PENSIONS COUNCIL

Meeting on Wednesday, 21 October at 3.00pm
Virtual meeting

Attendance:	Jim Murray (Chair) Munro O'Dwyer Stephen Gillick Brendan Kennedy Tim O'Hanrahan Eoin Dormer Joanne Roche Kirstie Flynn Roshin Sen
Apologies:	Deirdre Cummins Roma Burke
DSP:	Ciaran Diamond Des Henry
ESRI:	Anne Nolan Conor O'Toole Barra Roantree Rachel Slaymaker
Also present:	Niamh Crowley (Note taker) Ailís Henry Brian Purcell
Quorum:	Quorum present 9 of 11 Council Members present (6 required)

<u>Minutes</u>

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 24 September 2020 were approved by the Council with the addition of the following sentence in relation to the Future of Funded DB paper:

Council members suggested that the paper should look at identifying what would ensure peace of mind for members.

4. Review of recent developments

Roshin Sen provided an update on the recent developments from the Department of Social Protection (DSP):

- The Minister for Public Expenditure announced in the Budget that the planned increase in the pension age to 67 on 1 January will not proceed. A bill to remove the legislation will take place later this year.
- A memo to be drafted on the Sustainability Pension Bill
- The Government is to consider revising the timeline for the implementation of the Auto enrolment retirement savings system which was due to begin by 2022.
- Work is ongoing on the transposition of IORP II
- Roshin is the new Secretariat to the Commission on Pensions which will examine sustainability and eligibility issues with state pensions and the Social Insurance.

5. Working Groups

Future of Funded DB schemes

Stephen Gillick circulated an updated note reflecting observations made by Council members at the last meeting of 24 September 2020. Stephen addressed a number of comments/ observations that were made by Council Members.

<u>Paragraph 2.1</u>
"Where the assets of a DB scheme are not sufficient to pay benefits and the sponsoring employer is not in a position to meet the shortfall, benefits may need to be reduced. The sponsoring employer bears the risk."

Brendan Kennedy advised that the member bears the risk, except the rarer cases where the employer is legally obliged to contribute. Stephen agreed to reword this section.

<u>Paragraph 2.3</u>
"In recent years, overall UK DB deficit reduction contributions have decreased and this has often occurred because of an increase in shareholder dividend payments."

Brendan Kennedy advised that there is no doubt that many employers want to pay dividends rather than pension contributions but the UK regulator would not allow reduced deficit reductions in order to facilitate dividends.

Jim Murray queried whether there is a legal obligation on employers to contribute to the pension scheme. Stephen Gillick advised that this usually is set out in the Trust Deed and Rules.

<u>Paragraph 5</u>
Stephen Gillick presented a broad overview of the differences between Defined Benefit Schemes in the UK and Ireland. There was a discussion around Defined Benefit Schemes in the UK, Eoin Dormer suggested adding a paragraph on the pros and cons of the UK experience.

Roshin Sen explained the vast difference in the number of DB schemes and members in the UK compared to Ireland adding that this means there are more members bearing the cost of the scheme.

<u>Paragraph 6.3</u>
"Like buy-outs, buy-ins require the payment of a premium to an insurer for taking on the risk but the sponsoring employer is still responsible for providing remaining members' benefits."
Stephen Gillick to elaborate on this point as buy-ins are not as common in Ireland as they would be in the UK.

Recommended Actions for DB Scheme Reform

Stephen Gillick proposed three main actions for DB Scheme Reform:

9.1 The protection of active and deferred members: This might be considered by way of a review of the winding-up priority order prescribed by the Act. The position of active and deferred members in the order of priorities may require re-assessment or the overall percentage of benefits payable to unretired members on a wind-up might be increased beyond 50%. A reduction in the pensioner benefit percentage limits might also be considered.

9.2 Employer responsibility: The introduction of measures similar to those required by s75 of the Pensions Act 1995 in the UK might be considered for supporting underfunded schemes. There is no doubt that a main weakness of the funding standard lies in the fact that there are no statutory safeguards to prevent employers from ceasing to make contributions to the scheme/withdrawing support. Legislation might be considered which both protects underfunded schemes as well as ensuring that financially healthy employers cannot easily withdraw support from a DB scheme.

