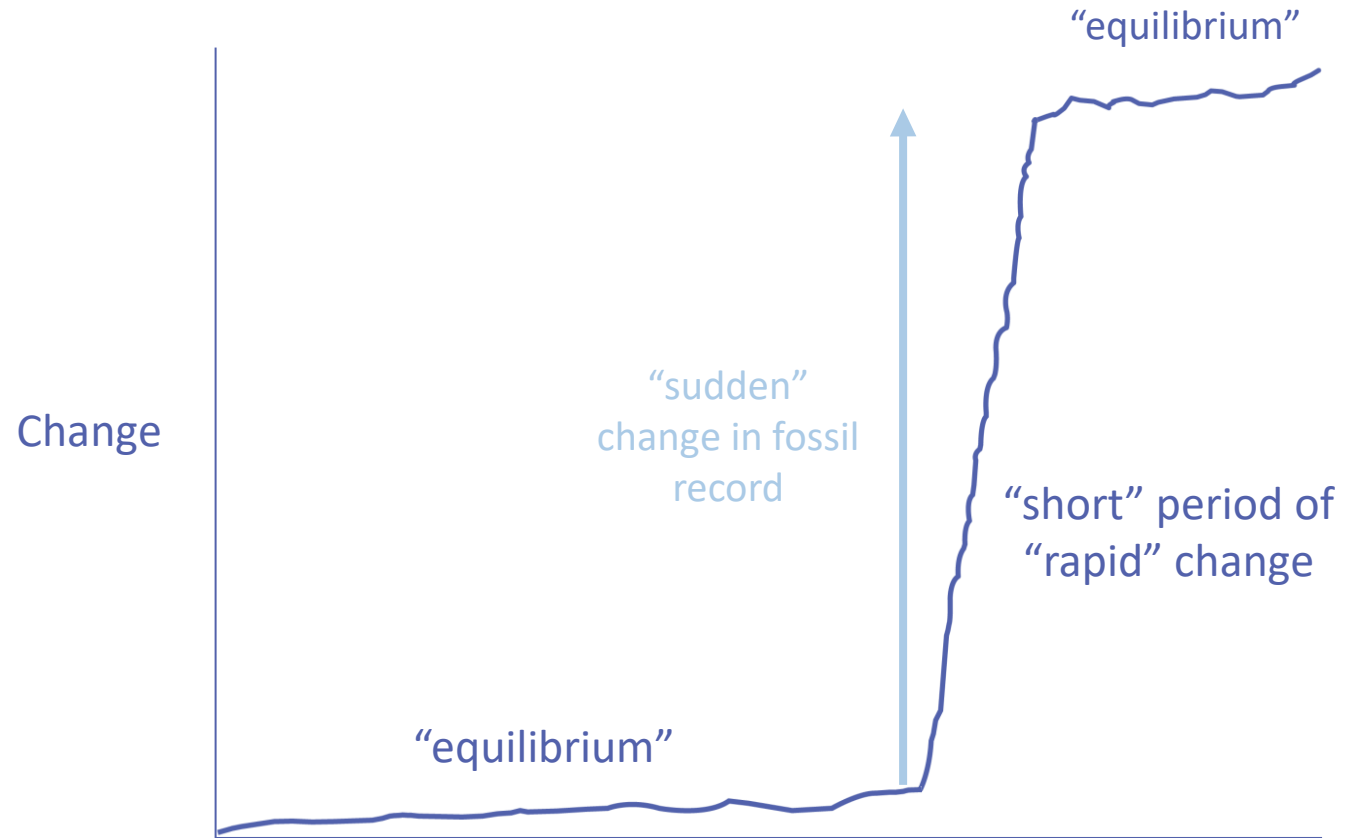


The future of Retirement Savings

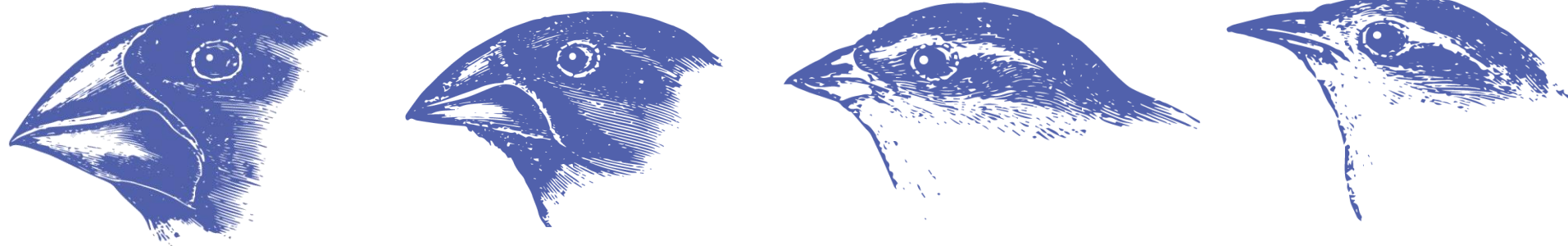
People think *evolution* works slowly...

...and it often does. Very *slowly.*

but at times
there are sudden
jumps
in evolution



Evolutionary jumps (also known as punctuated equilibrium) can see very rapid change in response to a sudden external event.



The fossil record can show many millennia of sameness followed by a sudden jump to a new form.

It's my view that the Irish pensions landscape is about to experience such a change.

The cause is not volcanic eruption or asteroid impact but impending legislative change via IORPII and Auto Enrolment.

Pension provision will need to **INCREASE** to and

Vision

“Helping people build better financial futures”

