



# IIPM

Irish Institute of Pensions Management

## Inaugural Annual Conference

The Evolving Regulatory Framework



## Welcome

- 14:00 – 14:40 : Griffith College & Updated Educational Framework
- 14:40 – 15:00 : Short break
- 15:00 – 16:30 : Presentations & Panel Discussion
- 16:30 – 17:00 : Refreshments & Networking

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# Griffith College & Intro Holding Space

# **Diploma in Pensions Management and Policy (AIIPM)**

## **Law & Governance for Pension Scheme Trustees (QPT)**



Stephen Lalor

# What we've been doing

- Going since 2011
- Approximately 150 alumni
- Average marks north of 60%
- Presentation, report writing, research
- Some really outstanding work from students
- Lots of passionate discussion
- Developed blend of on-line and in-class learning
- QPT has been delivered to 100 people

# Current Modules

- Life Assurance
- Savings and Investments
- Regulation and Financial Planning
- Retirement Benefits
- Retirement Funding
  
- International Practice
- Law and Governance
- Pensions Management

Content updated as developments occur,  
or appear on the horizon

# Target Market

- Pensions Specialist
- Administrator, Consultant, In-house expert
- Trustees (professional and lay)
- Trustee adviser
- Ambitious, dedicated
- Usually with some years' experience
- Possibly QFA or other qualification (exemptions available)
- Looking for career advancement and
- Greater level of knowledge and confidence
- Professional recognition

**Ever increasing demands on trustees and providers require greater levels of Knowledge and competence from their advisers**

# Where we are now

- Reviewing course content and delivery
- Griffith College
- Likely more distance learning possible
- Launch early 2020
- Course fit for the needs of the industry, and the people it serves
- Surveys, focus group
- Need for softer skills recognised
- Re-write under way
- Accreditation process (QQI) to follow shortly



# What we want from you

- Its your course
- Designed for the industry
- Do you want it?
- Then support it
- We need the numbers

## Hearts and Minds

- Performance/Effectiveness
- Avoid mistakes
- Attract, Retain, Motivate
- Succession planning

# What happens next

- Make IIPM Diploma the keystone for your key people
- Link to career development and reward
- Identify candidates
- Discuss, encourage, motivate
- Plan ahead
- We will be calling ...
- Reach out to us

[info@iipm.ie](mailto:info@iipm.ie)

BREAK TIME

(Please return to conference room for 15:00)



WELCOME BACK

# Speakers

- Richie Kelly
- John Lynch
- James R Kehoe
- Sarah McCague
- Brendan Kennedy



# Richard Kelly

LGIM



## How has auto enrolment in the UK evolved & can ESG help keep members engaged?

Richard Kelly – Legal and General Investment Managers

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Intended for professional clients only. Not to be distributed to retail clients.

