PENSIONS COUNCIL

Meeting on Thursday, 3 September at 3.00pm
Virtual meeting

Attendance:	Jim Murray (Chair) Brendan Kennedy Joanne Roche Munro O'Dwyer Roshin Sen Stephen Gillick
Apologies:	Kirstie Flynn Deirdre Cummins Eoin Dormer Tim O'Hanrahan Roma Burke
Also present:	Niamh Crowley (Note taker) Brian Purcell Faheem Mirza
Quorum:	Quorum present 6 of 11 Council Members present (6 required)

Minutes

1. Adoption of agenda

The proposed agenda for this meeting was agreed.

2. Conflict of interest

No conflicts of interest were declared.

3. Approval of draft minutes

The minutes of the meeting held on 23 July 2020 were approved subject to the inclusion of an amendment proposed by Roshin Sen.

4. Review of recent developments

- Work continues on the Programme for Government which outlines the new government's pension policy plans.
- The government will establish a Commission on Pensions to examine sustainability and eligibility issues with state pensions and the Social Insurance Fund. The Commission membership and terms of reference are being finalised.
- Work is ongoing on the transposition of IORP II Directive

5. Working Groups

A) DC Investment in the context of Automatic Enrolment

Joanne Roche circulated an updated note reflecting observations made by Council members at our last meeting. of 23rd July 2020.

Question 1 - Should contributors be offered any investment choice?

Following observations from the last meeting, Joanne expanded this section noting that it is expected that by 2022/2023 Ireland will have a functioning master trust framework in place, with master trusts the vehicle of choice for most existing occupational pension scheme members and there will have been much consolidation of existing pension schemes.

It was also noted that The Central Processing Authority ('CPA') will have a key role to play as the purchasing authority liaising on behalf of hundreds of thousands of auto-enrolled workers in liaising with the pension providers in relation to the design and investment choices made within the default and other auto-enrolment funds. Following on from discussion from the previous meeting, as the role of the Central Processing Authority has been decided, it was agreed not to revisit this item.

Question 2 - If there is a default investment option and a number of fund options, what approximate default investment participation would be good?

The Council were in agreement with the comments made at the last meeting that the majority of members will opt for the default option and the design, governance and communication of the default option will play an important role in securing good outcomes for members.

Question 3 - How wide an investment choice should participants be offered? How should the fund options differ from each other?

Joanne Roche explained that possible options include:

- Ethical/Sharia Funds
- Investment manager choice
- Sector specific (such as equities, bonds, property, etc: geographical choices could also be offered
- Different level of risk/ refund trade-off

It was suggested when offering a suite of funds to members, perhaps the focus should be on what the fund choices are about rather than whether they are low, medium or high risk.

In the ensuing discussion, it was queried what percentage of investments should be ethical? Munro O'Dwyer explained that although it sounds like a great idea advancing the ESG agenda, it comes with the caveat of how its implemented and a subjective risk of greenwashing.

Brendan Kennedy noted the importance of drawing the distinction between ESG and ethical, as they are not the same thing. Adding that it would be very difficult to launch an auto-enrolment fund that doesn't include an ethical option.

<u>Question 4 - In either the default or the optional funds, should there be investment return guarantees?</u>

Council members were in agreement that guarantees typically come with a high price in terms of forsaken return. Given the objective that the auto-enrolment system will provide an adequate retirement income, it was agreed that a return without a guarantee, coupled with the contribution requirements, would provide the greatest likelihood of allowing contributors to satisfy the adequacy objective.

<u>Question 5 - In the default investment, should the level of investment risk reduce as the participant gets older? If so, when and how quickly?</u>

There was broad agreement that the lifestyle structure is the most appropriate for the default investment de-risks as a member approaches retirement. However, it was noted that this depends on what decumulation options are available to auto-enrolment investors in retirement.

<u>Question 6 - The UK NEST auto-enrolment default fund aims to minimise risk in the first year of membership. Should an Irish AE adopt a similar approach? Are there any other approaches to risk targets that should be considered?</u>

Members broadly concurred with the points made in the draft paper produced by the AE working group. Munro O'Dwyer suggested that different environments should be taken into account adding that the approach taken in the UK worked well due to positive returns on cash funds, but this may not be the case in Ireland.

