2020 Vision
Scheme Transformations

WELCOME

Michael Fitzgerald, Managing Director
Fitzgerald Actuarial

Community Support Resources

- Core to our company
- identifies and partners with small organisations of great intent
- Making an **immediate impact on marginalised people in the community.**

Agenda

1. Disruption of Market: Michael Fitzgerald, Fitzgerald Actuarial
2. Managing Wind-Ups & Transformations: John Grant, Fitzgerald Actuarial
3. Key Issues in a DC World: Rose Leonard, Zurich Life
4. Panel Discussion and Audience Questions

Disruption of the Pensions Market

Factors leading to Transfers from Defined Benefit (DB) and Defined Contribution (DC) schemes to new arrangements

Michael Fitzgerald, Managing Director
Fitzgerald Actuarial

Factors Leading to Transformation

1. Changes in **Social Contract**
   a. State vis a vis Citizen
   b. Employer vis a vis Employee

2. Increased **Cost & Complexity** of pension provision

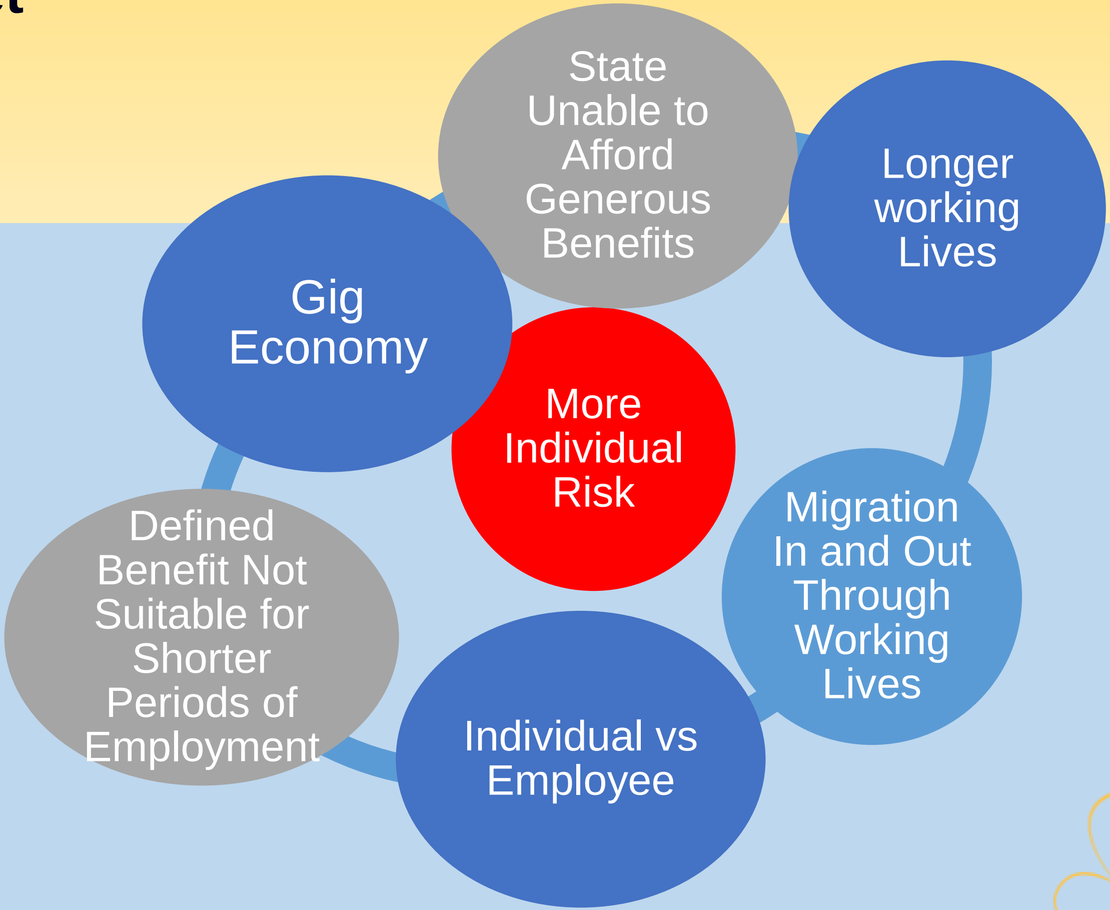
3. Increased **Risk** associated with pension provision