# UK auto-enrolment experience

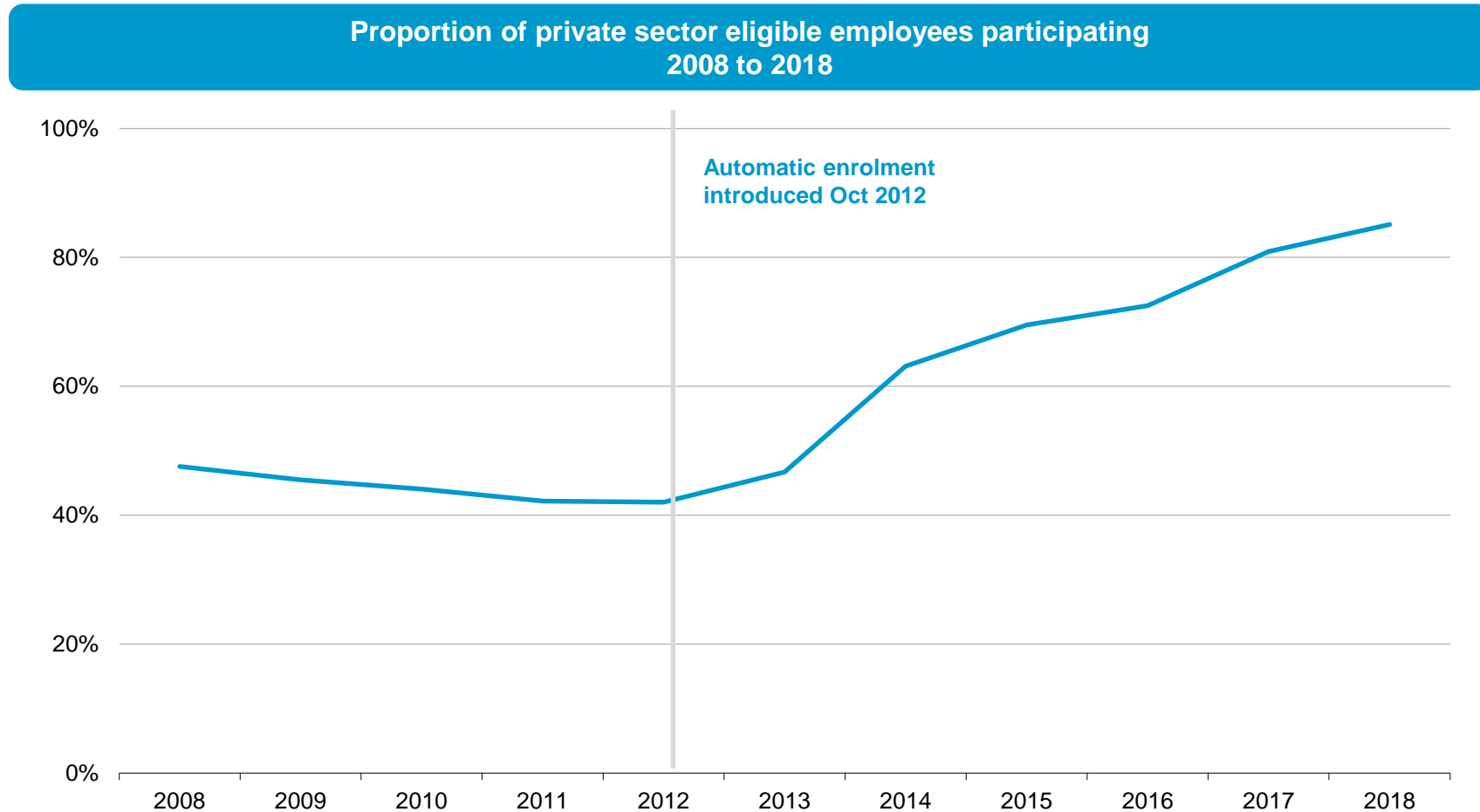


## UK auto enrolment – Key facts

- Auto-enrolment has generally been received positively – younger savers recognise the importance of and appreciate being pushed into retirement saving, with minimal effort required.
- Opt-out rates were expected to be around 28% but are closer to 9%.
- According to the [DWP](#), an estimated £6.9 billion extra was saved into workplace pensions in 2017/18 as result of auto-enrolment.
- A further c.£13.3 billion in 2018/19 and c.£19.7 billion in 2019/20 was saved into workplace pensions largely due to the increase in minimum contribution rates.
- Members recognise that saving for retirement is ultimately their responsibility but also rely on the government and employer to help them make informed decisions.
- Not opposed to saving more, though contribution increases should be increased gradually and split fairly/in favour of employee.
- Younger savers recognise their lack of understanding but do not necessarily appreciate being given more information. The simpler, the better

# Overall private workplace pensions

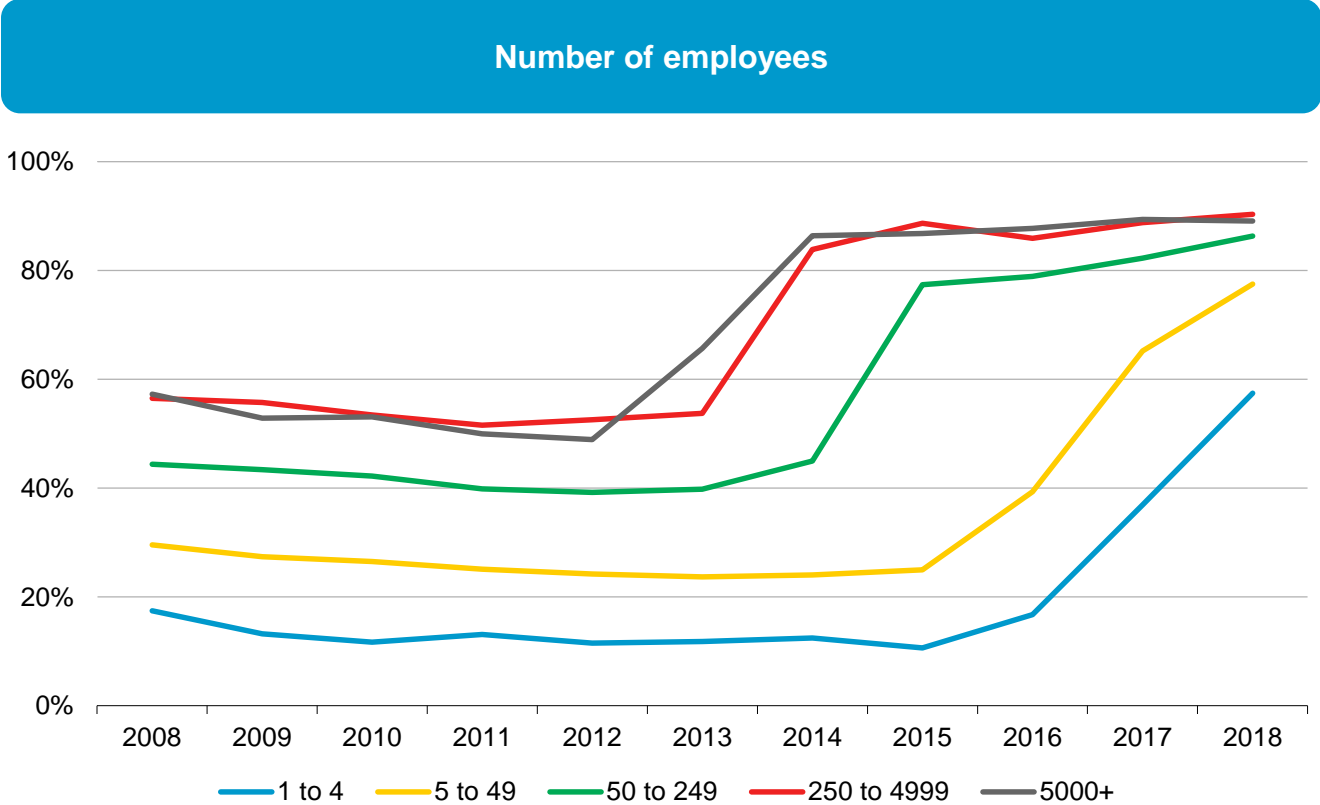
Participation has increased sharply since 2012



Source: Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2008 to 2018, DWP June 2019

