

Pensions Authority seminar Wednesday 27 January 2016

Presentation by Brendan Kennedy, Pensions Regulator

- Welcome to our seminar, and thank you for coming.
- The Pensions Authority will shortly be publishing its strategy for 2016 to 2020. What I want to do this morning is set out the context in which we have prepared that strategy and give you an overview of our priorities for the coming years and our specific plans in 2016.
- I will start by summarising briefly the current pension environment in order to set out the context in which the Authority has undertaken its planning.
 - × The dominant issue for pension savings is low interest rates and expected low investment returns. A few years ago, many people thought and hoped that this was a short term temporary phenomenon – as these lower rates have persisted, it has become clearer that it's impossible to predict their future path: low interest rates could persist for many years or they might revert closer to historically more typical levels – we don't know, but we certainly cannot base retirement provision on the assumption that interest rates will definitely increase shortly.

Low interest rates are not just a defined benefit issue. Low interest rates mean that securing a long term reliable retirement income is more expensive, which make retirement savings and adequacy more difficult. However, they do not change the need for retirement savings in order to supplement living standards in retirement.
 - × A related issue is recent market losses and general investment uncertainty. We should remember that the objective of pension investment is for people to put aside some of what they earn while they are working, so that it is available to them when they retire, while hopefully achieving a reasonable return. These recent market falls remind us about how challenging long term investment can be and how important it is to be aware of the risks as well as the returns.
 - × There are very few instances in pensions of misappropriation or failure to remit contributions, thankfully. However, although the numbers of such cases has fallen, there are always some cases, which we prosecute where appropriate. Although we actively supervise, whistle-blowers will always play an important role, whether members of schemes or the professional administrators and advisors that schemes employ to assist them manage their schemes.
 - × There are approximately 700 defined benefit schemes subject to the funding standard – this number has fallen by about 400 over the last five years. Of the remaining schemes, about 60% met the funding standard at their last certification date. Of the remainder, all bar a handful have an

approved funding plan in place; we will be following up with the remainder in 2016.

Almost all defined benefit schemes are closed to new entrants, and a significant minority are closed to accrual of further benefit. Nonetheless, these represent about €60 billion of liabilities and therefore the management of these schemes is a significant issue. We continue to be concerned about the financial and risk management of these schemes, and just because a scheme meets the funding standard does not mean it is certain to be able to pay all benefits.

- × Almost all new pension provision will be defined contribution, and that is the topic we are focussing most on this morning. Our concerns about DC continue to be that there are too many examples of high charges, inappropriate investment and poor member communication.

- I want to turn to consideration of supplementary pensions in general. The context of our planning is that that the State Retirement Pension will be the core of Irish pension provision. However, that pension alone would result in a significant fall in living standards for most people. Research by the Pensions Authority and others shows that most people do not think that the State Pension will be sufficient to meet all their needs after they stop working.

- However, we all know that there is a significant gap between what people want to have in retirement and what they are likely to have given the current levels of pension savings. There is a shortfall of coverage – people with no supplementary pension provision – and adequacy, where the additional savings are going to provide much less than people want. There is also a shortfall of expectation – a surprising number of people are not certain whether or not they have pension provision, and in general people tend to overestimate how much their pension will provide, most especially in defined contribution.

- There is no single solution to these expected shortfalls. However, it is self-evident that people are less likely to save for their retirement if they do not have confidence in the pension system, and they are unlikely to have confidence if they do not understand. If retirement savings are going to improve, we need to have a pension system which participants are comfortable with. We don't have that in many cases. Given that the objective of a pensions system is to enable people to save, you might expect that the system would put people at the centre and help them to navigate their way through it. But that is not what we have, and we cannot begin to address the shortcomings in the current system unless we are frank about what is wrong.

- Retirement savings are always going to be outside most people's comfort zone anyway. Most of us are not good at long term thinking and planning at the best of times: it is not how our minds work. This means that a pension system needs to make particular efforts to make things straightforward, to keep people informed and involved.

