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representing pension savers

DEFINED CONTRIBUTION PENSIONS

ESSENTIAL GUIDELINES FOR EMPLOYERS, TRUSTEES AND MEMBERS

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Defined Contribution (DC) pension arrangements form a substantial part of the retirement savings in Ireland with approximately €40 billion in invested assets and nearly 275,000 active members.

The IAPF believe that the key issues which face DC members centre engaging all stakeholders to understand the need to save for their future and to support individuals to adequately provide for their retirement.

The purpose of this document to provide guidelines to the key stakeholders to help them fulfil their roles and responsibilities in relation to their DC plans. An overview of the importance of understanding the interaction of contribution levels, investment returns and benefit conversion rates at retirement on DC retirement outcomes is also provided for each party.

The document is split into THREE SECTIONS depending on your relationship with the DC plan:

1 **The Employer**

2 **The Trustees**

3 **The Member**

The Employer

The purpose of this section to provide you, the employer, with:

- Guidelines to help you fulfil your role and responsibility to engage with members about their DC plan
- An overview of the importance in communicating the interaction of contribution levels, investment returns and benefit conversion rates at retirement on DC retirement outcomes

EMPLOYER GUIDELINES

- Determine the objective, purpose and strategy for the DC plan (i.e. why do you have the DC plan in place).
- Ensure that Trustees are given time off for Trustee training, preparing and attending meetings.
- In order to ensure a high participation rate, consider the design of the DC plan to encourage employees to be a member of the DC Plan.
- Put controls in place to ensure that the correct employees and employer contributions are paid over to the administrator on time each month and signed off by the Payroll manager each year.
- Meet with the Trustees once to year to get an overview of the Plan and get feedback from them. Let the Trustees know how important their role is and you appreciate the work they do as Trustees.
- Work with Trustees to ensure that the communication to members is simple, clear and easy to understand.
- Allocate a reasonable budget as agreed with Trustees for communications each year.
- Encourage members to attend any pension briefing.
- Facilitate members to pay Additional Voluntary Contributions (AVCs).
- Facilitate and subsidies members receiving one to one Financial Advice every 10 years and at least in the period 10 years from retirement.
- Promote the DC Pension to members and have it as part of new employee induction.

- Ensure the normal employees and employer contribution is set at a reasonable rate that the member can expect a reasonable outcome. Employer may want to decide what that outcome is, is it 20% or 30% of final salary and to review member likely outcomes every five year to see if the outcomes are still on track. If not, look for members to put in extra contribution or low expectations.
- Work with Trustees to ensure that they draw members attention to their likely retirement benefits so that the members can take action if they so wish.
- Run Retirement workshops for staff within 4 years of retirement which contains a session on member's options when they get to retirement.

EMPLOYER COMMUNICATION ESSENTIALS

Employers generally get tax relief on contributions they make to a pension arrangement. The treatment of employer contributions for tax purposes depends on the type of arrangement. Employer contributions to pension arrangements are fully deductible for corporation tax purposes up to certain limits .

Contributions from employees and employers to DC plans provide members with a degree of income security in retirement with financial benefits in addition to State benefits. Given the amount of commitment and financial investment which many employers provide, it is important that participation in the pension plan is fully availed of and appreciated by employees so that retirement objectives are achieved.

There are various methods which the employer can consider putting in place to best achieve these objectives, ranging from regularly surveying the needs of its workforce to pro-actively providing targeted pensions literature or advice.

Communication and education to employees on the advantages of saving for retirement will go a long way to facilitate employees retiring on a level of income which they can and will appreciate. This also protects the employer from potential employee complaints due to inadequate provision of information on the pension plan, particularly in cases where the members' ultimate pension is significantly lower than expected.

1. Generally, contributions paid by employers to occupational pension schemes are not treated as a benefit-in-kind and can be paid in addition to the contribution limits for employee contributions. Contributions paid by employers to personal pensions and PRSAs are treated as a benefit-in-kind. Income tax relief is provided subject to the overall contribution limits for employee contributions. There is no relief against the Universal Social Charge (USC) and PRSI on employee and employer contributions into a PRSA.

