



**Consultation on the future of defined contribution pensions**

**Submission form**

**Please insert your responses under the questions asked**

When completed please send your submission and any attachments by Wednesday, 30<sup>th</sup> October, 2013 by email to [policy@pensionsboard.ie](mailto:policy@pensionsboard.ie) or by post to: The Policy Unit, The Pensions Board, Verschoyle House, 28/30 Lower Mount Street, Dublin 2

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## Introduction

The IAPF refers to the recent Pensions Board (PB) Consultation on the future of DC pensions and would welcome an opportunity to discuss this submission further with the PB. The IAPF's key principles in preparing this response are Simplicity, Security and Fairness. The IAPF:

- (a) Believes that the interests of individual members and other beneficiaries of schemes must be at the core of any future recommendation or legislative change.
- (b) Acknowledges the progressive growth of DC schemes for members and have been working with Government and all interested parties to ensure Simplicity, Security and Fairness in the over-arching pensions system, which represents c€30bn of €80bn total pension assets which are in DC Schemes.
- (c) Endorses the availability of ARF options in tandem with annuity purchase and cash commutation.
- (d) Believes that the work of "lay" trustees needs to be acknowledged and supported, especially since the time spent on trusteeship for many lay trustees occurs out of office hours, is in addition to the usual demands of work and in the main not remunerated. The regulatory framework needs to encourage the participation of well trained and supported lay trustees. Experience shows that lay trustees frequently are an important trigger for member engagement within the culture of a sponsoring employer's workforce.
- (e) Considers that action needs to be taken to address the number of single member and very small schemes and an evaluation carried out as to why these continue to be established and maintained. The differing taxation rules applying to differing arrangements may be significant drivers, in which event tax anomalies must be addressed as a first step to prevent pensions vehicles being used as tax "arbitrage" arrangements and disclosure of sales commission dealt with as set out below.
- (f) Endorses the need for trustee training, but notes that regulation must be appropriate and not over-prescriptive as this may discourage lay trustee participation.
- (g) Recognizes the reality of internet and web based communications. The IAPF



suggests that the regulatory framework should embrace the provision of online statements. The focus of Annual Benefit Statements (ABS) should be on communication (on-line as well as hard copy) and not compliance.

- (h) Notes there must be a level playing field between all types of pension's arrangements from a regulatory as well as a tax perspective. The anomalies between structures are not user friendly and mitigate against individuals and, in some cases, the sponsor of the arrangement.
- (i) Considers that the trusteeship of Small Self-Administered Schemes is adequately regulated through the requirement to appoint a Pensioner Trustee.
- (j) There is very little evidence based analysis in the consultation document. Concentrating on the number of schemes which includes DB, DC, frozen and AVC schemes may not give the best overall picture. Lack of clarity on auto-enrolment is also unhelpful as this may be the trigger to achieve much of what the Board is striving to do as a NEST (UK) type scheme could set the benchmark for similar type arrangements.

## 1. Trusteeship

The Board's view is that trustees performance needs to significantly improve in order to best protect members' interests and that trustees should have to self-certify their competency and ability to meet specified knowledge and experience criteria before appointment and annually thereafter.

### (a) *Do you agree with this?*

- This statement is, perhaps, too general. Many trustees carry out their trusteeship to a very high standard, on a voluntary basis, and often are a key stakeholder in ensuring a level of trust and engagement between the members and their scheme.
- Self-certification perhaps might result in a "ticking a box" exercise and may not achieve the higher trustee competence standards which the PB suggests are necessary.
- It is important to try and achieve a workable balance. Over regulation may discourage individuals from acting as trustees, with a consequent loss of talent from existing and potential new trustees.
- The PB might consider providing more extensive guidance on conflicts of interest and how this could be managed. For example, where service



providers are engaged to provide services and trusteeship to a scheme.

*(b) What would you suggest as minimum standards for trustee knowledge, understanding and behaviour?*

- Perhaps a minimum education qualification and experience e.g. must be a member of an OPS for 2 years and/or have a Level VII degree/qualification in Admin/Finance/HR qualification for at least 50% of the trustee board
- Trustees demonstrate pensions literacy, that is, have undertaken appropriate trustee training and are considered pensions literate

*(c) Do you agree that the Board should issue a code of governance in order to clarify the standards it expects of DC trustees? If not, what other vehicle could we use to provide further education and guidance for trustees in order to drive up standards of governance and administration?*

- It may be helpful to introduce some level of CPD requirements which can be reviewed and updated after a transitional period. Attendance at educational and informative seminars and meetings held by representative organisations such as the IAPF ought to qualify for CPD purposes.
- The current on-going training requirements are too vague and should be clarified what is recommended and/or acceptable. For example, what is appropriate training for those who are approaching their second round of training two years on and/or, is it not appropriate to have an updated or different level of training for such trustees? This could reflect any changes in Pensions Act or other relevant legislation.