4. **Transfer of risk** from state to employer and employer to individuals

5. Increased uncertainty about the pension environment

Disruption of the Market

Nature of Social Contract has changed



Cost of State Pension

- 2030 - Annual spend €15bn an annual deficit of about €3bn p.a

- "This sets a challenging context for the development of medium to long term policy – a context in which the social contract may come under pressure and in which the continuing, if not stronger, support and solidarity of contributors will be essential to the maintenance of the existing level and range of services"

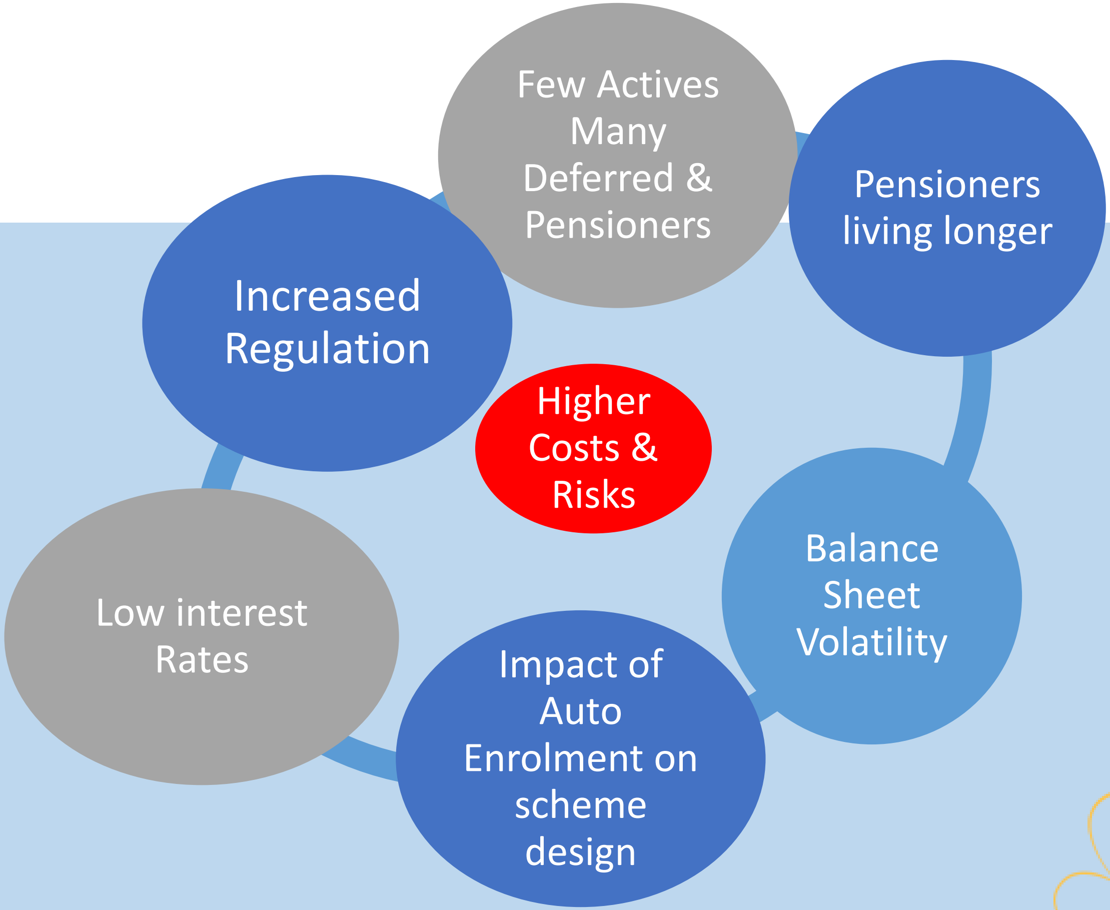
John McKeon, Secretary General, Department of Employment Affairs and Social Protection 7 November 2019