The level of communication any employer and Trustee group conduct will be driven by key legal requirements, available budget and appetite of members to actively engage in their retirement planning

Some forms of communication can cost very little but result in a large benefit and effect for members

Frequently the most effective way is for employer and Trustee groups to partner together to provide a consolidated and consistent communication strategy to support member needs.

In a quality plan, the employer should aim to work with the Trustees to do the following:

- Ensure that plan communication is accurate, clear, understandable and engaging and it addresses the needs of members from joining to retirement
- Ensure that members are made aware of their current investment strategy and what this means for them
- Ensure that members are regularly informed that their level of contributions is a key factor in determining the overall size of their pension fund
- Ensure that all costs and charges borne by members are clearly disclosed to members
- Clearly communicate to members the options available at retirement in a way which supports them in choosing the option most appropriate to their circumstances.

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Employers and Trustees Should Consider the following forms of communication and agree what suits their plan.

Form of Communication	Target Membership	Purpose
Members Booklets (In simple language with illustrations, online and hard copy)	All Members	Explain to members how the plan works and investment options
Induction of new staff (as part of the company's induction programme)	New Members	Overview of the plan, options and support new members to make contribution and investment choices
Members presentation (Annually/ bi-annual)	All Members	Overview of plan and how investments are preforming
Personalised Newsletter (Bi-annually, send via e-mail, 1-2 pages maximum)	All Members	Targeted message to members based on their age profile
Financial Advice – one to one funded /part funded by employer	Members over 50 years of age / over 10 years' service with the Company	Allow them to have specific focus on their retirement planning and Annuity/ARF options
Pension Advice – one to one. Provided by administrator	All members every 5 years	Explain to members how the plan works and investment options
Lunch and learns	All Members	Give members information on the pension plan and structure in an informal environment
Website and Online Access – Also Targeted Intranet Site	All members including Deferred members	Allows Members to keep up to date with their investments
Mobile Apps	All Members	Allows Members to keep up to date with their investments
Part of regular Team briefing	All Members	To explain how the plan works to a smaller group to facilitate general discussion and questions
Experts and Champions	All Members	Designate experts and champions who work to encourage members and employees to engage in plan
Members Survey (between 6-10 questions). Prize for members who complete the survey and include results in newsletter.	All Members/members who have completed the Financial /Pension one to one.	To get feedback from members how they view the plan and opportunity to provide feedback

The Trustees

The purpose of this section to provide you, the trustee, with:

- Guidelines to help you fulfil your role and responsibility to engage with members about their DC plan and have appropriate investment arrangements in place
- An overview of the importance in communicating the interaction of contribution levels and investment returns (as well as benefit conversion rates at retirement) on DC retirement outcomes

TRUSTEE GUIDELINES

Trustee Communication Guidelines

- Ensure that Trustees discuss member communications during trustee meetings.
- Meet with the Employer once to year to get an overview of the Plan and get feedback from them. Agree a communication budget and plan with the Employer.
- Consider the profile of the Plan and develop a communication plan with the needs of the population – from those that will engage to those that don't want to engage; from those just starting their savings career to those who are close to retirement. Remember deferred members as well as active members.
- Where appropriate, highlight the adequacy levels of contributions so that members can take action if required.
- Review the standard communications (joining booklet, formal annual benefit statements, leaving service option and retirement options statements) with providers to ensure they are compliant and appropriate. Ensure use of plain language as far as possible and avoid using jargon and technical terminology.
- Ensure that members are kept up-to-date on their investment strategy and make them aware of the default investment strategy. Regularly remind members of the importance of reviewing their investment choices. To help members review and understand the nature of the funds they are invested in, trustees should ensure the names of the funds are clear and the risk profile of the funds is described to make it easy for members to understand.

Trustee Investment Guidelines

- Formally discuss investment matters at least annually (including compliance with these guidelines). Periodically review the performance of the funds.
- Take expert advice in relation to investment issues unless you are satisfied that you already have the necessary skills and information.
- Ensure that you comply with all relevant investment regulations. If necessary seek confirmation from investment advisers.
- Provide a reasonable range of appropriate investment options for members. The range should be formally reviewed at least every three years.
- Consider the likely investment needs of members (including growth, capital protection and income protection) and measure risk in relation to these objectives and to the likely risk tolerance of members. In particular, attention should be paid to the requirements of members within 10 years of normal retirement.
- Ensure that sufficient communication exists to enable members to be aware of the important features of the investment options available to them and should provide for appropriate default strategies for members.
- Retain responsibility for high level strategic decisions in terms of assessing members' investment objectives, options and default strategies. You may delegate implementation to others and should do so where you do not have the necessary skills.