It was suggested that often members don't know their appetite for risk at the beginning. In order to assess their risk appetite, they could choose a high-risk fund from the outset and then scale back over time. To counter the argument, it was noted that a lot of scheme members make a fund choice on day one and don't change it. If scheme members are losing money from day one it could deter pension savers.

<u>Question 7 - What should be the risk/return objective(s) for any default fund(s)?</u>

There was overall agreement that the vast majority of members will be invested in the default investment strategy and the strategy should be designed to do the following:

- Provide exposure to asset classes that can be expected to generate a reasonable level of return over the long term to provide adequacy in retirement.
- Reduce risk by diversifying investment across asset classes.
- Be transparent and simple for the members to understand.
- Build confidence in the system initially, given that most people will not have been in a pension scheme before.
- Be liquid, equitable and flexible i.e. if an individual consumer, or the Government, wants to switch to another fund, this should be possible.

Concern was expressed not to make assumptions of what members risk return trade of might be. If the auto-enrolment system doesn't do what's expected, it loses credibility.

<u>Question 8 - How can investment risk be communicated to participants?</u>

Members broadly concurred with the points made in the draft paper produced by the AE working group.

Joanne Roche to amend paper to capture additional comments and circulate to members for agreement.

B) Pension Scheme Consolidation

Munro O'Dwyer circulated a draft opinion on the Consolidation of DC Pensions Schemes, following discussion at the Council meeting of 23rd July 2020.

Munro O'Dwyer informed the Council that there are two ways to view consolidation, one is to raise the regulatory bar around operating a pension scheme (and this approach will emerge on foot of the transposition of IORP II into Irish legislation); and the second is to promote the benefits of consolidation through the development of the Master Trust regime in Ireland and making it simpler for scheme consolidation.

Brendan Kennedy explained that consolidation is key in order to achieve value for money for members, economies of scale and increased regulatory oversight.

Munro O'Dwyer recommended that trustees of the transferring scheme should be required to make reasonable attempts to inform members before the transfer to notify them around the following points:

- the rationale for the transfer;
- name of the receiving scheme;
- the trustees of the receiving scheme;
- the intended date of the transfer;
- confirmation that the benefit structure is not changing (e.g. the rate of employer pension contribution and the level of benefits payable on death in service);
- the fund choices and associated charges in the receiving scheme;

- a description of the lifestyling arrangement(s) which will be available under the receiving scheme, and clarification as to whether the member will be subject to a lifestyling arrangement;

- details on how and when the member can receive additional information (e.g. web portal log-on details; helpline);

- Any other differences that arise due to the transfer;

- Clear guidance on how to find out more about the receiving scheme should the member wish to do so e.g. website address, member helpline number.

Where the criteria above apply, the trustees should be permitted to transfer members into a fund in the new arrangement, and into a fund which resembles the members current fund choice.

Munro O'Dwyer confirmed that where a scheme member is being transferred to a master trust, all mapping will go on in the background but is not part of the letter issued to members.

Jim Murray queried whether there will be exit costs when transferring out of a DC scheme into a master trust. It was acknowledged that there may be exit cost and entry cost in transferring. It was noted that this was a point worth highlighting. Joanne Roche added that the Trustees have a duty to act in the best interests of the members. In the ensuing discussion, it was queried whether the trustees of the transferring scheme should have considered written advice of an appropriate adviser who is independent from the proposed receiving scheme.

Munro O'Dwyer to amend paper to capture additional comments and circulate to members for agreement.

C) Future of Funded DB schemes
This item was not discussed

D) Recent Market movements
This item was not discussed

6. Other Business

<u>Housing and Pensions Research</u>

The ESRI research on Pensions and Housing is due to start in October 2020.

Two Council members are required to join the Steering Group (SG) – there will be quarterly meetings of the SG. The SG will consist of 2 Council members, 2 senior members from the Department, 2 senior staff members from the ESRI, and an external academic member.

Brian Purcell to circulate email to the Council outlining the proposed research plan and timeline.

7. Next Meeting:

Thursday, 24 September 2020

8. To-do list

Joanne Roche to amend DC investment paper to capture additional comments and circulate to members for agreement.	JR
Munro O'Dwyer to amend Pension Scheme Consolidation paper to capture additional comments and circulate to members for agreement.	MD
Brian Purcell to circulate email to the Council outlining the proposed ESRI research plan and timeline.	BP
Two Council members are required to join the Steering Group the Pensions and Housing ESRI research.	All members