9.3 Buy-outs & buy-ins: Knowledge of the restructuring and de-risking insurance solutions for DB schemes should be mandatory for trustees. Mandatory trustee training on these solutions might be implemented which includes information on the benefits of such exercises as well as the information typically required by a life company for a bulk annuity quotation.

Munro O’Dwyer explained that 9.1 of the recommended actions outlined in the conclusion does not reflect the contents of the document itself. Stephen Gillick acknowledged that the priority order was amended recently but agreed to include a section in the paper on the winding-up priority order prescribed by the Act.

Joanne suggested that Single and Double insolvency should be mentioned under 9.2 and a distinction should be made between them.

Stephen Gillick agreed to amend the paper to capture additional comments and circulate to members for agreement.

Recent Market Movements

Jim Murray circulated a note in advance of the meeting reflecting the preliminary observations on Current Market Movements made by Council members at the last meeting of 24 September 2020:

1. Current market conditions have had a small effect on pensions so far.

2. This situation would almost certainly change, and not for the good.

3. At present, returns on cash, property and property bonds are negative in real terms.

4. Returns on equities are positive but there is reason to fear that current values are the result of a bubble. Equities may recover in the longer term but hardly to the higher rates seen historically.

5. There is scope for an increase in ESG investment, arising from the pandemic and because investment in oil would seem to have passed its peak.

6. EU “green” taxes and other initiatives may help to support ESG investment.

Munro O’Dwyer advised that long term interest rates have fallen very low and are not going anywhere soon. This is not an asset class you generally think about but it underpins the pensions regime.

Jim Murray queried whether people tend to search elsewhere for a higher interest rate. Joanne Roche advised that the IORP Directive contains a provision requiring scheme assets to be predominantly invested in regulated markets. Investment in assets which are not admitted to trading on a regulated financial market must be kept to prudent levels. Joanne added that the IORP II Directive will require IORPs to disclose where Environmental, Social and Governance (ESG) factors are considered in investment decisions and how they form part of their risk management system.

Stephen Gillick explained that last year there was a big focus on ESG investment and how it could be utilised going forward. Once the Covid 19 pandemic hit, it was anticipated that interest in ESG would decrease, however, ESG and green investing has done quite well during this time. Munro O’Dwyer added that Covid 19 is an example of why ESG is so important in tackling climate change. Covid 19 is a once in a lifetime event that if we get it wrong, it doesn't matter how good your pension is.

Jim Murray to capture additional comments on Recent Market Movements and circulate to members.

6. Report on Study on Housing and Pensions (ESRI)

The Programme Coordinator, Anne Nolan along with representatives from the ESRI, Conor O'Toole, Barra Roantree and Rachel Slaymaker presented their study on Housing and Pensions. The presentation looked at:

- Overview, context, research objectives
- Demographic developments, tenure and housing costs
- Assessing retirement income adequacy
- Next steps, timelines and deliverables

<u>Research objectives</u>

- Broad objective is to assess the impact of housing costs on retirement income adequacy of future cohorts of retirees

<u>Research Questions</u>

- What does the international evidence tell us about the impact of housing costs on retirement income adequacy?
- What are the housing cost implications for different age cohorts and tenures?
- What implications do these projections have for the retirement income adequacy of future cohorts?

<u>Timeline</u>

- Programme runs October 2020 – March 2022
- Initial findings ready for June 2021, with final report submitted at end March 2022

<u>Next Steps</u>

1. Literature review
2. Use AT-HOME model to generate cohort-level projections of tenure and housing costs
3. Input into TRIAM model
    a. Incorporate housing costs into assessment of adequacy for 1955- 1960 cohort

b. Broaden scope to consider impact of tenure/housing costs on retirement income adequacy of future cohorts

4. Policy implications

7. Next Meeting:

The next meeting of the Pensions Council will take place on Wednesday, 18 November.

Proposed meeting dates:

- Wednesday, 18 November 2020
- Wednesday, 9 December 2020

8. To-do list

Stephen Gillick to amend Future of Defined Benefit Schemes paper to capture additional comments and circulate to members for agreement.	SG
Jim Murray to compile bullet points on Recent Market Movements and circulate to members.	JM