As a pension provider to over one million customers in Ireland with a wide variety of insurance needs and preferences, Irish Life has advocated on a number of key principles



Sustainability

The need to ensure the sustainability and adequacy of the State Pension



Simplification

The need to simplify and harmonise all pensions rules in the market.



Adequacy

The need to target not only pensions coverage but also pensions adequacy



Equity

The need to take measures to reduce the pensions gender gap



Innovation

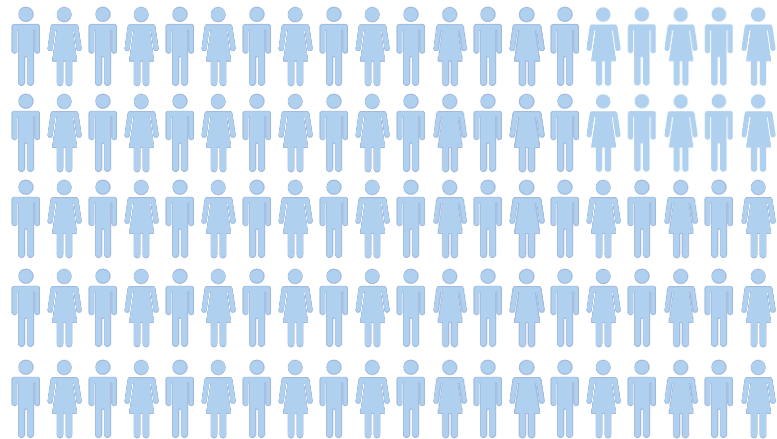
The need to introduce a voluntary scheme based on Auto Enrolment

Auto Enrolment (AE)

Growing Support

90%* of Irish people support the introduction of Auto Enrolment as at October 2019 and believe it would encourage people to save for their retirement; this has grown from 84%* support in October 2017 (*Irish Life Survey-Coyne Research Agency)

