



# An Chomhairle Pinsean The Pensions Council

## **Pensions Council Meeting**

**19 January 2022 @ 3pm**

**Venue: MS Teams**

### **Minutes**

#### **Council members in attendance:**

Roma Burke (Chair) (RB)  
Eoin Dormer (ED)  
Clare Dowling (CD)  
Stephen Gillick (SG)  
Brendan Kennedy (BK)  
Munro O'Dwyer (MD)  
Tim O'Hanrahan (TH)  
Joanne Roche (JR)

#### **Council members apologies:**

Deirdre Cummins (DC)

#### **Also present:**

Aaron Bayle (AB), DSP  
Roisin Power (RP), DSP  
Marco Carlesso (note taker, secretariat)  
Christine Lutz (secretariat)  
Denis Lyons, AON (joined at 3:18pm, left at 4:04pm)

**Quorum:** Quorum present – 8 members present (6 required for Quorum)

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#### **1.Conflict of interest:**

No conflicts of interest were declared by the Pensions Council members and all members confirmed there were no relevant changes in circumstances to be reported.

#### **2.Adoption of Agenda:**

The Agenda was approved by the members.

#### **3.Operational matters**

The Chair opened the meeting stating that the Pensions Council has a research budget for 2022.

The Chair then shared a draft preliminary workplan for 2022, made up of six points: DC Investment Strategy in the context of Auto Enrolment (AE), Housing Research (ESRI), Gender Pensions Gap, Decumulation and whole of life PRSA, Cost Transparency Initiative, IORPII. She invited the other Council members to suggest other ideas for research. The members agreed to consider ideas following the meeting and revert directly to the Chair.

The Chair informed the Council that the draft Gender Pensions Gap report will be circulated to the members in January 2022, with the aim of reviewing it at the February meeting. With regards to Decumulation and whole of life PRSA, the Chair proposed that taking account of the discussions in 2021, a short report should be drafted in Q2 2022. The Chair noted that the work of the sub-committee on the Cost Transparency Initiative is ongoing, informing the Council that they are in the process of drafting a report. It is hoped that the draft report will be presented to the Council for the February meeting.

TH queried if the IT infrastructure to support AE is likely to be sufficiently robust, as it will be key to the credibility of the success of AE. CD said that there is a large degree of confidence that the Central Processing Authority (CPA) will be established appropriately, including the infrastructure. Regarding the IT concerns expressed by TH, CD said that some outsourcing will be put in place, and that there are several “off the shelf” solutions available; therefore, this is not a great concern for the DSP. The Chair asked CD to review the AE risk register taking account of TH’s comments and to return to the Council if it can help with any particular aspects.

Agenda Item 6.4 was brought forward. The Chair asked the Council to consider the Minister’s request regarding the DC investment strategy that should be adopted in the context of AE. To get the discussion started and to get some inputs, the Chair invited Denis Lyons (DL) to give a brief presentation on the subject to the Council. DL is an actuary, and Head of Investments at AON. He joined the meeting at 15:18 to share his thoughts on the DC investment strategies for AE.

The Chair welcomed DL to the meeting explaining that the Minister asked the Council for a view on DC investment strategy considerations for AE. DL gave a brief overview of AON and of the evolution of DC investment strategies in the Irish market, mentioning the introduction of the lifestyle strategies in 2008, its evolution following the 2011 Finance Act and the introduction of the ARF-route for DC schemes, the design of multiple lifestyle strategies, to conclude with the move to Master Trust (MT).

AON’s view of DC schemes is structured on three main pillars: Design, Engagement and Governance. Design is centred on driving efficient investment design and focusing on a guided decumulation pathway; Engagement is based on recognising that each individual has diverse needs and behaviours; while Governance is based on trustees effectively assess the investments regularly.

In all DC schemes, a default strategy is made available to members. This is usually a lifestyle strategy which de-risks on an automatic basis gradually over the term to retirement. In DL’s opinion, de-risking should start 20/25 years from retirement, as academic analysis indicates that risk tolerance starts decreasing between the age of

45 and 70. A low-cost passive diversified building block approach would be typical. For members who want some level of input into their savings, three glidepaths (Conservative, Balanced and Adventurous) could be offered. For members who want full control, there should be a range of investment choices to select from. These choices should have guidelines. DL was of the view that a fee cap of 0.5% on the default strategy should be achievable for most providers, however it may be difficult to offer a range of quality options if there are tight fee caps on other, more sophisticated investment choices. The number of investment options could be 6-10 in a typical DC scheme. It is normal for the lifestyle strategy to be tailored to the profile and characteristics of the membership and align with the likely benefits at retirement (lump sum, ARF and annuity). DL suggested the Council consider the profile of the AE membership in its response to the Minister. His view is that there should be specific long-term return targets at each age, by reference to Irish inflation. It is important to implement good governance/oversight of the investment choices. The default strategy should not necessarily be the lowest risk approach as it may not achieve the returns required. ESG considerations are important to include. The Council members asked about other funds, for example to cater for particular beliefs. While there is a trend towards this internationally, it is not yet available in Ireland. It may be difficult for providers to offer such funds in AE without significant scale.