# Participation by employer size

Increased participation coincide with staged implementation of AE

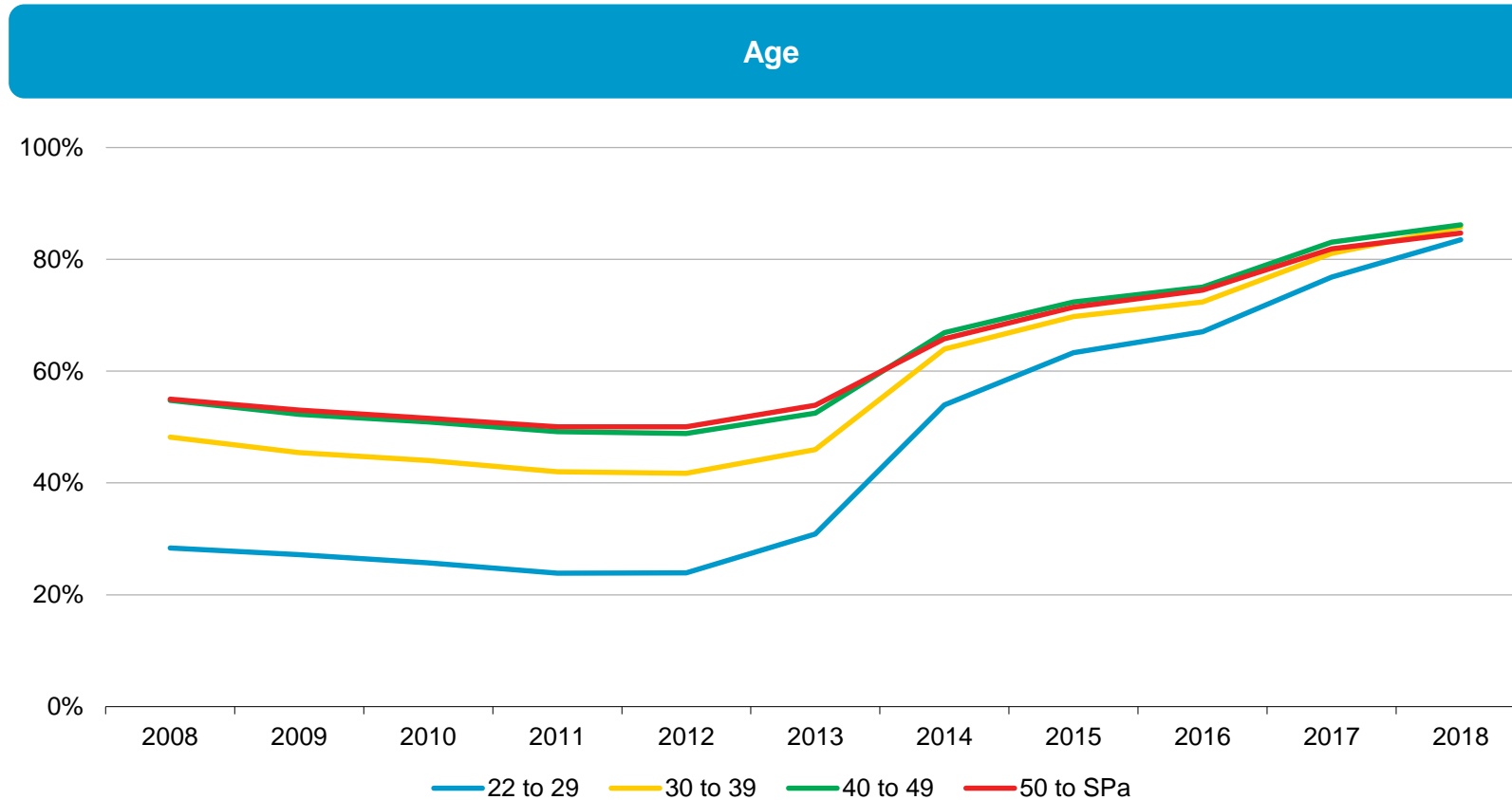


Large increase in participation for small and micro employers between 2017 and 2018, as expected given their AE duties came into effect during that period

Source: Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2008 to 2018, DWP June 2019

## Participation by age

Gap between younger and older employees closed

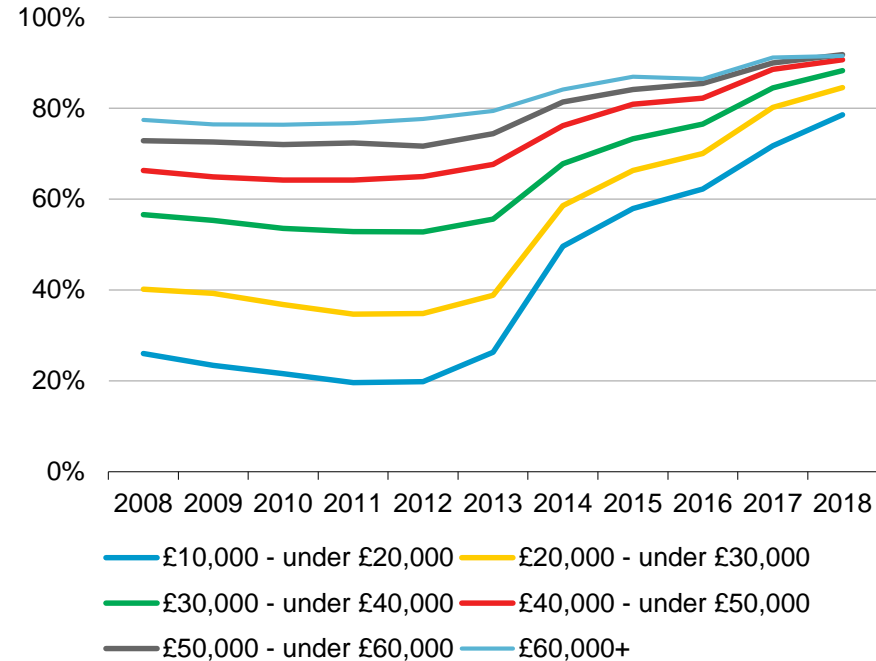


Source: Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2008 to 2018, DWP June 2019

# Participation by earnings and gender

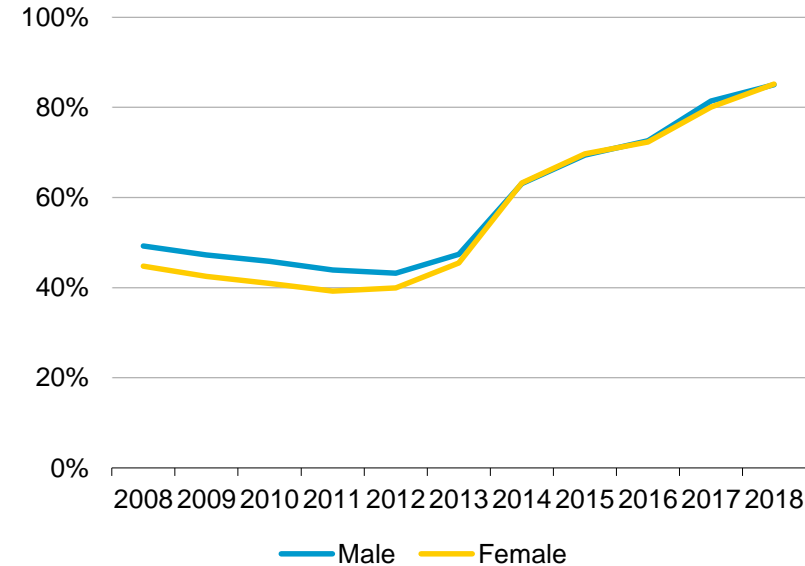
Gap between highest and lowest earners/male and females closing