Trustee Communication and Investment Essentials

The trustee is responsible for ensuring that the plan is governed appropriately, and must apply the rules of the pension plan to all beneficiaries and within set guidelines as prescribed by law. Amongst other things, trustees need to regularly liaise with the employer to provide ideas around how the features and benefits of the pension plan can be best offered to members on a cost effective basis. Trustees also have specific duties in legislation regarding information that must be provided to members at particular points in time.

Members should generally be made aware of the degree of responsibility which rests with them in a DC plan. They therefore should have access to the right information and tools that will help them to consider important issues such as the level of retirement savings and the choice of investment.

Typically, such information is available in plan booklets, benefit statements, intranet sites with projection tools and investment manager fund fact sheets. Attending staff presentations on retirement is recommended. The amount of the retirement fund from the DC plan will ultimately determine the overall level of income and cash lump sum which can be made available. This in turn is dependent on:

- The amount of pension contributions being invested, and
- The investment gain during the period of pension investment, until drawdown at retirement, and
- The amount of charges or fees incurred in the management of the fund, and
- The cost of purchasing a pension at retirement (if applicable).

The trustee's role is to help members understand the interaction of these items on their ultimate DC benefits.

The adequacy of pension contributions is ultimately dependent on an individual's pension expectation at retirement. This in itself has to be determined at the outset so that full account can be taken of targeting the desired pension fund and it should be regularly reviewed as an individual's circumstances and needs change.

In terms of investments, trustees should ensure that sufficient communication exists to enable members be aware of the important features of the investment options available to them and should provide for appropriate default strategies for members.

One of the roles of the Trustee is to determine the most appropriate asset classes to make available to members of the pension plan and to communicate those options to members. Trustees should formally discuss investment matters at least annually. They should take expert advice in relation to investment issues unless they are satisfied that they already have the necessary skills and information.

When reviewing the investment strategy for a DC plan, the trustees must consider the following:

- Are the fund options adequate and appropriate? Is there a reasonable range of appropriate investment options? Is the composition of the fund selections appropriate with adequate benchmarks?
- Are the fund managers 'best in class'?
- Is the default option meeting the needs of members?
- Are the level of fees appropriate for various investment fund choices (e.g. active and passive managed funds)?

When deciding on the investment choices to offer members, or the number

of managers to use, the trustees have an ongoing fiduciary duty to monitor the design of the investment options and the performance delivered to members. Trustees have a statutory duty to monitor and review them on a regular basis and need to be able to explain the reasons for differences in performance and risk between funds and between managers.

Trustees should consider the likely investment needs of members (including growth, capital protection and income protection) and should measure risk in relation to these objectives and the likely risk tolerance of their members. In particular, attention should be paid to the requirements of members within 10 years of normal retirement age/date.

It is important to strike a balance between providing members with a wide range of investment information and overwhelming members who may be less comfortable with investment terminology. One method of helping members who cannot or do not want to make an investment choice is to develop the default investment option by providing a Lifestyle or Target-Dated approach, which more readily caters for individual members needs. Generally speaking a Lifestyle or Target-Dated approach involves automatically switching from riskier to safer investments as a member approaches retirement.

Trustees should be mindful that by offering a default option, they may perpetuate the belief that members do not need to take responsibility for their own pension provision. This issue must be specifically addressed in the member communication programme. Information must be provided to members, with regard to detailed descriptions of the default fund available and the risk and return profiles of the fund relative to the alternatives.

Trustees should retain responsibility for high level strategic decisions in terms of assessing members investment objectives, options and default strategies. Trustees may delegate implementation to others and should do so where they do not have the necessary skills.