On the final part of his presentation, DL set out some post-retirement considerations. He suggested the Council could consider some type of annuitisation for AE and also outlined that AE could be an ideal environment for collective DC, with a view on the target benefit approach. The target benefit approach allows a smoothing of returns and annual declared benefits.

MD asked if the low recommended charge cap could mean less diversification. DL answered that there are different ways to diversify, and passive-type strategies are a good option to ensure sufficient diversification. He then said that charges are particularly important in default strategies, as the impact of costs over time can have a big impact on resulting retirement income. JR asked if there will be guarantees, considering that AE will be implemented on a quasi-mandatory basis. DL said that in the current negative-interest environment it is unlikely to be an option.

TH asked DL about his opinion on monitoring performance over time, mentioning that the Australian schemes have to contact the savers if their fund underperforms the benchmark, in order to allow them to change strategy or switch fund. DL said that funds should be monitored by a committee and action taken if necessary, without putting the onus on the member. He also said that the approach shouldn't be based on short-term performance, it is better to focus on specific return and volatility targets. The Chair thanked DL for his presentation. He left the meeting at 16:04.

The Chair invited the Council members to give their opinions.

JR queried if collective DC might require a change in regulations. She also expressed her reticence about smoothing. MD said that there are many positive considerations about collective DC but that on the other hand there are also several negative aspects. BK stated that first it must be established what characteristics of the members are most important in AE and this must be corroborated by research. He said that most

of those who do not have a pension now would be inexperienced on financial matters and that an appropriate default strategy should be made available to them. BK did not think that the AE system should be designed for the minority who is financially expert, but for the majority of people who are not familiar with investments. He then agreed with MD, acknowledging that collective DC are developing but stressing the importance that AE is not the place to test new ideas or technologies.

TH's view was that as it is likely that people would build small pots, a simple default strategy should be implemented, with some consideration given to the member's age and the distance from retirement, stressing on importance to keep AE simple for members. He then suggested to give three choices based on risk tolerance and to assess the situation of AE investment strategy after a certain amount of time.

The Chair said that there is no need to make AE complex and she outlined that AE must be of a comparable quality to master trusts. In her view, guidelines around the default would have to be published, and that each provider should have an "approved" default strategy. She then asked who will oversee and monitor compliance with rules. BK said that no decisions have been made yet regarding regulations, but the standard of oversight must be robust.

MD expressed his opinion of the importance of the Central Processing Authority's (CPA) oversight and monitoring role, highlighting the challenges and potential implications of removing a provider from AE. BK agreed that there would be wide implications if a provider lost a contract, and that consideration needs to be given to whether mandates for administration, communication, and others should be bundled or not. The Chair stressed importance of clear guidelines that can accommodate different providers, as some might not provide certain strategies (for example, passive strategies).

CD gave the DSP update on AE, saying that there is still much to be decided. The Cabinet should soon give approval for the final design of the system, with some areas that will then require further attention. CD then outlined the importance of the level of prescription, as the legislation will need to have a sufficient level of policies and principles before AE will be launched. Regarding the default strategy, she would personally like to see a "medium risk lifestyle fund", stressing importance of preserving saver's money and that in case of a strategy too conservative there is risk of losing money in real terms.

The new CPA will also have responsibilities for guardianship and custodianship. MD asked how the CPA would be resourced, as it will have the crucial responsibility of choosing providers for AE and its decision can have wide commercial implications. MD highlighted the importance and complexity of the role, mentioning that conflict of interest is something to be carefully considered. CD agreed on high responsibility of CPA, saying that they will use the experience available.

The Chair then requested for volunteers to form a new sub-committee to draft a report based on 2021 discussions, the DL presentation and further discussion and research. JR, CD and AB agreed to form the sub-committee.

#### 4. Minutes

The minutes for the December 2021 meeting were approved.

#### 5. Developments in the pensions' environment

BK provided written update to the Council.

After the latest number of regulations, the Pensions Authority (TPA) signalled to the schemes not to wait for further updates as TPA will now focus mainly on its supervision and engagement role.

RB asked the Regulator about information regarding Pension Benefit statements.

BK replied that he will include this topic on the update for the February meeting.

DC then updated the Council about the DSP work, saying that the main focus is to progress AE, and that the next two years will be centred on AE work.

#### 6. Strategic work in progress

- Gender Pension Gap. The sub-committee is drafting a report to be presented for discussion during the February meeting.
- Pensions Cost Transparency. The report should be ready in six weeks, with the aim of finalising it during Q2 2022.
- ESRI. BK will meet them at the start of February and will update the Council during the next meeting.

#### 7. AOB

#### 8. Next Meeting

The next meeting is scheduled to be held on 16 February 2022.

#### New Action Items:

No.	Action Details	Person responsible	Date to be completed:
1	BK to provide update on Pension Benefit Statements	BK	16/02
2	BK, MD and RP to start the paper on cost transparency	BK, MD, RP	Paper by mid-February 2022