Changed Social Contract

- Questions on sustainability and on adequacy of state contributory pension
- Emphasis on private provision
- Auto-enrolment premise is to fill “the existing gap” for those who have no workplace pension provision
- Auto-enrolment: may also be seen as reflection of changed social contract

Disruption of the Market

Employers' Cost, Complexity & Risks have increased



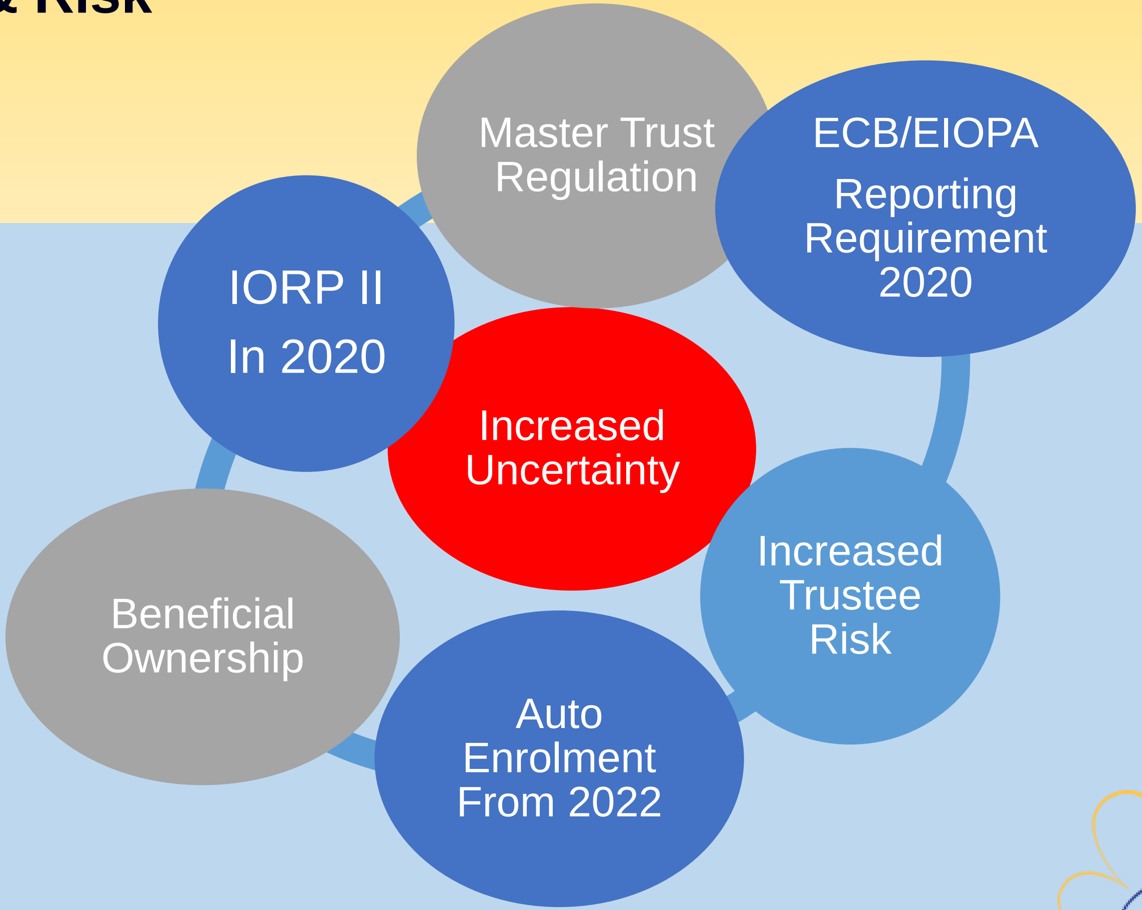
Increased Costs

- Regulation brings extra cost
- Low interest means higher value placed on future liabilities
- Pensioners living longer means higher value placed on future liabilities
- Higher liabilities = Higher cost
- Less employees contributing means burden falls on the sponsor
- This applies equally to state and private provision
- We could wait for interest rates to rise or a pandemic to happen!!!
- Defined contribution natural answer to controlling cost
- But impacts on adequacy and complexity of benefits for members

