



# An Chomhairle Pinsean The Pensions Council

## Minutes

### **Pensions Council Meeting**

**18 September 2023 @ 15:00**

**Venue: Hybrid meeting held in the offices of the Pensions Authority**

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

Roma Burke (Chair)  
Deirdre Cummins (DC)  
Clare Dowling (CD)  
Olive Gaughan (OG)  
Stephen Gillick (SG)  
Brendan Kennedy (BK)  
Ciara McLoughlin (CML)  
Munro O'Dwyer (MD)  
Tim O'Hanrahan (TH)  
Joanne Roche (JR)

#### **Council members apologies**

Andrew Condon (AC)

#### **Also present:**

Dr. Colm Fitzgerald (CF), Paragon Research Limited  
Aaron Bayle (AB), Department of Social Protection  
Marco Carlesso (note taker, secretariat)  
Christine Lutz (secretariat)

Quorum: Quorum present – 10 members present (6 required for Quorum)

---

### **1. Welcome and declaration of new interests**

The Chair welcomed the members and attendees. She invited the Pensions Council members to declare any new potential conflicts of interest or relevant changes in circumstances and none were declared.

### **2. Adoption of agenda**

The agenda was adopted by the members.

### **3. Minutes and matters arising**

The Chair suggested that the minutes and matters arising from the July meeting would be deferred until a subsequent meeting, to allow sufficient time for Dr Fitzgerald to present his findings and facilitate a comprehensive discussion amongst the Pension Council members. The Council members agreed.

### **4. Presentation – Review of Alternative proposal for auto enrolment (AE)**

The Chair stated that the purpose of this meeting was for the Council members to listen to a presentation by Dr. Colm Fitzgerald, who through his company Paragon Research Limited, was awarded the contract for the project to analyse and assess the model proposed in the paper 'Alternative proposal for auto enrolment (AE)' which was furnished to the Department of Social Protection by Mr. Colm Fagan.

The Chair stated that this project was multi-faceted and a very complex topic. She thanked the Technical Oversight Committee for its work supporting Dr. Fitzgerald during his assessment.

Dr. Colm Fitzgerald (CF) summarised his professional and academic background as an actuary, investor, company owner, and university lecturer, and pointed out that his approach to conducting the assessment of the project was to 'get the story right' and look at the proposal more from an investor's perspective, taking a multidisciplinary approach, rather than purely from the perspective of an actuary.

CF presented his draft findings. He stated that he had conducted an independent multi-disciplinary real-world assessment and made every effort do this objectively. To assist with this, he had consulted experts from a wide variety of fields who had differing views on the subject matter, all of whom were referenced in his slides and some of whom were suggested by Colm Fagan.

#### **Background:**

CF referenced an observed increase in longevity and a shift away from employers providing defined benefit pensions. Longevity risk is being passed from organisations to individuals. CF referenced Alexis de Tocqueville's concept of equality, developed through his work analysing living standards and social conditions. CF spoke about the need for social protection; in this regard, that interests are aligned at individual and State level.

CF spoke about investing in the stock market and the risks involved. CF stated that when investing, it is important that investors have the psychological capacity not to panic when markets fall and that they remain invested. Under the Alternative AE Proposal, all members would be invested 100% in equities, the risk is passed to the members, but this is managed with a smoothing formula at which members would transact with each other. CF stated the need for prudential investment oversight by a competent person of appropriate character and investment expertise. CF quoted the

economist and investor Benjamin Graham: “Successful investing is about managing risk, not avoiding it.”

### **Technical feasibility testing:**

CF summarised the way in which the Alternative AE Proposal works and discussed the key features, drivers, risks, analysis, assumptions, and potential advantages.

### **Key features:**

- Investment in a single fund investing 100% in equities during pre- and post-retirement phases, with a formula to smooth how returns are allocated to member accounts.
- Members remain in the fund for life, with an alternative approach to provide longevity protection.

### **Key drivers:**

- The main driver over longer periods is the market value.
- The ‘ $r$ ’ in the formula is the artificial increase in smoothed value that is intended to reflect the long-term expected return on equity.
- The ‘ $p$ ’ in the formula is the rate at which the recognition of changes in market value is delayed.

### **Key risks:**

CF stated that the key risks present in the Alternative AE Proposal are:

- Political and governance risk (and not managing expectations properly).
- Scheme becoming unattractive and contributions stopping.
- Investment risk (the average return on equities changing versus history).
- Funding level risk.
- Lack of sound risk management.
- Risk to the State’s finances (existing risk from other obligations and population risk).
- Social protection risk
- Inflation risk.
- Expense risk
- IT risk
- Modelling risk
- Investment psychology risk and behavioural risk.
- Lack of oversight by a competent person of appropriate character and investment expertise.