90%



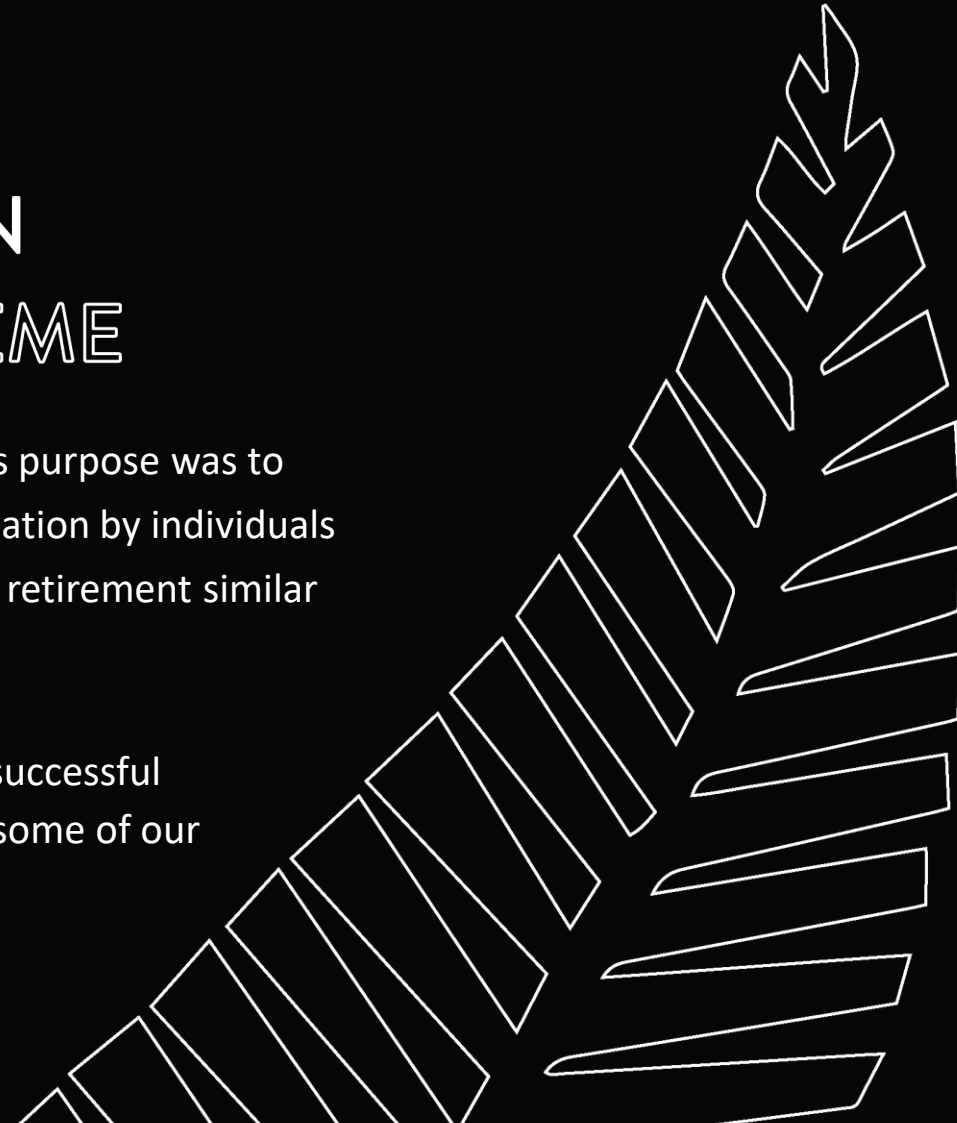
A representative team from Irish Life travelled to New Zealand late 2019 to further examine their KiwiSaver AE scheme. Based upon this research, we have since refined our policy in respect of the best approach to AE to ensure success.



KIWISAVER - NEW ZEALAND'S PROVEN AUTO ENROLMENT SCHEME

KiwiSaver was implemented in New Zealand in 2007. Its purpose was to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.

We believe Ireland can learn a lot from New Zealand's successful implementation of their AE scheme and have outlined some of our learnings.



KEY HIGHLIGHTS

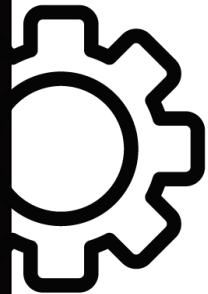


The Revenue in New Zealand are central to the operation of their AE. Using their existing interface with employers is very cost effective and avoids unnecessary duplication. Reducing employer burden has been identified as a key success factor by the Irish government in the Strawman.

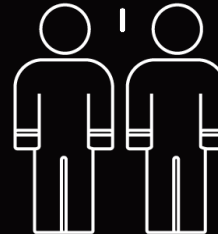
The “Pot-Follows-Member” system works well and means all employees only ever have one pension pot regardless of who they work for. This approach reinforces the need for a Central Hub and would increase the member's sense of ownership of their retirement savings.



The KiwiSaver scheme started in 2007 from a very low base of pensions with just 15%* of the workforce enrolled in a work pension savings scheme.



The government have been successful in the positive branding and marketing of the scheme and Revenue are well respected for the role they play.



OTHER LESSONS



1. The choice of default funds need to be carefully considered and suitable for typical members on a long term basis without the need for member decision. It's important they are not set too conservatively at the outset (as many KiwiSaver funds were).