Increased Complexity & Risk

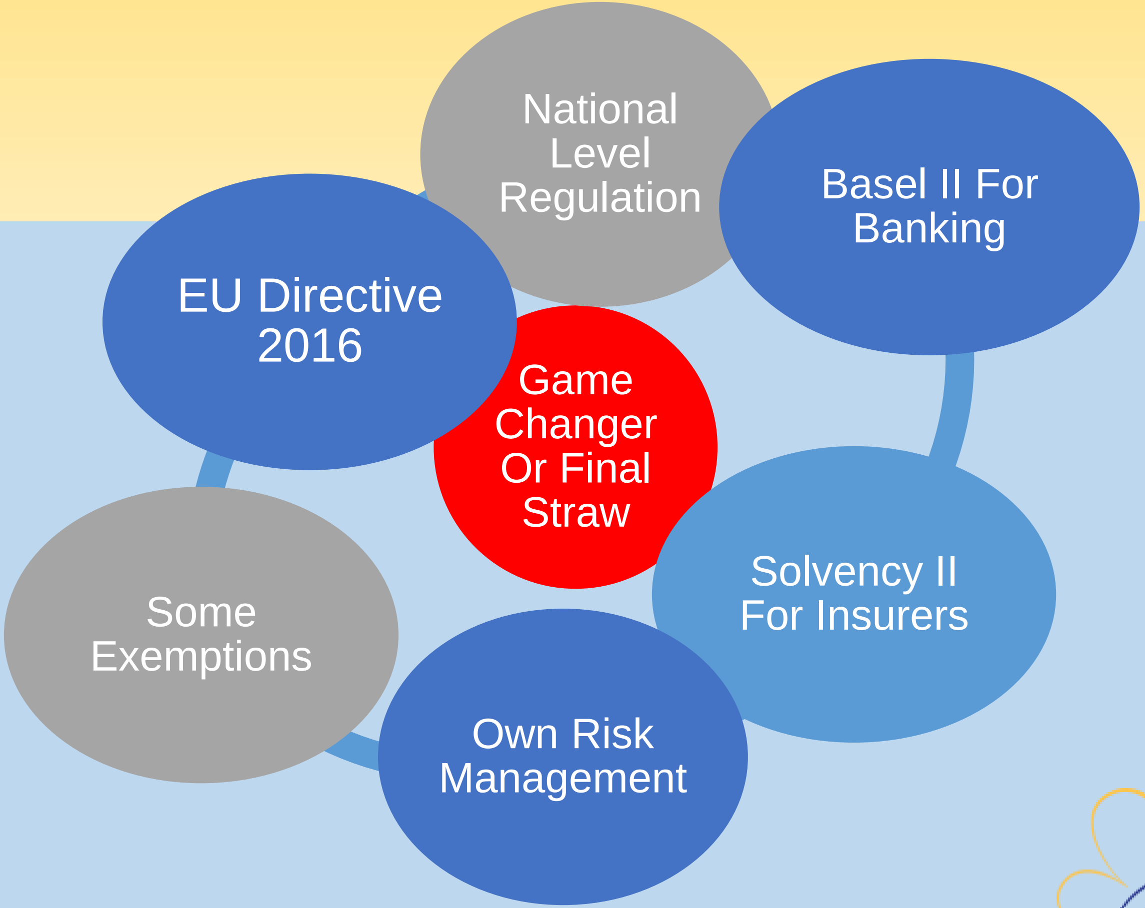
Just a flavour!

New Obligations Every Year On Schemes



IORP II – Disruption

IORP II:
High Level



Timing & Scope

- Equally applicable to DB & DC arrangements
- To be transcribed to Irish legislation by January 2019
- Option available to exempt schemes with less than 100 Members
- Most Irish Occupational Schemes 1-5 members
- The Minister has indicated that she is minded not to exempt such schemes – APTI legal case will have a bearing
- Greater intervention powers
- 18 month grace – but from what date

Governance: Scheme management

- Written Policies – Quality & Application
- Scheme administration
- Risk Management
- Internal control
- Outsourced Activities
- Key Function Holders
- ESG

Risk Management

- Own Solvency assessment
- Forward looking risk management
- Risk Function
- Internal Audit Function
- Actuarial Function – DB only
- Follows closely Solvency II approach for insurers