## Earnings



- Higher earning bracket >> higher participation rate
- Men generally have lower participation rates than women across all earnings brackets

## Gender



Convergence seen may be a result of

- Less men in the highest earning brackets, more men in the lower earning brackets
- Which may be partly influenced by an increase in men in part-time work

**#1**

**SPECIAL EDITION**

# Our UK Defined Contribution Business

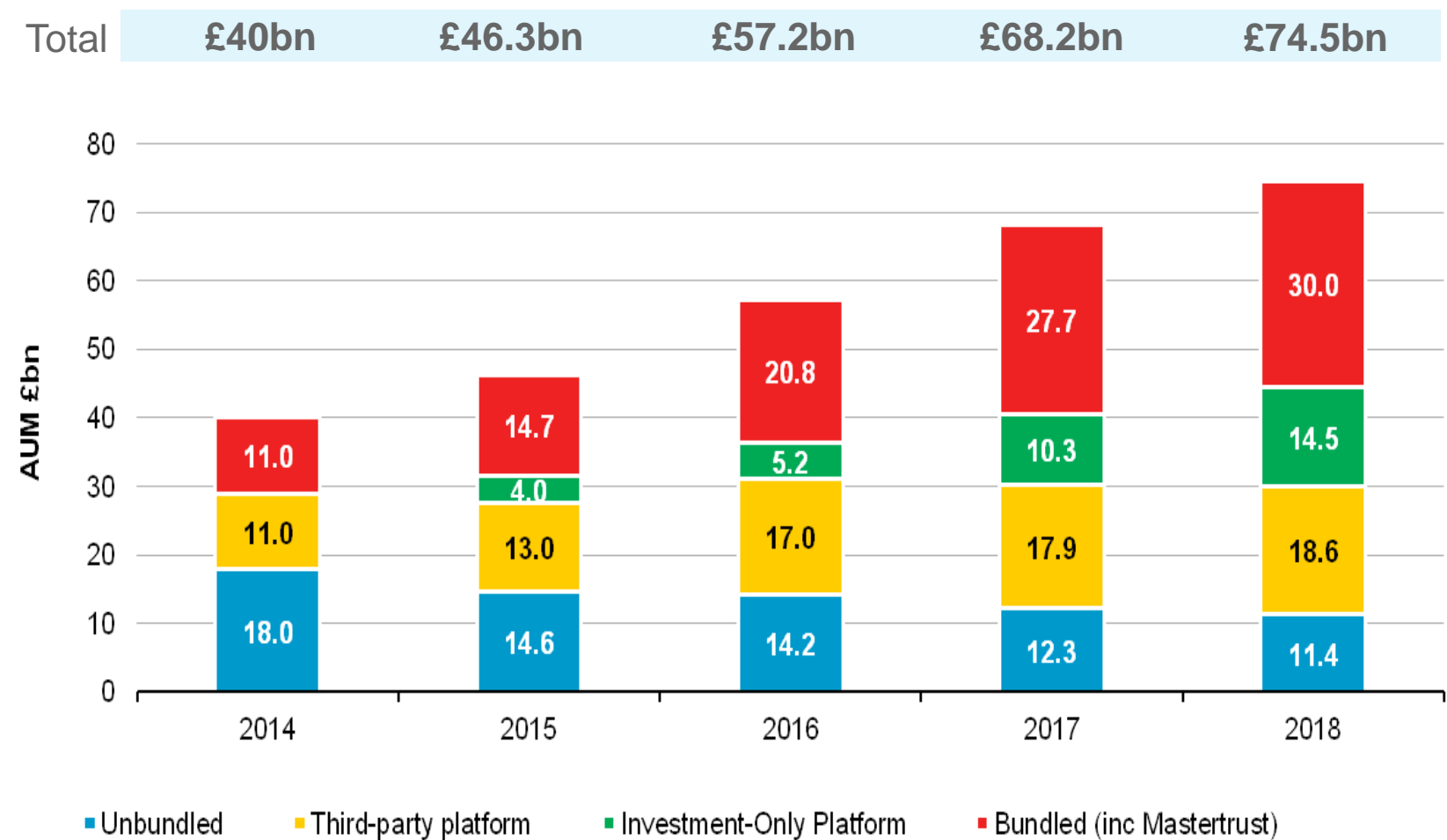
**£85bn** AUM

**14,000** Schemes

**3.4m** Customers

All financials  
as at  
30 April 2019

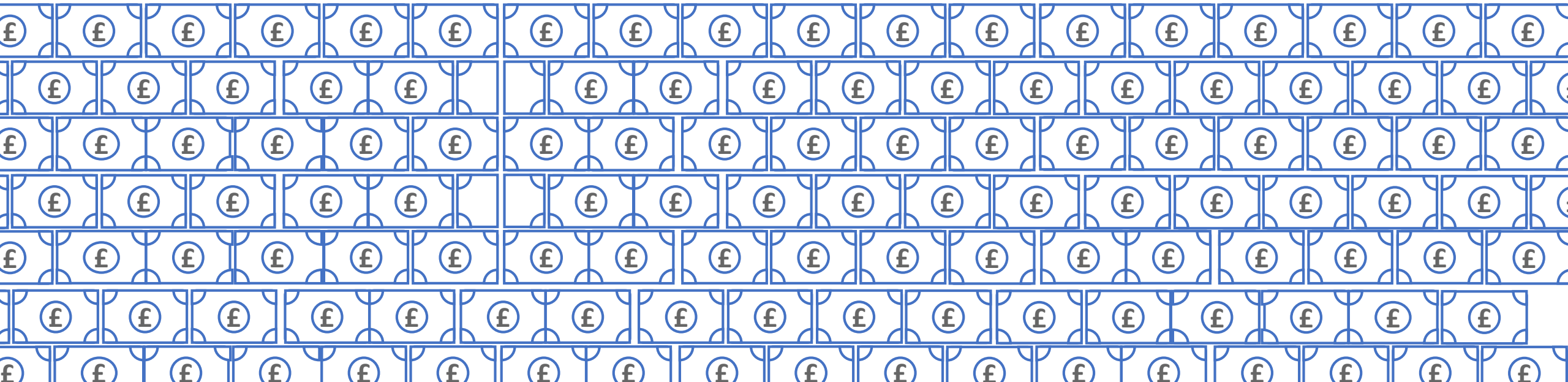
# How are our UK DC assets split?



