

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

## **Introduction**

Future occupational pension provision in Ireland is likely to be predominately defined contribution (DC). One of The Pensions Board's objectives for 2013 is a review of the regulation and future structure of DC provision with a view to supporting the DC market in delivering good outcomes for members. This consultation will form an important input into this review, the outputs of which may ultimately lead to proposals for legislative change.

The following section sets out an overview of the current DC system, including the Board's view of some significant problems within the system. There follows an outline of the Board's vision of the future regulation of DC pension provision and a section outlining specific questions the Board is seeking responses to. The final section gives details on how to respond to this consultation.

## **Overview of the current system**

The concerns of the Board about the current system relate to the extent to which trustees are exercising their responsibilities, and are as follows:

- There are too many schemes where the costs borne by the members are too high and higher than they could be.
- The investment choices offered to members too often do not take account of the level of investment understanding and experience of members, and the default investment strategy operated by too many schemes appears to expose members to unexpected amounts of risk.
- Many pension schemes provide member communications that members have trouble understanding.
- Where the employer acts as trustee, there is no independent oversight of the collection and remittance of contributions. Where the trustee is

connected to the administration or investment provider, there is no scope for challenge on costs, investment performance or administrative performance.

- Most schemes have too few members to have any bargaining power in negotiations with providers and achieve no economies of scale in management and administration.
- There are too many schemes for the Board to supervise to the standard that beneficiaries and the public would expect.

Ireland has more small and especially single member schemes than any other country in Europe and too often this results in poorer value for money and lower standards of governance.

At the end of 2012, there were 60,192 active occupational DC schemes registered with the Board. In addition to these, there are considerable numbers of frozen schemes (i.e. schemes into which there are no contributions being made but which still hold assets on behalf of members) and additional voluntary contribution (AVC) schemes. The total numbers of schemes and active members at 31 July 2013 was as follows:

	Occupational schemes		AVC schemes		Total	
	No. of schemes	Active members	No. of schemes	Active members	No. of schemes	Active members
Frozen	77,655	62,379	1,199	1,155	78,854	63,534
Single member schemes	49,638	49,614	2,751	2,742	52,389	52,356
1-100 members	12,588	98,410	883	10,523	13,471	108,933
101-1000 members	497	139,578	40	9,455	537	149,033
1001+ members	71	458,492	9	34,057	80	492,549
<b>Total</b>	<b>140,449</b>	<b>808,475</b>	<b>4,882</b>	<b>57,932</b>	<b>145,331</b>	<b>866,405</b>

The estimated total assets of DC schemes at the end of 2011 was €26.5 billion.

The Board's view is that members would benefit if smaller schemes were discouraged and its long term objective is to reduce the number of pension schemes. The objective of the structure and regulation of DC schemes should be that the outcome for contributors be as favourable as possible while respecting the voluntary nature of Irish pensions.

## **Governance of current system**

At least as significant an issue to the number of schemes in the current system is the numbers of trustees required to support it. Including schemes where there is a corporate trustee, and the directors of that company are in effect acting as trustees, there are probably about 200,000 people acting as trustees at present. The Board does not believe that it is realistic to expect that all of these have enough knowledge and commitment and will fulfil their duties in a way that optimises the outcome for the members whose savings they are responsible for. Furthermore, there are too many trustees for the Board to supervise to the standards that beneficiaries and the public would expect.

The task of the trustees is to manage the scheme on behalf of members and beneficiaries. This requires trustees to understand the finances of their scheme, providing default investment strategies, providing and overseeing meaningful information and ensuring that members get reasonable value for money. In the Board's experience, trustees' level of ability and the types of skills they possess vary greatly.

There are some high quality well run schemes, but there are also numerous schemes where there is considerable room for improvement. The Pensions Act sets out who cannot be a trustee not who can or should be. This does not ensure that those who are appointed as trustees and their performance as such operates to optimum level, which in turn is in the best interests of members.

Whilst the Board provides a comprehensive range of support services for trustees, there is no getting away from the fact that pension scheme trusteeship to an acceptable standard is a complicated, time consuming role.

## **Future regulation of DC**

The Board believes that the trust model is the appropriate vehicle for occupational pension provision, despite the current problems with the DC system. The trust structure allows for pooling of pension savings, not just between employees of the same company but potentially between employees of different companies, and thereby achieving economies of scale and wider application of trustee expertise. Furthermore, although both financial education and member communications are important, there will always be a role for trustees to oversee the operation of a scheme established under trust, and in certain areas to make decisions on behalf of the members.

Trustees are responsible for the custody of the fund and for safeguarding the retirement income of the members and their dependants. In this regard the quality of pension scheme governance is greatly important. For instance, even a small scheme can have hundreds of thousands of euro under management and many contain tens of millions. If trustees do not do their job properly it is the members, the pensioners and their families who suffer.

The Board's long term objective is to improve the performance of trustees to the level of the best, and to reduce the number of pension schemes.

The implementation measures envisaged to achieve this objective are as follows:

### ***Trusteeship***

- Minimum standards of knowledge, training and experience would be prescribed for trustees. These would be considerably more demanding than the current training requirement and trustees would have to demonstrate their suitability before appointment.
- Trustees would be required to satisfy the Board that they were in a position to devote adequate time to their trustee responsibilities.
- Trustees would be required to demonstrate that there was no conflict of interest with the administrators or the employer.

## ***Regulation***

- The Board would publish a code of governance providing trustees with a central reference point for the key areas of a DC scheme – risk management, investment, governance, administration internal controls record keeping, meeting agendas and frequency and information to be considered by the trustees. Trustees would be required to confirm annually to the Board that they were abiding by this code of governance.
- The Board would engage with all such trustees annually to ascertain their compliance with the code.
- Trustees would be required to annually self-certify to the Board that they are competent and capable to carry out their trustee role and demonstrate that they meet the prescribed minimum standards of knowledge, training, understanding and experience.
- Occupational schemes would no longer be automatically registered by the Board and the trustees would be required to demonstrate that their schemes meet the standards that the Board expects.
- On registration, trustees would be obliged to satisfy the Board that the proposed scheme structure was an economic means of providing the intended benefits.
- The rules of the scheme would not be allowed to restrict the freedom of the trustees to engage or remove administrators or investment managers or to negotiate charges.

## **Issues for consideration**

Submissions are now being sought in relation to the future regulation of defined contribution pensions. We would like to hear from trustees, providers, managers, advisers and other interested stakeholders on the areas covered in this consultation document. While all comments are welcome, including those of relevance to DB schemes, we would particularly welcome inputs and views on the issues highlighted above and on related specific questions listed below.



## 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.

*Do you agree with this?*

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

*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?*

## 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?*

## 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.

*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?*

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



#### 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.

*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?*

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

#### 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?*

#### 6. Other

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

## How to respond

A submission document in word format is available on the Board's website, where you can insert your responses to the consultation directly, click [here](#) to access this document. Otherwise, you may send a separate submission.

Please send responses to the Policy unit by Wednesday, 30<sup>th</sup> October, 2013 by email ([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

A public forum to discuss these issues will be held during the consultation period and details will be published on our website and through the email alert system.

Please note that the Board will publish a synopsis of responses received on its website.