Impact of IORP II

- Not business as usual
- Solvency II for life insurers has fundamentally changed
  - Board responsibilities
  - Board composition
  - Board engagement
  - Cost of reporting
- IORP II will have similar effect
- Reporting requirements will only grow

ENGAGEMENT WITH SUPERVISED ENTITIES

✓More dialogue

✓More probing of decision making and actions

✓Active and engaged trustees (no *passenger trustees*)

✓Scheme specific policies (no *boilerplate policies*)

✓More qualitative assessments

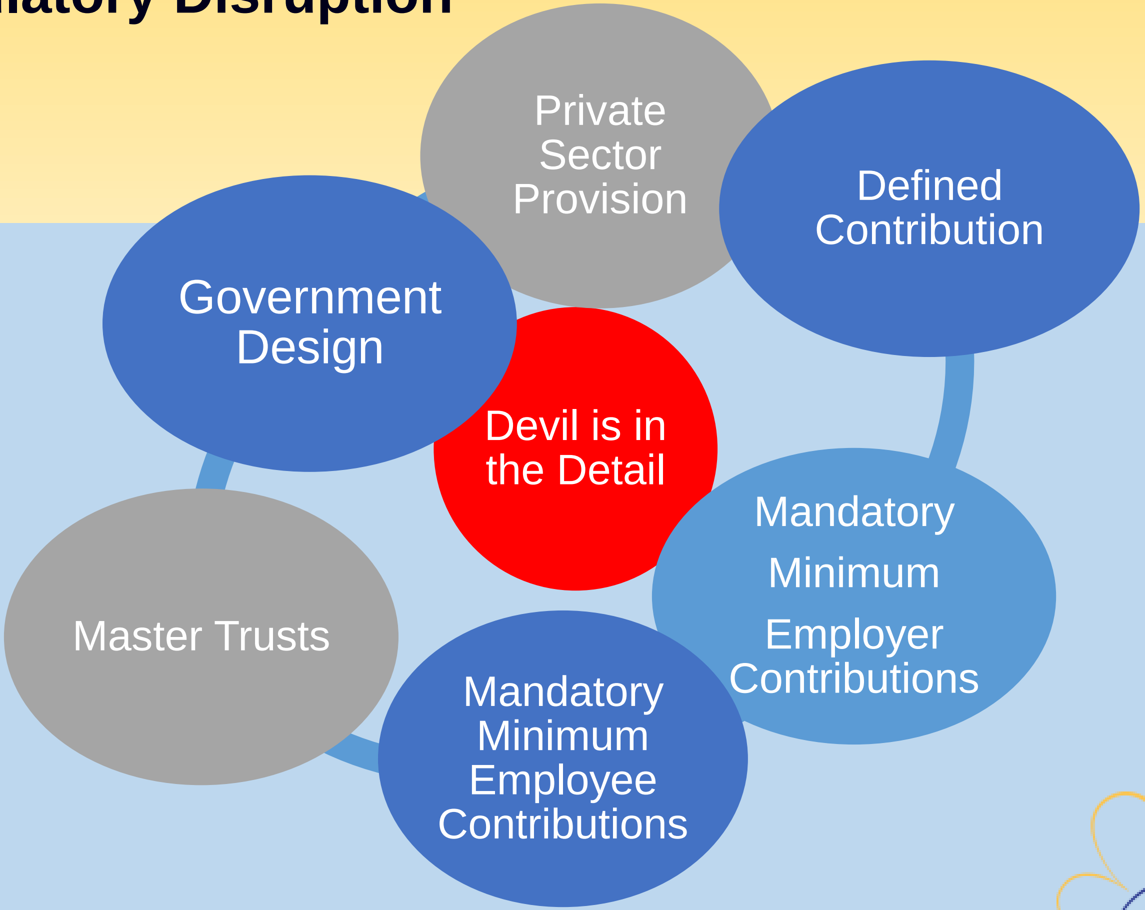
An tÚdarás Pinsean
The Pensions Authority

Impact of IORP II – one example

- Annual statements for all members
- This includes deferred members
- Data not always complete for ex employees
- Data often no longer accurate for ex employees
- Address unknown – No Irish Tracing Service
- Data fails GDPR tests
- Action needed
- Adds to pressure to sort data and/or transfer out deferreds