4. We believe having a fully open market does not always lead to better member outcomes and the decision to keep the number of providers low and simplified fund choices are correct given the low levels of knowledge about pensions.



2. Despite its success, charges are typically twice what's being proposed here (about 1% plus a contract charge in NZ versus 0.5% proposed for Ireland). This is even in the context of Revenue doing so much of the engagement work.



3. Funds for younger joiners are often depleted by their early 30's as it allows savers to withdraw funds for house purchase or other significant life events. We believe this is a mistake that should not be repeated in Ireland.



TOTAL AMOUNT INVESTED
NZ\$57 billion

TOTAL NUMBER OF MEMBERS

2.9 million

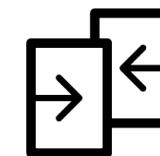


AVERAGE MEMBER BALANCE

NZ\$20k







AUTO ENROLMENT
with opt-out

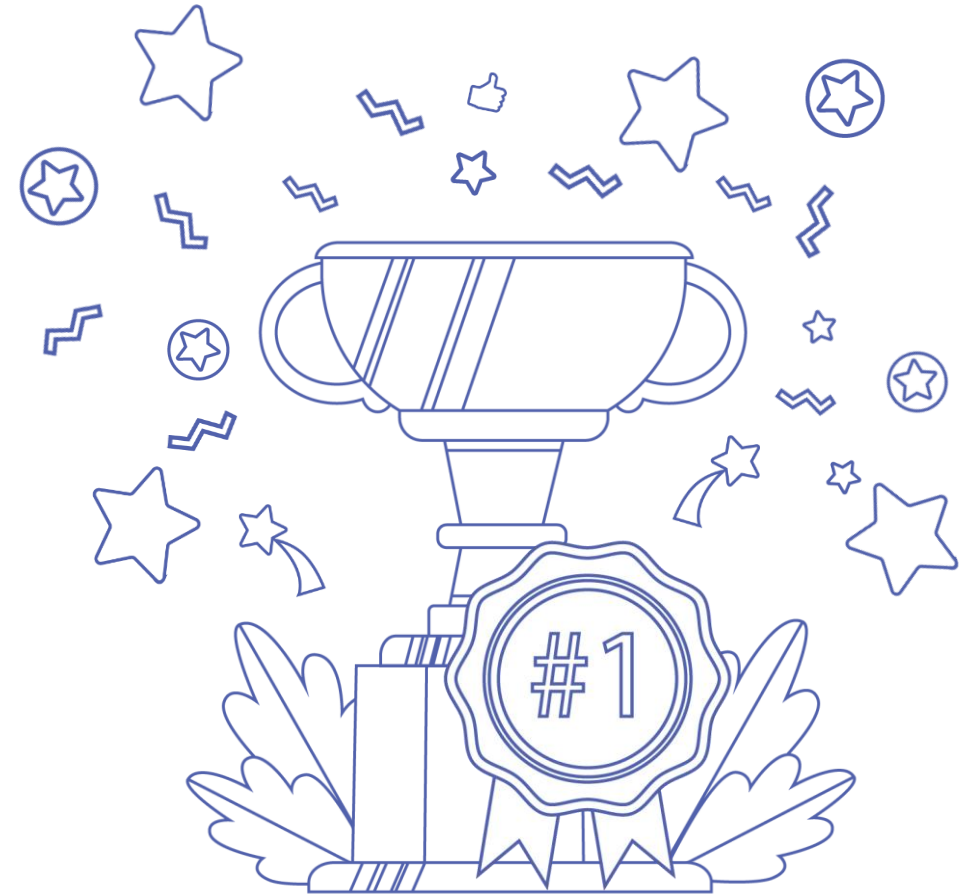


3% | 3%
EMPLOYEE | EMPLOYER
CONTRIBUTION LEVELS

Auto Enrolment

Ingredients for success

-  No burden on employers
-  Revenue ideal as central hub
-  Pensions Authority as supervisory authority
-  Begin the foundation work now to target 2023 start



Quick Poll

*I think Auto Enrolment will
be introduced in Ireland:*

A On or before 2022

B 2023

C 2024

D 2025 or later

E Never

Vote Now.....

More immediate factors...



How will we deal with IORP II?



