

IRISH ASSOCIATION OF PENSIONS FUNDS

GOVERNANCE CONFERENCE

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presentation by

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- I welcome the initiative of the Irish Association of Pension Funds to devote a conference to the theme of pension scheme governance, and I'm grateful for the opportunity to speak to you this morning on this important topic.
- There may be different understandings of what exactly governance is. For the purposes of my presentation, I am taking pension scheme governance to mean:
 - how decisions are taken by those running the pension scheme;
 - how they make sure that their decisions are put into effect; and
 - how they monitor the effect of their decisions to inform future decisions they will make.
- A pension scheme is not like a clockwork device – you do not wind it up and thereafter it runs itself. A scheme requires ongoing oversight and management to ensure it is functioning properly in the best interests of members. This management, which is the governance decisions made by the trustees, has a profound effect on the outcomes for the members, that is, on the retirement benefits that they eventually receive.
- When we think of trustee decisions, we probably think first of the investment decisions made by trustees of defined benefit schemes. However, the decisions of trustees in both DB and DC encompass a wide range of issues involving not just investment, but administration, costs, and member communication. Each of these decisions can and usually does affect the retirement benefits received by scheme members.
- We need to be aware of the impact that these decisions can have on the retirement income of members. In particular, we need to be more conscious of the importance of governance in DC schemes. Most defined contribution

schemes are in essence identical. However, trustee decisions will make a substantial difference to the retirement benefits that a member will receive. The costs that the members bear are the result of trustee decisions. The investment choices available to members are the result of trustee decisions. The default investment strategy is decided by the trustees. Just as importantly, the decisions made by the members are significantly influenced by how the trustees decide to present information and choices to those members.

- Trustee decisions are not always active. Trustees, whether they know it or not, make decisions if they unthinkingly accept advice without considering it. They make decisions when they let their administrators take actions on their behalf without oversight, for instance in the areas of default investment, or member communications.
- I will talk in a moment about the position of the Pensions Authority on scheme governance. However, we must not see governance as only a regulatory issue. Trustees' responsibility for the governance of their scheme is not created by pension regulation: it is created by their acceptance of the role of trustee and the obligations they are accepting under the trust deed and rules of the scheme and under trust law. The obligation of trustees is to act in the best interests of the members, and the spirit of this obligation must be understood and accepted over and above the obligations of the Pensions Act. If there is any trustee who is unable or unwilling to undertake this responsibility, they must question whether they should continue in their role.
- Now I want to set out the Pensions Authority's position on governance. Let me start with an overview:
 - Ireland needs more retirement savings. Achieving this objective is not a simple task, and there are many obstacles to be tackled. One of the most important requirements is that we have a pension system that is fit for purpose. Our system must have the confidence of those who entrust it with their savings;
 - We will not have a pension system that is fit for purpose unless we are satisfied about how pension schemes are managed;
 - There are schemes that are very well managed. However, there are pension schemes that are poorly managed. It must not be a matter of chance for any of us which type we are in. Our objective must be to ensure that all schemes achieve high standards, given the crucial effect that governance has on the outcome for members.
- When we look at the regulation of Irish pension schemes, it is notable that the focus is much more on the outputs produced by the scheme than on how the scheme is run. By this I mean that our rules concern themselves

much more with reporting on the results of the governance of the scheme – benefit statements to the members, certificates to the Pensions Authority, annual reports, etc. – than with how that governance is undertaken, which is what determines what benefits the members are likely to receive.

- I am certainly not saying that the current regulatory obligations are unimportant – they are essential. What I am saying is that there is not sufficient oversight of the governance of schemes, both DB and DC.
- The assets of Irish pensions schemes total about €90 billion or more than 50% of GDP. This represents a very large amount of savings which has been entrusted by members to the scheme trustees. It is essential that there is adequate supervision of how they look after this money. The Pensions Authority therefore intends to seek additional powers to oversee how schemes are run and to intervene where it is felt necessary.
- The specific approach which the Authority proposes to adopt differs between DB and DC. However, central to both is the concept of dialogue: governance is too complex and too nuanced to be reduced to a simple set of boxes to be ticked. We clearly recognise that to understand and to comment on scheme governance will require interaction between the Authority and the scheme trustees.
- Let me first set out our objectives for defined contribution schemes:
 - The function of trustees in a DC scheme is to take decisions on behalf of the members – as I have already said, decisions about administration, charges, investment choices, and about member communication. However, unless the trustees know more about these issues, unless they are likely to make better decisions than the members themselves will make, there is no point in the structure at all.
 - It is an objective of the Pensions Authority to raise trustee requirements for DC schemes – this will focus on knowledge, experience and commitment.
 - It is an explicit objective of the Authority to substantially reduce the number of defined contribution schemes. There are too many schemes to make it possible to achieve the trustee standards we believe are needed. The current scheme numbers increase costs and make effective regulatory oversight and dialogue too difficult. Clearly, this objective means that there has to be many fewer single employer schemes.
 - The Authority is seeking powers to oversee the governance of defined contribution schemes, based primarily on dialogue with the scheme trustees.

- The Authority will seek additional more nuanced regulatory powers which will underpin a more detailed oversight of DC schemes.
- The Authority's objectives for defined benefit are as follows:
 - The Authority will be proposing increased trustee standards for defined benefit schemes, though these are likely to differ from those for defined contribution schemes.
 - The governance demands of a defined benefit schemes are considerably more demanding than for DC, and there is a corresponding higher dependence on advisers, especially on the scheme actuary. The Authority recognises the need to ensure that this advice meets high standards, is unambiguous and clear, and is structured to meet the specific needs of the trustees. We are developing specific proposals to better regulate the advisers and the advice they provide.
 - The Authority is seeking powers to oversee the governance of defined benefit schemes, based again on dialogue with the trustees.
 - As for DC, the Authority will seek additional more nuanced regulatory powers which will underpin a more detailed oversight of DB schemes.
- Most of the Authority's objectives would involve change to existing regulation. We have begun discussions with the Department of Social Protection about these matters.
- The Authority's objective is to achieve compliance with regulation. This aim is wider than merely enforcing regulation: an important part of this is to make compliance easier, and to support the great majority of trustees who are trying to be compliant. In recent months, we have undertaken a consultation on a draft code of defined benefit financial management guidelines. We have also begun to roll out a series of model documents for defined benefit and defined contribution schemes. We will continue and indeed widen our activities in this area.
- In summary, we must all recognise the fundamental importance of governance. We must recognise the effect that governance has on the retirement benefits of members. High standards of governance must be the primary objective of all trustees, who must not be solely focussed on minimalist compliance with legislation.
- Because of the importance of governance, the Pensions Authority believes that there be much more regulatory oversight of governance, and this is a priority for us.



An tÚdarás Pinsean
The Pensions Authority

- We recognise that our proposals represent significant change, but it is our view that this change is necessary in the best interests of scheme members
- Thank you.