Auto Enrolment – Regulatory Disruption

Auto-Enrolment:



Auto-Enrolment

- 20 years in the making – and not there yet
- “Roadmap for Pension Reform 2018-2023”
- Strawman Proposal – August 2018
- Consultation process – ended March 2019
- Update issued 30 October 2019
- Implementation 2022

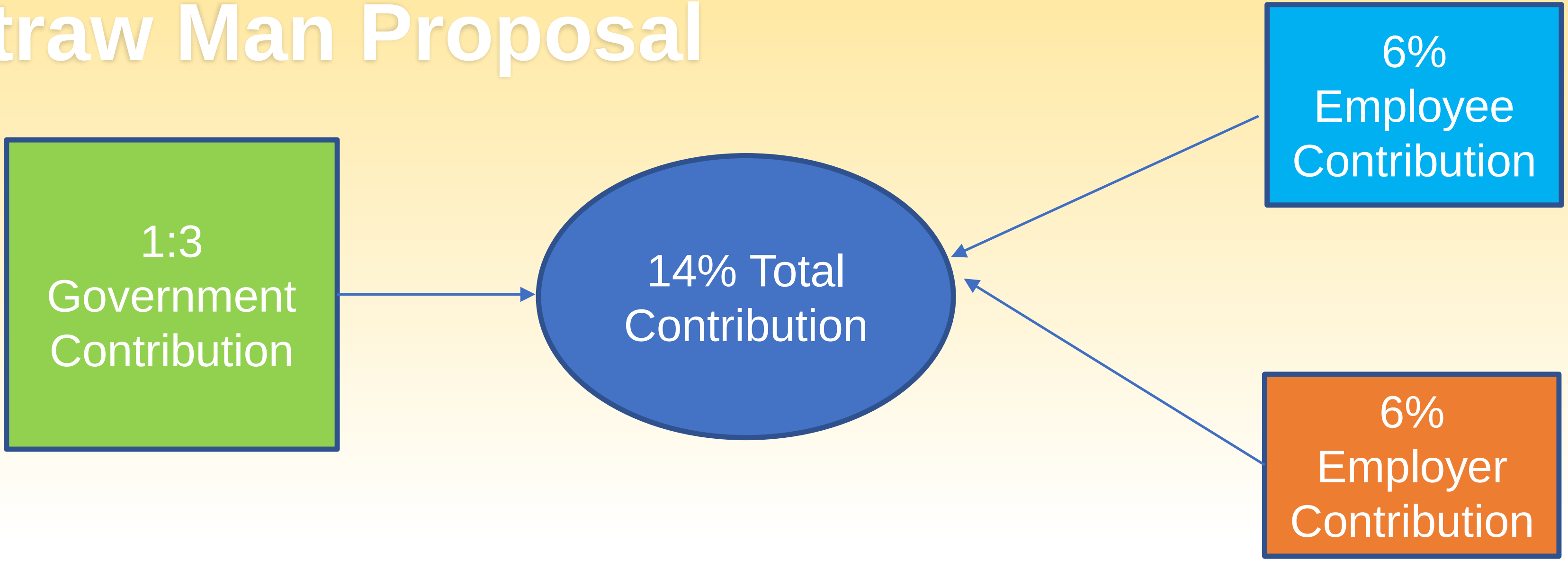
Pensions Roadmap – related issues

- Improve the harmonisation of rules to eliminate anomalies in the treatment of different retirement arrangements including taxation treatment.
- Identify the options and develop recommendations to coherently rationalise the number of individual pension vehicles which exist at present.
- Identify measures to address any provider/consumer protection gap and the potential to facilitate group ARF products or in-scheme drawdown.