Are Master Trusts currently fit for purpose?



What does the evolution of government policy look like? – taxation & simplification.



IORPII

Some key questions



Timing, timing, timing.....big ecosystem shock regardless. Introduction date and exact phasing are TBC



Large scale exodus of smaller schemes to the Master Trust lifeboat; larger schemes will survive and adapt



The transition mechanism is the immediate challenge: positive the Pensions Authority are looking at solutions and flexibility on scheme wind-up rules



An absolute focus on the member experience during this transition is critical

Master Trusts (MTs)

Building blocks of new world?



Have worked elsewhere but not a panacea



We all need to be realistic in our expectations, especially in the early days when MT have not yet bulked up to the expected scale



Much detail still to be firmed up eg the exact rules around capital requirements



They are currently live; need to be mindful that any MT now will have to survive in the new world

Future for Trusteeship in new ecosystem?



Master Trusts-limits to 1 per trustee company:
opportunity and threat



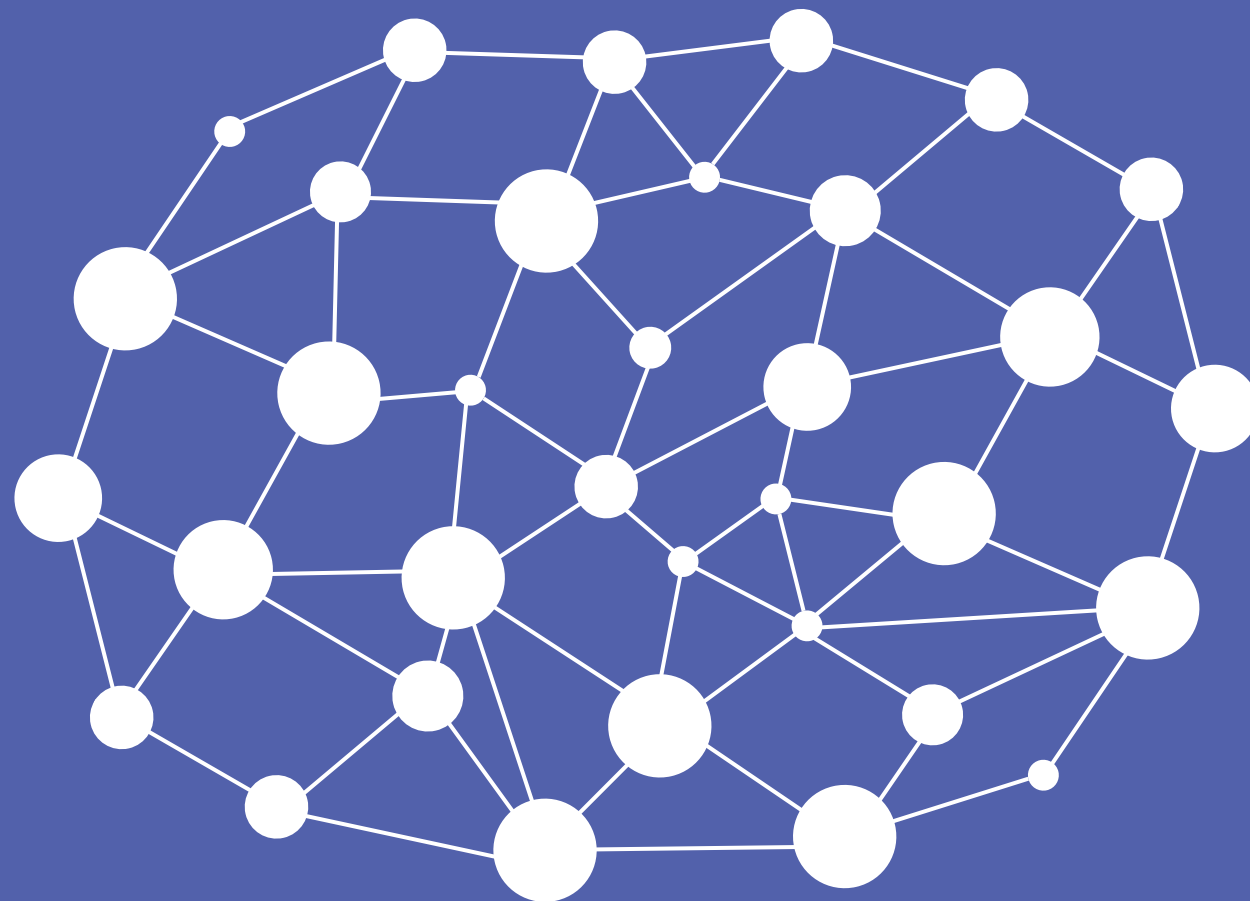
Larger, surviving schemes generally will require
more support than ever