The Member

The purpose of this section to provide you, the member, with:

- Guidelines to help you understand your responsibility as a member of a DC plan and how early, and frequent, engagement can assist in managing your potential income in retirement
- An overview of the importance of understanding the interaction of contribution levels, investment returns and benefit conversion rates at retirement on DC retirement outcomes

MEMBER GUIDELINES

Trustee Communication Guidelines

- Seek advice, early and often, in relation to pension benefits throughout your working career. Ask your employer, the trustees or their professional advisers for help in planning for your retirement.
- Take ownership of your retirement planning and understand the issues that will affect retirement savings.
- Review the information that is provided to you. You will have access to information and tools that will help you decide on the level of retirement savings and the choice of investment, such as your plan booklet, benefit statements, intranet sites with projection tools and investment manager fund fact sheets. Attend staff presentations on pensions.
- Formulate a realistic plan to save for your retirement – how much can you afford to save, understand what replacement income is that projected to provide at retirement; compare that to the level of retirement income you might actually require and then determine the level of contribution necessary to deliver this income.
- Consider if you are fully availing of any contributions payable by your employer.
- Discuss your retirement plans with your family, spouse, partner and/or dependants as you save for retirement.
- Know your appetite for investment risk relative to your requirements for capital growth, capital protection, income protection and length of time before retirement.
- Ensure your long term investment goal is still appropriate at least once a year. If you are in the default fund

option, you should familiarise yourself with the nature and characteristics of that fund and ensure it meets your objectives.

- Pay particular attention to your investment portfolio in the ten years prior to retirement, with particular emphasis on the level of risk you are taking over that period and reducing this risk where appropriate.

Member Communication And Investment Essentials

Members should be aware of the degree of responsibility which rests with them in a DC plan. Members should ensure that they have access to information and tools that will help them to consider important issues such as the level of retirement savings and the choice of investment. Typically, such information is available in plan booklets, benefit statements, intranet sites with projection tools and investment manager fund fact sheets.

In overall terms, members are responsible for their own financial affairs - planning for their retirement, availing of all information (e.g. pension plan information, State provision and other assets) and seeking out and acting on other information which is required to enable them to make informed decisions.

Members should take ownerships of their retirement planning and understand the issues that will affect their retirement savings and ideally, members need to plan for retirement early in their careers. From a member's perspective, the aim is to save as much as is affordable in the hope that they can achieve a desired level of retirement fund.

The amount of the retirement fund will ultimately determine the overall level of income and cash lump sum which can be made available. This in turn is dependent on:

- the amount of contributions being invested
- the investment gain during the period of pension investment
- the amount of charges or fees incurred in the management of the fund, and
- the cost of purchasing a pension at retirement (if applicable).

Members should take stock of their own retirement fund position and

to be aware of the various stages which require careful consideration at different points in time:

- PRE-RETIREMENT: The adequacy of pension contributions is ultimately dependent on an individual's pension expectation at retirement. Whilst for many, pension funding through DC arrangements is the only retirement provision they are making, there are a growing number of people who have other assets which form part of their overall asset portfolio. The contribution levels required to meet pre-determined levels of retirement income can be estimated using the Pensions Authority modelling tool. This tool can be accessed and personalised via www.pensionsauthority.ie. Many plans also have their own projections tools which are available to members.
- AT RETIREMENT: When retirement age is reached, the retirement fund that has been accumulated can be used to provide for a pension income alone or a lump sum with a reduced pension. Some or the entire retirement fund may be invested in an Approved Retirement Fund (ARF) for income drawdown in retirement. There are limits set by the Revenue Commissioners around the levels of both pension income and lump sums at retirement.
- POST RETIREMENT: After drawing down a lump sum (if any), the retiree may use the balance of their pension funds to purchase a retirement income with an annuity or transfer to an ARF. An annuity is normally secured by the payment of these funds as a single premium to a life assurance company. The annuity may remain level (that is, not increase) during payment, or increase to compensate in whole or in part for increases in the cost of living. It can be designed to be paid only to a retiree for life, or may be paid on to a surviving dependant on the death of the retiree.