Source: Broadridge for DC market asset size.

## Unstoppable wall of cash

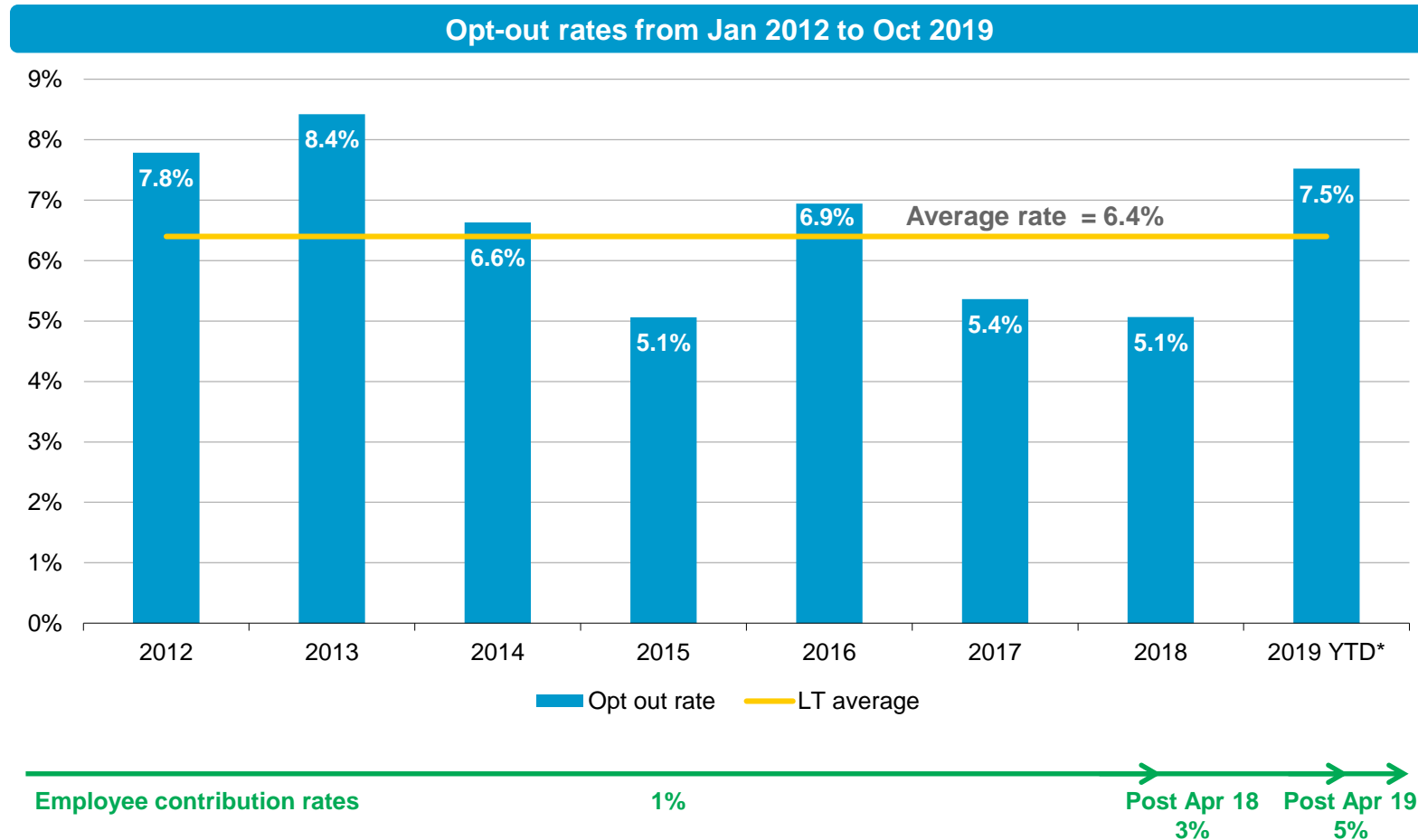
DC market predicted to grow to £843bn (or even £1trn) by 2026