## **2. Regulation**

The Board proposes the introduction of legislation requiring new schemes to satisfy the Board that scheme design and the trustees are fit for purpose before being granted approval. Older schemes could be given a time frame in which to comply with the provisions.



*Do you agree with this suggestion?*

- It is unclear what the Board has in mind by the regulation of scheme design. Pension provision has been voluntary to date and the terms of an arrangement are usually framed by the employer and its advisors sometimes with input from trustees and members. It is hard to envisage a “one size fits all” scheme design. One possible area to be considered is whether certain size schemes would be allowed and perhaps smaller schemes would either have to become contract arrangements or join a master trust.
- It may be helpful to prevent the set-up of small schemes save in limited circumstances such as SSAS, and instead to facilitate the growth of master trust arrangements enabling the adherence by employers with a low number of members.

### **3. Investment**

While it is important for defined contribution members to have investment choice, the options offered can be complex and default strategies not always suitable for the needs of members.

*(a) Do you have suggestions as to how we can ensure that defaults offered are appropriate and do not expose members to unnecessary and unexpected amounts of risk?*

- It would be helpful to define risk in this context. The biggest risk faced by DC members is not having adequate income in retirement. In order to obtain return members have to take risk. Clearly there are times where members need to be less exposed to risk e.g. approaching retirement although even that is becoming blurred by the options available at retirement.
- Standardised risks classifications might be useful as it is important that members are aware of the type of fund they are invested in.

*(b) Would it be helpful if the Board produced practical guidance on the design and governance of default strategies?*

- General guidance may be useful. However a default strategy will need to take into account the types of members in a scheme, their general risk appetite and the format of their likely benefits at



retirement. For instance, some providers have now introduced member specific default investment strategies based on issues such as a member's need for tax free cash versus pension income. It may also be difficult to keep guidance relevant and up to date in a quickly evolving investment world.

- The Board has already published investment guidelines for trustees

#### 4. Disclosure

Many members do not understand enough about their pension schemes to make informed decisions. Information given often has a legal purpose, with sometimes too much information given, and is not necessarily structured so that members are clear how it should be used to make decisions.

*(a) How can member information be improved to ensure that it is accurate, clear and understandable and enable members to make informed decisions about their retirement savings?*

- Member documentation needs to be clear and easy to understand and be linked to the choices members can make. Information given at the point of joining should focus on the fund and contributions choices available to the member and not merely compliance with PB regulations.
- Members should easily be able to access information on events such as leaving service, death and retirement and not just at date of joining.
- The IAPF has already recommended that a certain amount of financial literacy should be promoted at second level school students to help them prepare for their future.

*(b) How can costs and charges borne by members be more clearly and transparently communicated to them?*

- There should be a standard means of disclosing costs and this is already done for UCITS through the Key Information Documents.
- Total Expense Ratio (TER) should be applied as a benchmark disclosure item in all pensions arrangements



## 5. Value for money

Trustees need to be demanding consumers on behalf of their members especially where smaller schemes, which do not benefit from economies of scale, are concerned.

*How can trustees be supported/educated to ask the right questions about the different costs and charges incurred by their scheme in order to enable value of money comparisons to be made and to assess the fairness to members of the costs and charges?*

- Having a standard means of disclosing costs would help trustees, as would publishing a range of market standard costs so trustees know where they are and should be aiming for. Value for money isn't just about lowering costs and the services being provided also need to be considered.
- It is not clear that larger schemes will necessarily mean better value for money. The Pensions Board model appears to envisage large schemes with multiple employers and independent professional trustees. Multiple employers can lead to greater administration costs as, for example, contributions will be coming in at different dates and have different dates when they need to be invested. Professional trustees need to be paid.

## 6. Other

*Are there any additional points you would like to suggest on how the governance of defined contribution pensions could be improved?*

There is very little evidence based analysis in the consultation document. Concentrating on the number of schemes which includes DB, DC, frozen and AVC schemes may not give the best overall picture. Lack of clarity on auto-enrolment is also unhelpful as this may be the trigger to achieve much of what the Board is striving to do as a NEST (UK) type scheme could set the benchmark for similar type arrangements.



One issue not addressed is the level of cost in the current pension system that is caused by regulatory and tax complexity. The various different products, tax treatments and benefit options available to DC investors require high levels of advice and consideration that drive up cost. Further regulation, professional trustees and greater governance requirements have the potential to add to this cost. It is therefore essential that there is an evidence based benefit accruing to members that will result in better outcomes for them.