Potential opportunities of IORPII



Increased professionalism only a positive



Quick Poll

I agree with the scope of introduction of IORPII (with no small scheme exemptions as indicated by the Pensions Authority) as good for the average scheme member:

1 Agree

2 Disagree

3 Don't know

Vote Now.....

Other changes....



Government policy on Simplification and Tax Relief and ARFs not yet clear following 2018 Consultation



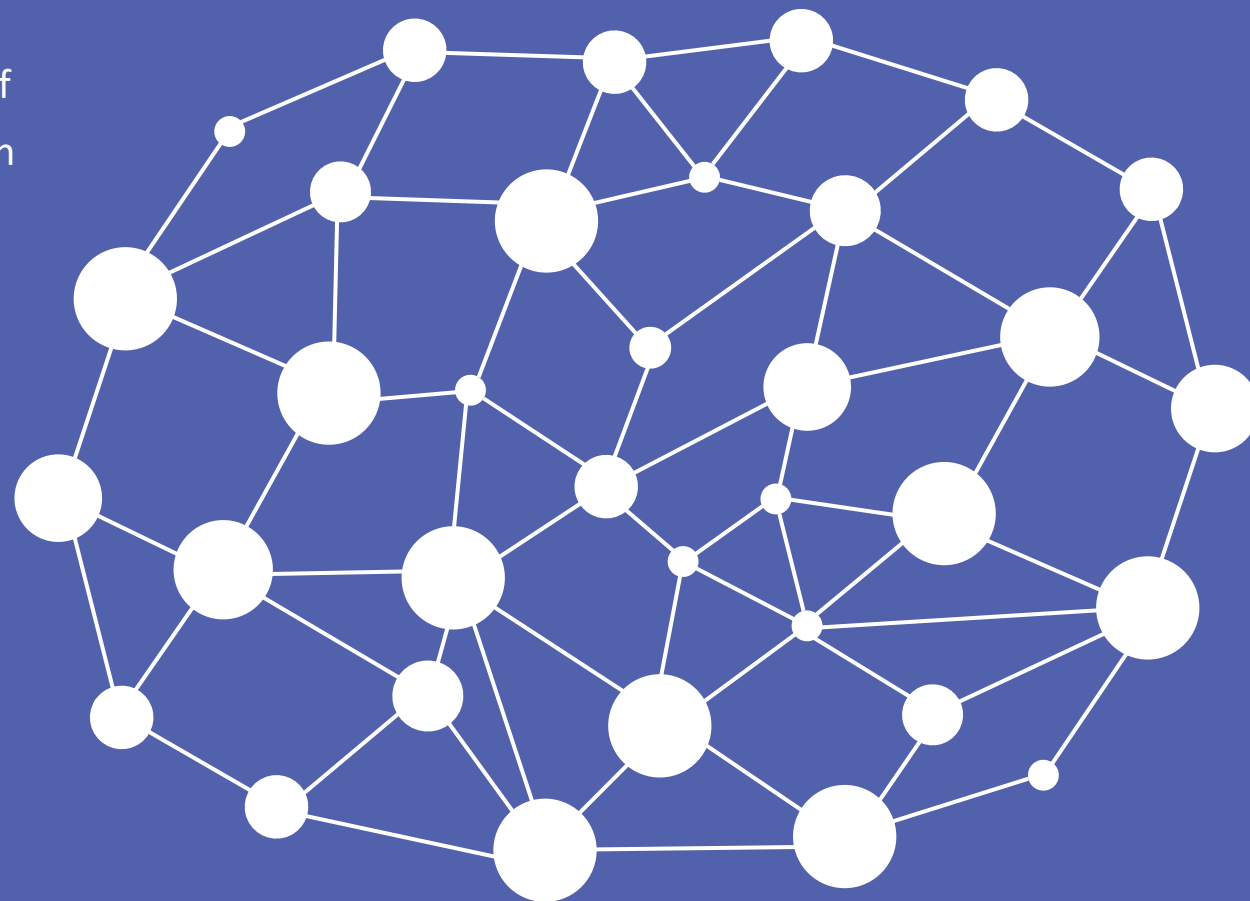
Interaction of AE incentive and standard pensions not clear