# Historical opt-out rates for L&G Workplace

Members who decide to leave shortly after being (re)enrolled



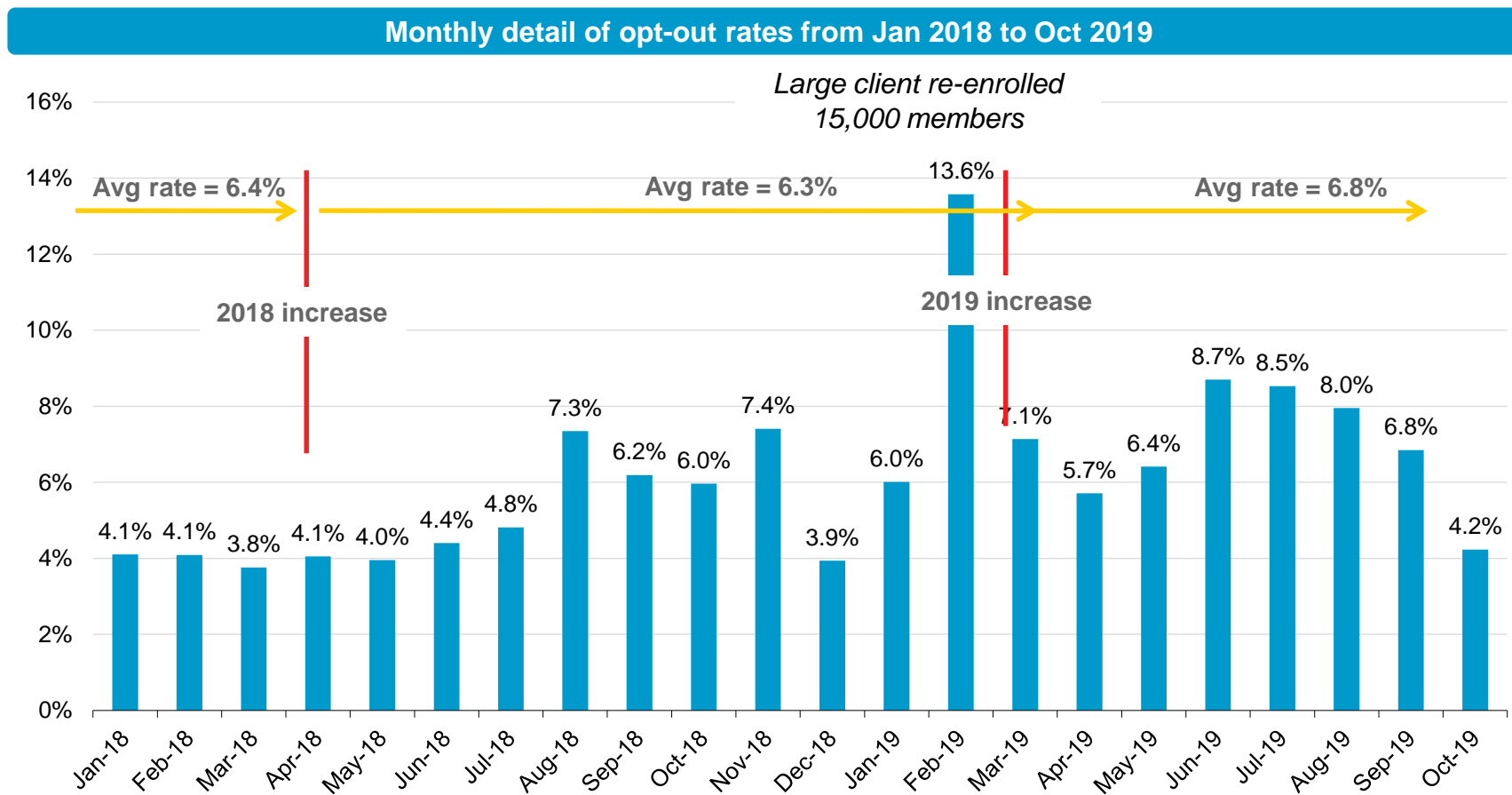
Source: L&G as at 31 October 2019. Please note that there can be c3 month time lag for all opt-outs to be recorded.

\* To 31 October 2019

Please note that opt-out rates have been calculated as Opt-outs recorded / Member enrolments

# Historical opt-out rates for L&G Workplace

Members who decide to leave shortly after being (re)enrolled



Source: L&G as at 31 October 2019. Please note that there can be c3 month time lag for all opt-outs to be recorded.

# Integration of responsible investing for pension scheme for trustees and members

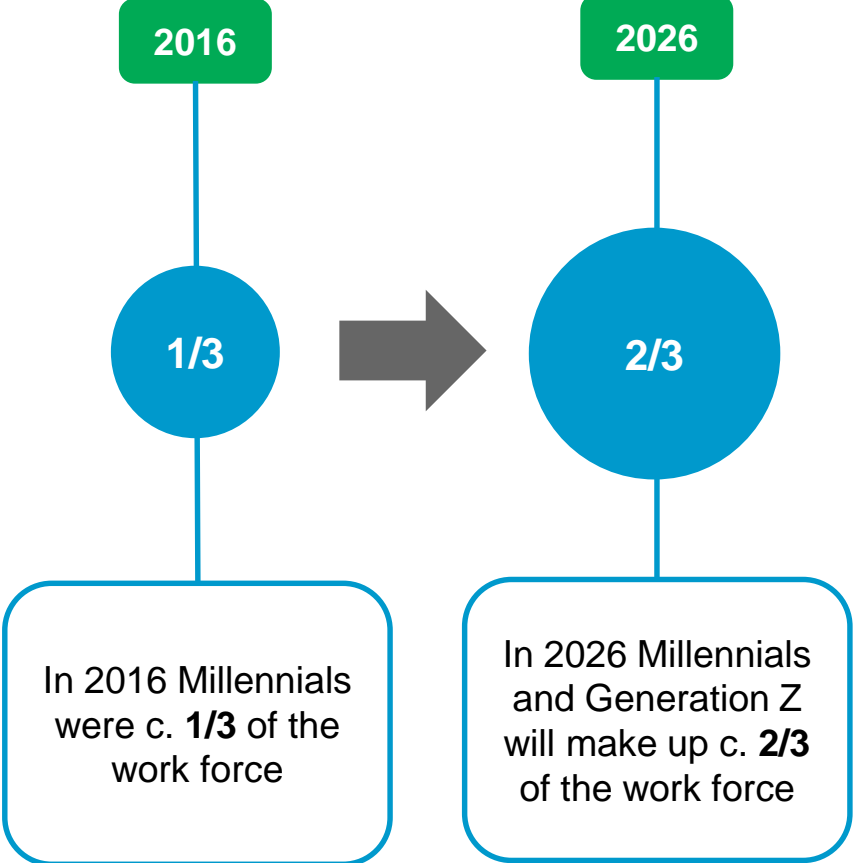
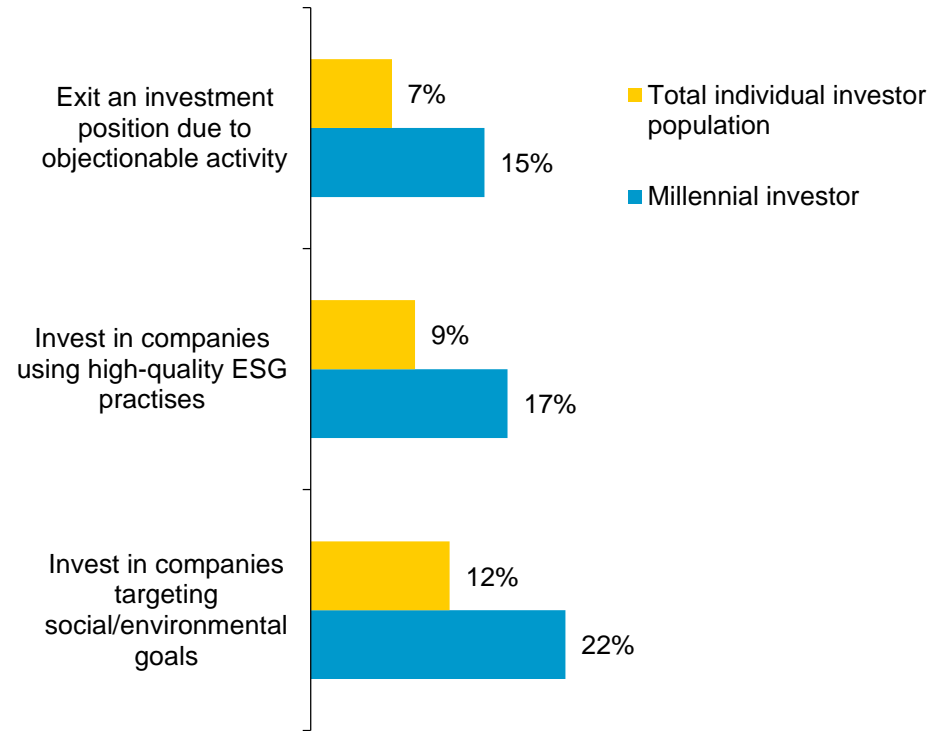
## How the market defines Responsible Investment