Auto-Enrolment

- Based on Gross Earnings
- 6% in new might be greater than 7.5% in existing
- Different design to existing DC
- Charging structure leaves little room for cost of advice
- Most people in default fund
- Experience from UK is significant difference in performance
- Based on master trust concept which has not been regulated here yet

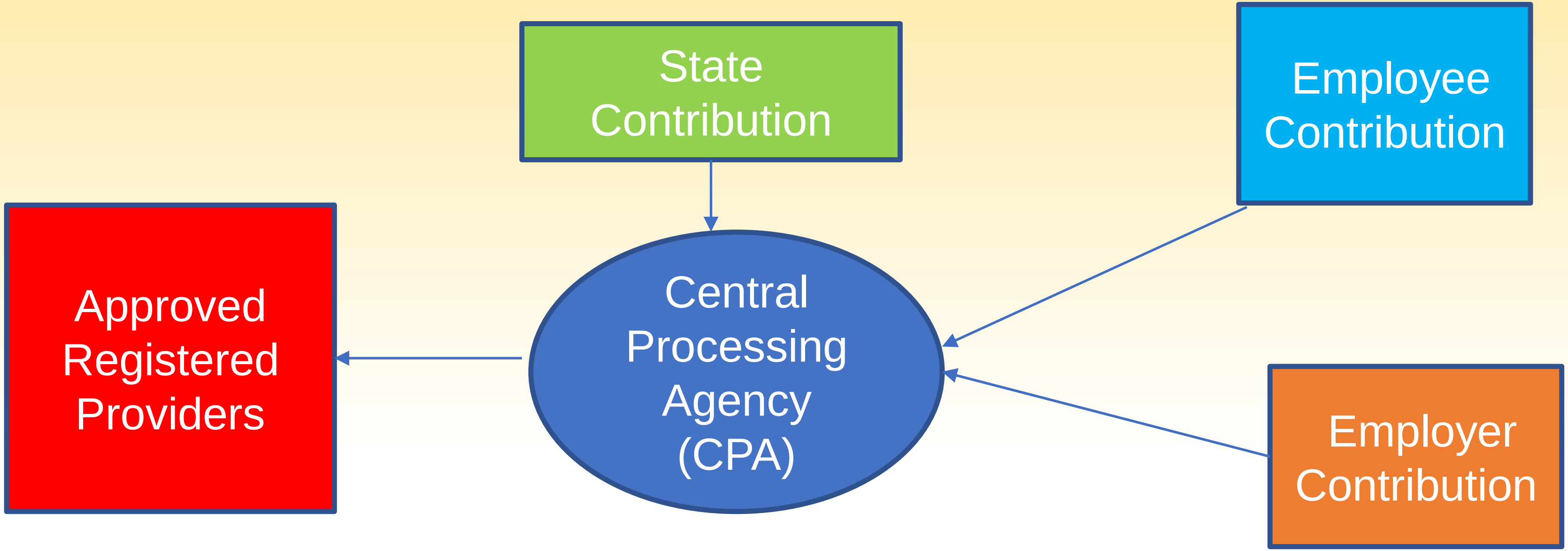
Auto-Enrolment
Straw Man Proposal



For those earning at least €20k and not in alternative arrangement.

Auto-Enrolment

Straw Man Proposal



3-5 Providers – maximum cost 0.5% per annum

Contribution Levels - Update

- Phased contributions starting at 1.5% (1% in strawman proposal) for employer and employee
- Increasing every 3 years
- 6% maximum reached in 10 years
- Maximum applicable earnings confirmed at €75k
- Some pullback/uncertainty on nature of Government contribution level – may be tax relief rather than contribution

Employee Fund Choices - Update

- Employees (rather than employers) will be responsible for selecting a provider and a savings fund option
- In the absence of any savings decision, the enrolled employee will be automatically allocated to the default fund of one of the Registered Providers on a carousel basis
- The initial contract period for service delivery by Auto Enrolment Register Providers will operate for a period of ten years
- The CPA will seek to set annual administrative, management and investment charges of no more than 0.5% of assets under management. This charges cap will apply to all providers

Outstanding issues

These areas are related to the design of:

1. the scope and role of the Central Processing Authority (CPA);
2. the nature and functions of the Registered Providers;
3. the investment framework and funds to be offered by Registered Providers (including, importantly, the design of the default fund);
4. the decumulation or pay-out phase including drawdown possibility; and
5. the State financial incentive