- But what we have in the majority of cases is the opposite: most people feel like outsiders despite the fact it is their own savings and their own needs that are at stake. Look at pensions from the point of view of the contributor:
 - × First there is the jargon and the incomprehensible documents.
 - × Then the complexity of the whole system, especially for those with more than one pension
 - × In defined contribution schemes, they are asked to make decisions that they are not good at making.
 - × If they have not experienced it themselves, they will certainly have heard stories of people who got substantially less pension than they expected.
 - × Too often, they have to deal with poor, unfriendly administration.
 - × For those who can figure out the costs of their pension, the costs and charges are too often too high.

- Let me give you a specific example. Many of us working in pensions are from time to time asked by a relation or acquaintance to explain or help with some pension issue. Some time ago, someone asked me to help them understand a statement of retirement options. It was a standard statement issued by one of the largest pension providers in Ireland. The person who received it could not understand it but I don't think they were that surprised – people don't expect to be able to understand this stuff, which says a lot in itself. Nonetheless, they were confident that the Pensions Regulator would have no trouble. However, I was taken aback by how long it took me to understand it and how much calculation I had to do.

- The statement of retirement options is the goal of all of those retirement savings, the purpose of all of the work to date. This document is the basis for one of the most important financial decisions of a person's life. But clearly, whoever designed this document wasn't looking at it from the recipient's point of view. They did not put enough care and attention into what they sent.

- Many people in this room have seen something similar.

- Other examples of what we have seen in the Pensions Authority are:
 - × some schemes with weak financial controls
 - × many defined contribution schemes where the investment choices presented to members are asking them questions that only financial professionals could be equipped to answer
 - × inexplicable investment policies – we don't find this surprising as very many of the statements of investment policy we have seen are far too vague
 - × worrying numbers of dormant or absent trustees

- One of our particular current concerns is inaccurate or missing annual scheme data submissions – this either means careless administration or, more worrying, careless record keeping. We have put a dedicated project team in place to deal with this issue.
- Of course, there are good pension schemes, whose members understand their pension situation and are supported to make the decisions required. But this is no use to the people in other schemes, and it is these other schemes which are our concern. Members in less well run schemes will be less comfortable, are less likely to save, less likely to make reasonable decisions and less likely to have as good an outcome when they retire.
- What we need is a pension system where pension schemes are always well run. We need a pension system that is much more capable of providing consistently good value. The pension system should help people understand their position and clearly explain and guide and support them through the decisions they are asked to make. We also need people to be happy that the pension system is well regulated.
- The Pensions Authority does not and should not run pension schemes. However, it is our responsibility to ensure as far as possible that pension schemes are properly run. For many schemes, this means being run better than they are at present.
- To achieve this, the Pensions Authority will do the following:
 - undertake visible, proactive and effective oversight of occupational pensions and PRSAs – we will look not just at the outputs but at how schemes are managed
 - set clear expectations for trustees and pension professionals of how they can and should meet their obligations
 - provide high quality relevant support materials for those managing pensions
 - provide a reliable easily accessible information and guidance service for the public
 - bring forward proposals for changes to the pensions system
- Our specific plans for 2016 include:
 - A varied programme of proactive compliance activity. This will include on-site inspections of administrators, reviews of PRSA compliance, especially in the area of actuarial reporting, desk compliance audits, and checking of employer pension access provision. As I said, a particular focus of our work will be the timeliness and accuracy of annual scheme information data submissions.
 - Resolution of the small remaining number of underfunded defined benefit schemes which have not submitted a funding proposal – as of yesterday,

there were nine such schemes. This is a continuation of work we undertook in 2015 and may include issuing orders for wind-up where appropriate.

- A significant increase in our programme of engagement with trustees of defined benefit schemes – this comprises detailed discussions with them of how they undertake the management of their scheme and their governance responsibilities, and we use the defined benefit financial management guidelines as the basis for these discussion.
 - Further guidance for all trustees, including the DC codes which we are launching here this morning, further model documents, and guidance for DB trustees on actuarial advice.
 - An updating of our website to improve navigation and make it more user-friendly.
 - Development of pension reform proposals for submission to the Department of Social Protection.
- Before I finish, I want to be very clear about my message this morning. We – trustees, the pension industry and the Pensions Authority – must work so that everyone saving for their retirement is comfortable with their pension – they must be familiar with it, understand it and be supported properly in the decisions they have to make. It is your responsibility to make sure that their best interests are at the centre of all you do. It is our responsibility to oversee and support you. There is a great deal of work for all of us to do.
 - Thank you.