There is an additional option of rolling these funds ARFs and/or AMRFs depending on the members circumstances at retirement. An ARF allows continued investment of retirement savings after retirement. An AMRF works in a similar manner to an ARF with the exception that no income can be drawn from the initial AMRF investment until age 75. Unlike annuities, ARFs and AMRFs can be inherited after death of the members. However, unlike an annuity, ARFs and AMRFs do not provide certainty of income payments. To avail of an ARF, based on current rules, members must

have approximately €12,700 per annum of guaranteed income for life or individuals who do not have that level of income must invest an amount of €63,500 in an AMRF.

Member Contribution Considerations

The adequacy of pension contributions is ultimately dependent on the individual member's pension expectations at the time they choose to retire. Members are encouraged to follow these suggested steps to help manage and achieve these expectations.

- STEP 1: Invest the time in educating yourself on issues that might affect your retirement funds. Ensure you have access to all communication documents relating to the pension plan e.g. Plan booklet, most recent annual benefit statement, Investment information including the choices available, potential projected fund at normal retirement (through statements of reasonable projection attaching to the annual benefit statement). Read these documents and where questions arise, seek further information from the HR or pension contact. Read the small print. Where there are specific questions, always ask for confirmation in writing for future reference
- STEP 2: Use this information to assess when you wish to retire.

Members should:

o Familiarise yourself with what your pension benefit (if any) will be from the State and when it is payable.

o Decide when the retirement benefit should be payable. This may be different to the age that State benefits are payable.

o Set out for themselves the total of their pension assets from all

sources e.g. previous employment in Ireland, overseas employment, existing pension income.

o Discuss retirement plans with other family members/partner and take account of the impact of any other possible future income.

o Factor in any dependency by partners on their retirement income.

o Take account of the value of other assets e.g. investment properties, stocks and shares etc.

- STEP 3: Determine what pension contributions are required in order to achieve your targeted level of retirement fund.

To help members understand what retirement fund they can achieve, we have highlighted different approaches to help members determine how they may wish to consider saving for retirement. In doing so members should also be aware of the income tax reliefs available on contributions made, investment growth and cash at retirement.

HOW MUCH CAN I AFFORD?

The following table shows the impact on pension income of contributing a fixed percentage of salary to a retirement fund at varying starting ages.

TABLE 1: PROJECTED PENSION FROM AGE 65 AS % OF FINAL SALARY Age of commencement										
CONT AS % OF SALARY		20	25	30	35	40	45	50	55	60
	5	9%	8%	7%	6%	5%	4%	3%	2%	1%
	10	19%	17%	14%	12%	10%	8%	6%	4%	2%
	15	28%	25%	21%	28%	15%	12%	9%	6%	3%
	20			28%	24%	20%	15%	11%	8%	4%
	25					24%	19%	14%	10%	5%
	30							17%	11%	6%
	35								13%	7%
	40									8%

Please note the pension projections shown in the above table are based on an investment return assumption as shown overleaf. The sensitivity of the projected pension at retirement to the investment return assumption is illustrated in the following table (where the contributions payable are 15% of salary):

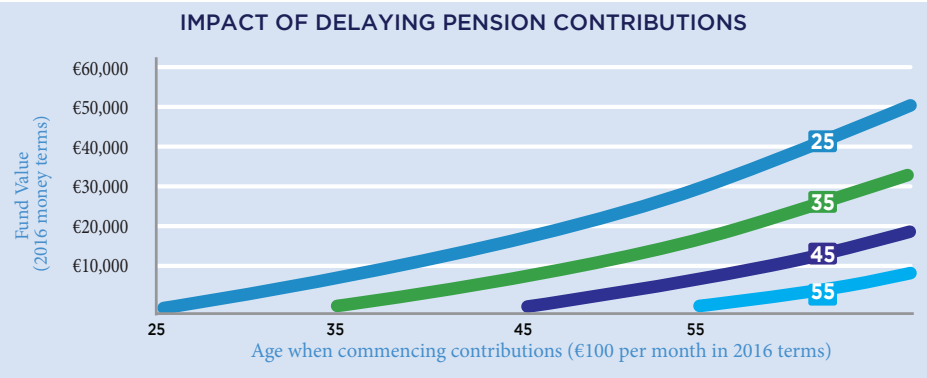
PROJECTED PENSION FROM AGE 65 AS A % OF FINAL SALARY Age of commencement				
	25	35	45	55
+1% p.a.	30%	21%	13%	6%
Current Assumption	25%	18%	12%	6%
-1% p.a.	20%	15%	10%	5%

For those members who have already accumulated a fund for retirement, Table 2 illustrates what pension income that fund might expect to purchase at retirement at age 65 with their current fund.