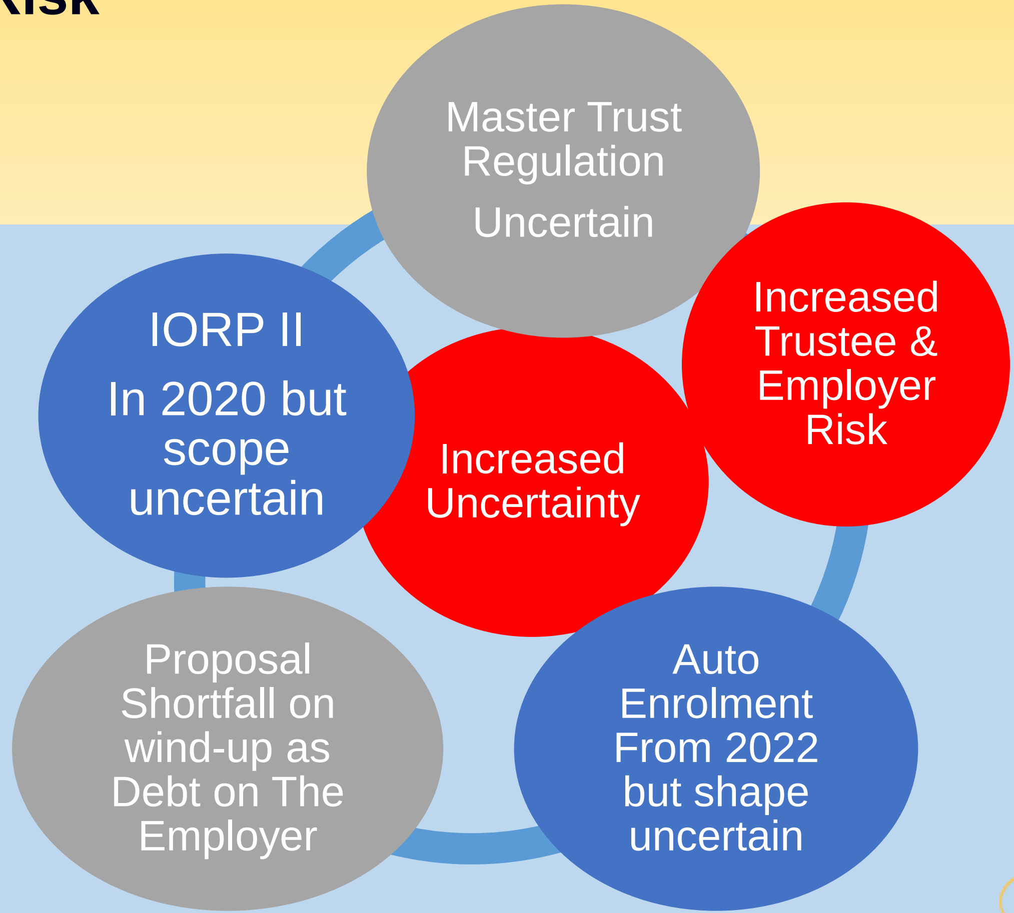
State Incentive - Update

- “While the issue of State incentives within wider supplementary pensions is under the remit of the Department of Finance, it formed part of the Interdepartmental Pensions Reform and Taxation Groups (IDPRTG) Consultation on Supplementary Pensions Reform, whose work on this issue was recently completed”
- On the basis of the findings from this review and the responses to the Strawman consultation, further work is being undertaken examining the design of the State financial incentive for the AE system and a set of options on how to proceed will be brought to Government in Q1, 2020”

We wait

Increased Uncertainty & Risk

Uncertainty on all fronts (except one)



So What We Think Will Happen?

- Many existing schemes will transfer out deferred members
- Many DB schemes will wind up and move to DC
- Fewer but larger DC Schemes many under master trust
- Auto-enrolment will impact design of DC schemes
- This transition needs to be managed so that employers get best value for money
- This transition needs to be managed so employees get the best options under their new DC arrangements
- Danger of less advice for members

Issues on Transformations

For the Future

- Bulk transfer rules impractical
- Interaction with wind-up rules complicated
- Advice on Enhanced Transfer Value Exercises
- Selective Consent

Currently

- Debt on Employer in light of Omega Pharma
- Need to understand Wind-up rules, Bulk Transfer rules and Disclosure Requirements