Much enhanced ESG investment focus (from inside and outside schemes)



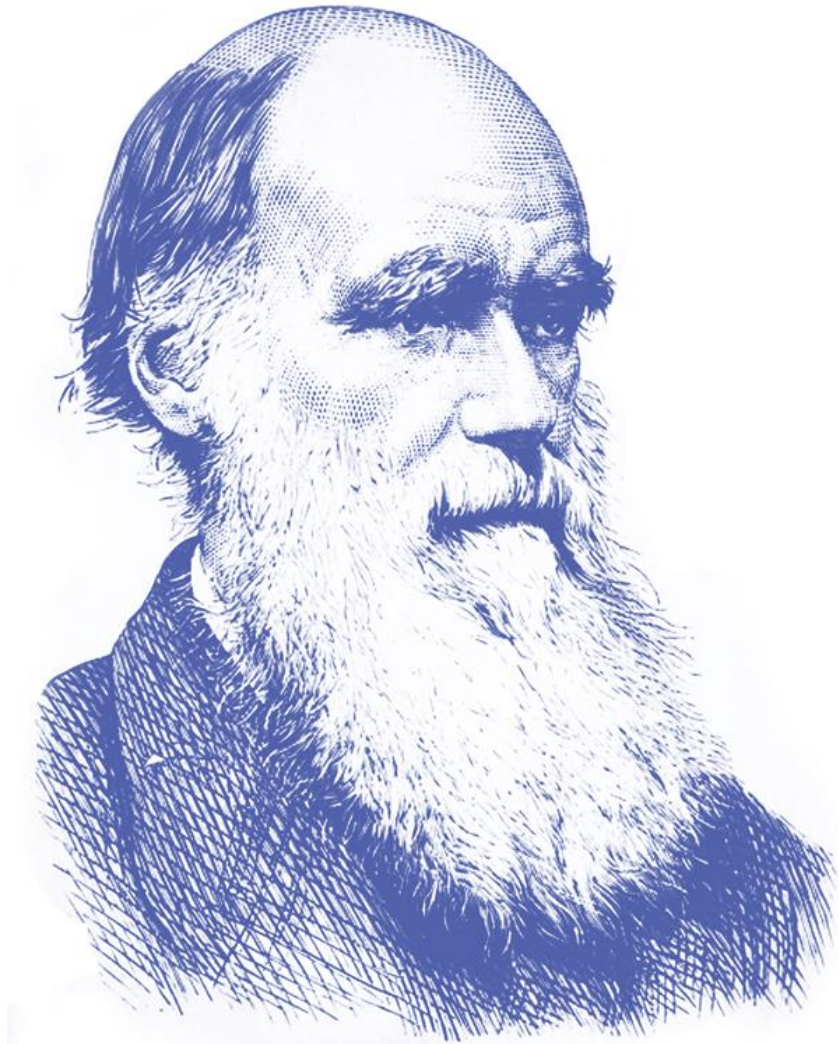
Of course, all subject to the caveat that post Covid will be a different world regardless...



I explained evolutionary jump theory at the start of the talk.

To conclude, I've spoken about the *external forces*
that are going to change the environment

and what new organisms will prove *fit to survive* in the new landscape.



Charles Darwin was keen to stress adaptability that key to success in life.

It's up to you to ensure your schemes can adapt and thrive in the new world.

Thank You

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Q&A

Shane O'Farrell
Head of Product Development
Irish Life

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THANK YOU

Shane O'Farrell
Head of Product Development
Irish Life



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**JOIN US FOR
DAY 3 IAPF BENEFITS CONFERENCE WEEK
TOMORROW 11AM**

Welcome

Eunice Dreelan, Chairperson, IAPF

Income Adequacy in Retirement

Barra Roantree, Research Officer, ESRI

US Elections – Chaos or Business as Usual?

Elliot Hentov, Head of Policy Research, State Street Global Advisors

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