**Responsible investment** is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns

**To protect and enhance client assets**

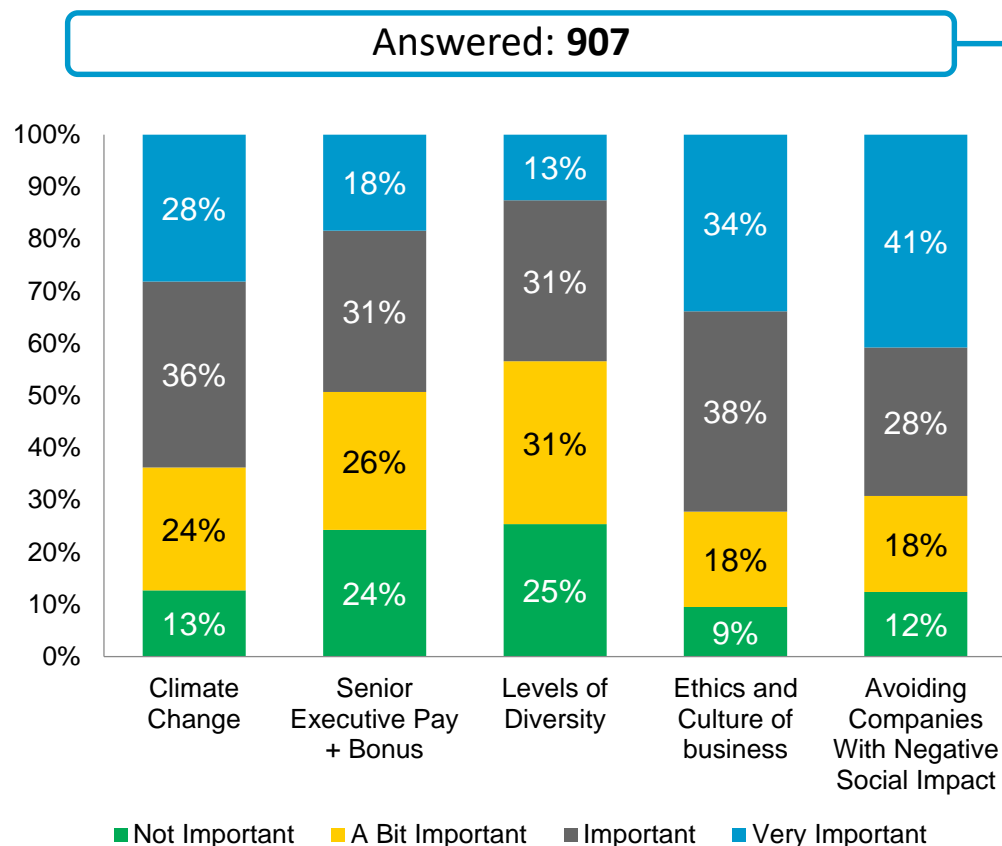
# Changing importance of climate change / ESG to members

Millennial investors are more likely to factor sustainability into their investment decision



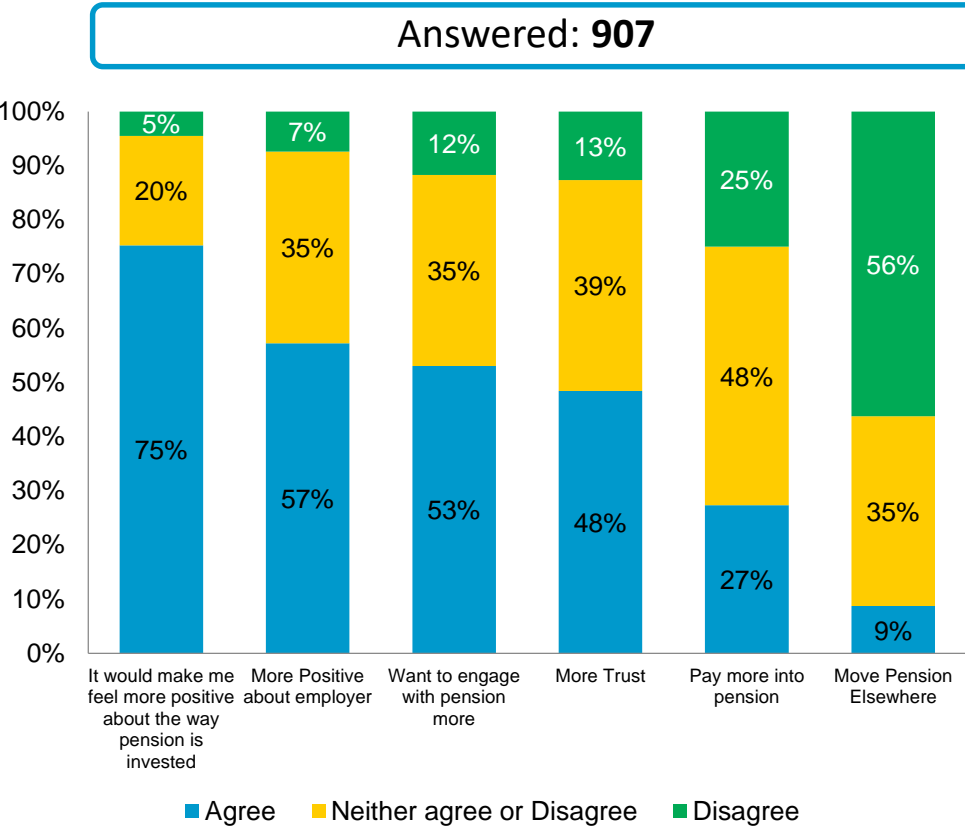
## Why is this relevant for members?

