

NO STANDING STILL FOR PENSIONS SAYS PENSIONS BOARD CHIEF

By Jill Kerby

It has been an extraordinary few years for Irish pensions, concedes the Irish Pensions Board chief executive Brendan Kennedy. Once upon a time, not that long ago, the business of pensions was, like the product itself, predictable and steady. 'Change' happened, but it was slow, mainly positive and progressive.

Today, Irish pensions are as much a source of controversy and uncertainty as much as the rest of the financial services industry. There is no easy solution to restoring the value of existing pension funds, or the confidence that many worried employees have lost in the very notion that a formal pension will deliver a safe retirement income.

"More has happened in the past two years than happened in the previous ten," say Mr Kennedy, in his third year as CEO of the Pensions Board. "But it is also a culmination of change that has devolved over the previous 30 years – a symptom of a lot of events and external factors."

One thing that can't be denied, he says from his office overlooking Dublin's Lower Mount Street is "that the Irish pensions system has suffered very badly in the past year.

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According to Mr Kennedy, Irish pension funds are both the victim of external factors they had no part in – the global banking excesses and collapse – and of losses that he claims were self-induced. "While no pension system in the world could have avoided losses, the data shows that compared to other countries, we're out on our own. It is unfortunately true that those involved, the trustees and professional advisors, were not as risk

averse as they should have been. The longer a bull run continues, the more people forget that it will come to an end some day. They start seeing it as 'normal'."

He also believes that peer pressure played a big part in preventing many fund managers from reducing their equity exposure sooner, rather than later; there was a fear that if they recommended pulling back "they would lose business."

Either way, it's clear that the level of debate about the level of risk being assumed across the industry didn't get as much attention as the discussion about maximising returns: "Risk simply means 'what happens if it goes wrong,'" he says, "and now we are left with a situation in which employers are now wrestling with the question, 'how can we now continue to support our DB scheme.'"

Since last Spring a small, but steady stream of employers have contacted the Pensions Board seeking some guidance over their funding strategy and whether they can take advantage of the extending funding regulations, says Mr Kennedy.

The Board spent May and June travelling around the country speaking to trustees and employers about the new measures "and got a very good response". The pension community, he says, is aware of the difficult position they are in and that even with the new guidelines "there is no easy solution to their funding difficulty. There are



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many steps that have to be taken and a lot of stakeholders who need to be involved, which is why one of our principle messages was not for them to leave it to April of next year [the deadline] to get plans in place and to approach us.

"This isn't just a difficult math question, with one correct answer."

He knows that some employers are

going to come to the conclusion that “the appropriate solution for them is to close their DB scheme because of the costs and complexities. But we haven’t seen anyone rushing to do so,” though he accepts there is always a time lag between such a decision being taken and the Pensions Board being informed. Much will depend on whether and how the economy continues to contract, he says.

Another message to employers and trustees he is keen to advance, he says, is that any changes that are being considered right now – whether to keep the DB scheme or change it to a DC one, or a hybrid, “it has to be sustainable. There is no point in going through this painful process if you can’t keep the new promises you make.”

The interest in and development of various hybrid schemes in recent years is a case in point. The Pensions Board produced a booklet at the end of 2007 to help guide employers and trustees who were worried about the long term sustainability of the schemes about a hybrid schemes, but he admits that the sudden economic downturn took everyone by surprise. “Maybe if there had been a ‘soft landing’ companies would have shifted to hybrids in time.”

In the end there was more talk than action about switching to hybrids, with the most common model mainly a half DB, half DC scheme,” says Mr Kennedy. And while such hybrids reduced the DB exposure by 50%, there was still the matter of the asset mix, which didn’t necessarily change. “The problem is that some hybrids addressed the cost risk but not the investment risk.”

What he does accept is that “the original promises that DB employers made to their workforces were made with the best of intentions. Many decent DB employers over the years tried to move heaven and earth to keep the promises they made, but now find they are just not affordable.”

In the meantime, the rest of the work of the Pension’s Board continues, he says including the important job of ensuring that employers are fulfilling their reporting duties to their employees, and pursuing those who fail in their

legal obligations. The number of mainly construction industry employers who have not passed on pension contributions to their industry pension scheme continues to grow by more than 30% since the launch of the Board’s annual report in June. He expects more court cases and prosecutions.

The Board is also waiting – perhaps more patiently than the rest of the pensions community – to see how and when the government will respond to the National Pensions Review which has clearly been overtaken by the wider economic problems the country is facing. Like the NPR, the An Bord Snip recommendation that the Pensions Board (and the Pensions Ombudsman) be merged into the with the Office of the Financial Regulator is not something he will be drawn on, expect to say “it is entirely a matter for the Minister and the Government.”

As for the tax changes to private sector pensions recommended by the Commission on Taxation, he believes that while pension providers might be looking at how it could impact on their product provision and marketing strategies, “we don’t have any evidence at the moment that it’s impacted on individual members except perhaps – and these are anecdotal reports – that some people may be hastening their retirement for fear of losing out.”

The Pensions Board is standing by its National Pensions Review position that the tax relief be “rebalanced” to provide more of an incentive to lower earners, though he accepts that there is now the problem of contributions being cut back not because of any apparent unfairness in the tax system, “but because many people simply cannot afford to make pension contributions anymore.”

“Unemployment will have a big impact on where the debate goes,” he says. He doesn’t come right out and say that all the parties may yet have to go back to the drawing board but the implication is there: “I know the government wants to get the Green Paper out but they now have so many issues to wrestle with and pensions policy is very complicated. That it is still on the agenda is...encouraging.”

The Australians have much to show us about how to not only make a compulsory national pension scheme work, but to bring people around to the idea of their lifelong pension being as important an asset as their income, family home and other savings and investments.

Commenting on how difficult it is here to “get people to open the [pension statement] envelope once a year, the Pensions Board chief executive, Brendan Kennedy says he hopes the inclusion from this past July of a pension projection on Defined Benefit member statements will help people visualise more exactly what their pension is worth both now and in the future.

“You can’t force people to read beyond the first page, but that’s human nature,” says Mr. Kennedy. “We’ve definitely seen an increase of awareness of pensions over the past several years and an awareness that if you are in a DC scheme or a PRSA you have to engage and take intellectual ownership of your scheme.”

The Australians he has met in his professional capacity “say that one of the big shifts that has occurred since their compulsory scheme was first introduced in the late 1980s is that the Australian people are very conscious now of their accumulated savings. There’s considerable pride in building up their retirement funds, they’ve made that emotional engagement and it’s a shared national experience.”

Whatever about the introduction of compulsory private pensions, one thing that is certain to improve the rather distant relationship so many of us have with our retirement savings, says Mr. Kennedy, will be for individual pension information to be more accessible, something that is already a work in progress for many pension providers and employers who make pensions statements available on line.

“Pensions are naturally difficult,” he says. “They’re expensive and for many young people the prize is so far away; anything that makes the person more familiar and comfortable with their DC scheme can only help.”