### **Data used for assumptions:**

In order for CF to test the technical feasibility of the Alternative AE Proposal, he looked at the past performance over extended periods of time (which included events such as social unrest, two world wars and the Spanish Flu) of the economies of the United

States (from 1871 to 2010) and Belgium (from 1833 to 2005). He noted that in some cases the market value was in excess of or below the smoothed value in both scenarios.

CF discussed how equities performed under different scenarios and concluded that, counterintuitively, equities, though more volatile in the short-term, performed better than bonds during periods where high inflation served to reduce bond valuations to nil – such as in times of a pandemic and more generally during challenging times, be that political, economic or social.

### **Analysis:**

CF carried out a set of projections for a worker joining AE at ages between 25 and 55, earning €20,000 per annum, based on a set of assumptions. The results showed that the member would be significantly better off under the Alternative AE Proposal, reflecting the significantly higher investment return being assumed under that approach.

### **Assumptions**

CF discussed the key assumptions:  $i$  and  $p$ , the Buffer Account and the assumption regarding no political interference. The  $i$  and  $p$  was discussed as outlined earlier. In CF's view, the assumption regarding the Buffer Account was not credible. In the event that the fund had to wind-up, depending on market value at that time, the Buffer Account might not be sufficient to pay out every member's benefits, in which case the State might have to provide the necessary financial resources.

CF described the overall risk as analogous to the risks associated with the introduction of the Euro.

For the Alternative AE Proposal to be a success, four risk management approaches were set out: the State could stand behind it, *or* this risk would need to be hedged in the market, *or* a person of appropriate character would need to be appointed to manage the fund with a more simplistic approach to smoothing being applied; *or* a combination of the options.

CF stated that the assumption made in the Alternative AE Proposal regarding no political interference was not credible, but that, like with the Euro and with other examples, measures could be taken to reasonably protect against it.

### **Advantages of the Alternative AE Proposal:**

CF stated that in its current form, the Alternative AE Proposal could produce significantly higher pensions for those contributing it. CF listed some other advantages that he believed the Alternative AE proposal would deliver:

- Adopting the proposal could improve Ireland's credit rating in the long-term.

- Higher projected pensions would increase future income tax revenue from retirees and improve social protection
- If it were a success, it could become more attractive and encourage higher levels of opting in, resulting in higher future pensions coverage.
- It would effectively lower the cost of providing pensions in the State.

**Caveats:**

CF stated that he did not consider the post-retirement phase during the presentation, due to time constraints, but that this would be referenced in the final report.

**Queries from the Council:**

An extensive and broad ranging discussion ensued. The Council members posed many questions, among those were:

- To what extent can we rely on past data for the future?
- The stock market cannot grow at a faster rate than the economy indefinitely – how is this being considered?
- To what extent can an assumption be made that it would be the State’s number one priority to bail out a pension fund in times of crisis? And should society bear those risks?
- Is there capacity in the market for everyone to do this?
- On what basis can we assume that this is a reliable equity basis?
- How was investment in index-linked bonds captured in CF analysis, in circumstances where high inflation caused bond values to fall significantly? (CF stated that he will revert to the Council on this.)
- What evidence do we have to satisfy ourselves that all associated risks can be managed?
- How has intergenerational fairness been taken into account?

The Chair thanked CF for his presentation and noted the remit of the Pensions Council which is to provide advice to the Minister on matters relating to pension policy and to represent and protect the consumer interest and to ensure that the pension system has a stronger consumer focus.

**Next steps:**

It was agreed that CF would submit his draft assessment report to the Council before the end of October 2023.

The Council members agreed to meet during the following week to continue the discussion.

The Secretariat would share CF’s presentation slides with all Council members.

**5. AOB**

The Chair stated that due to lack of time, the minutes of the July meeting would be considered at an upcoming meeting.

CD stated that a presentation she attended on the Swedish fund AP7 (i.e. the default fund offering in the Swedish premium pension system) came to her mind while listening to the presentation. CD said she would share the presentation slides with Council members.

**6. Next meeting:**

The Council agreed to meet again virtually via MS Teams the following week (beginning Monday 25 September 2025) – Secretariat to organise.

**Action Items:**

<b>No.</b>	<b>Action Details</b>	<b>Person responsible</b>	<b>Date to be completed:</b>
1	CF to submit draft findings / assessment report to the Council.	Dr. Colm Fitzgerald	By end of October 2023
2	CF to revert to Council in relation to query on index-linked bonds.	Dr. Colm Fitzgerald	By end of October 2023
3	Schedule MS Teams Council meeting for week beginning 25 September 2023.	Secretariat	Done by Secretariat and scheduled for 26 September 2023.
4	Share Dr. Fitzgerald's presentation slides with Council members.	Secretariat	Done by Secretariat on 18 September 2023.
5	CD to share presentation slides on Swedish Fund AP7 with Council members.	CD	Done on 18 September 2023.