TABLE 2: PROJECTED PENSION FROM AGE 65 (IN MONEY TERMS) BASED ON ACCUMULATED FUND ONLY

Current Fund Value	Current Age								
	20	25	30	35	40	45	50	55	60
50,000	2,840	2,700	2,560	2,430	2,300	2,190	2,080	1,970	1,930
100,000	-	5,400	5,120	4,860	4,610	4,380	4,150	3,940	3,860
150,000	-	-	7,680	7,290	6,920	6,560	6,230	5,910	5,790
200,000	-	-	10,240	9,720	9,220	8,750	8,300	7,880	7,720
300,000	-	-	-	14,580	13,830	13,120	12,450	11,810	11,580
500,000	-	-	-	-	23,050	21,870	20,750	19,690	19,290
1,000,000	-	-	-	-	-	43,740	41,500	39,380	38,590

It is important for members to understand the impact of delaying contributing into their pension plan. The chart below shows the impact of starting to save at different ages on the potential retirement fund.



The two important messages arising from delaying contributions are as follows:

1. The impact of delaying saving for retirement has a significant effect on the ultimate retirement fund and
2. The impact of this delay becomes even more severe as age increases.

Read The Small Print

Assumptions are those variables which a projection tool will use in calculating a retirement fund and pension. The level at which a members retirement fund increase (investment return), expected growth in salary and inflation, cost of purchasing a pension (i.e. annuity rate) and how long we are going to live, are all factored into these calculations. In the examples above, assumptions consistent with the Society of Actuary's projection basis (ASP PEN-12, v 1.5 – Statements of Reasonable Projection - Occupational Pension Schemes and Trust RACs) have been used. In particular, the following has been assumed:

- Assumed retirement age of age 65.
- Average investment return of 3.9%pa before age 55, average investment return of 2.7%pa after age 55 (net of investment related expenses)
- Interest rates available for the purchase of annuities at retirement of 2.0%pa
- Salary increases at 2.5%pa
- Price inflation of 1.5%pa
- Pension increases in payment at 1.5%pa. Annuities at retirement incorporate 50% contingent spouse's death in retirement pension and in the event of death of the policyholder in the first five years, 100% of the pension is payable to the surviving dependant for that five year period.
- The mortality basis assumes that men and women aged 65 today will live until age 90.

Member Investment Considerations

For DC funds in general there are three main risks that members face at different points in their working lives:

- Real Growth Risk (Pension Adequacy): the risk that the investments will not achieve a return sufficiently above inflation to secure an adequate benefit. This is the main risk members face over the long term. This risk is best addressed through investing in real assets or equities over the long term.
- Capital Risk (Account Fluctuations): the risk that the investments suffer a fall in value. This becomes more important closer to retirement, when there may not be sufficient time to make up any losses in fund value. This risk is best addressed through investing in cash or secure investments.
- Pension Conversion Risk (Pension fluctuations): the risk that as a member approaches retirement, annuities become more expensive, thus reducing the pension purchased. This risk is best addressed through investing in bonds. However, if a member plans to investment some or all of their fund in an ARF or AMRF, a bond fund may or may not be appropriate.

While members should have regular opportunities to change investment option, caution should be exercised on the frequency of such changes. Trying to time investment decisions during periods of market volatility is difficult and could lead to missed opportunities to achieve a long term retirement saving goal. Members should ensure their long term investment goal is still appropriate at least once a year. If a member is in the plan's default fund, they should familiarise themselves with the nature and characteristics of that fund and ensure it meets their objectives.

Members should pay particular attention to their investment portfolio in the ten years prior to retirement, with particular emphasis on the level of risk they are taking over that period and reducing this risk where appropriate.

Each member must take responsibility to ensure that they are sufficiently informed as to the impact of the choices that they make. It is no longer acceptable or wise not to look to educate themselves on the investment risks which are part and parcel of the design of DC plans.

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