How important is it to you that fund managers actively consider these issues when choosing the companies in which to invest your money?



- **64%** felt that it was important for their fund managers to consider climate change when investing their money
- **69%** want their fund managers to avoid companies with negative social impact

If you knew that your pension fund was making a positive social impact, to what extent do you agree or disagree with the following statements?



- **53%** said they would engage more with their pension
- **57%** said they would feel more positive about their employer
- **27%** would pay more into their pension

# Why should investors care about ESG?

Performance protection and risk mitigation

## Poor ESG performance linked to...

Dieselgate	-26%
Deepwater Horizon explosion	-28%
Upper Big Branch mine explosion	-53%
Automobile airbag recall	-54%
Pharmaceutical accounting scandal	-92%

ESG risks can have a **negative impact** on short- and long-term performance

### THE WALL STREET JOURNAL.

#### PG&E: The First Climate-Change Bankruptcy, Probably Not the Last

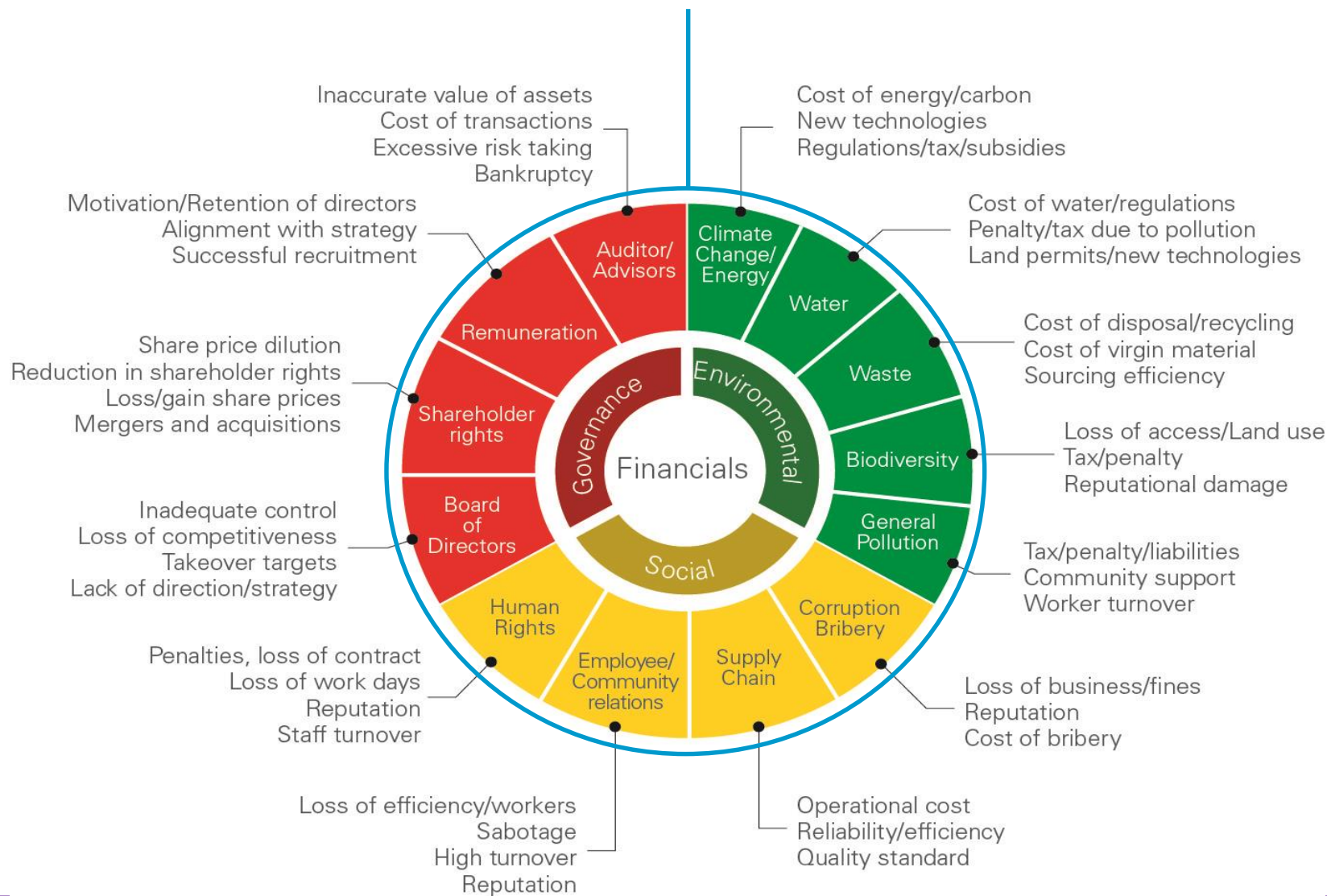
The fast fall of PG&E after California's wildfires is a jolt for companies considering the uncertain risks of a warming planet

“ **average loss** to shareholders one year after an ESG scandal was **-64%** ”

Source: Morgan Stanley

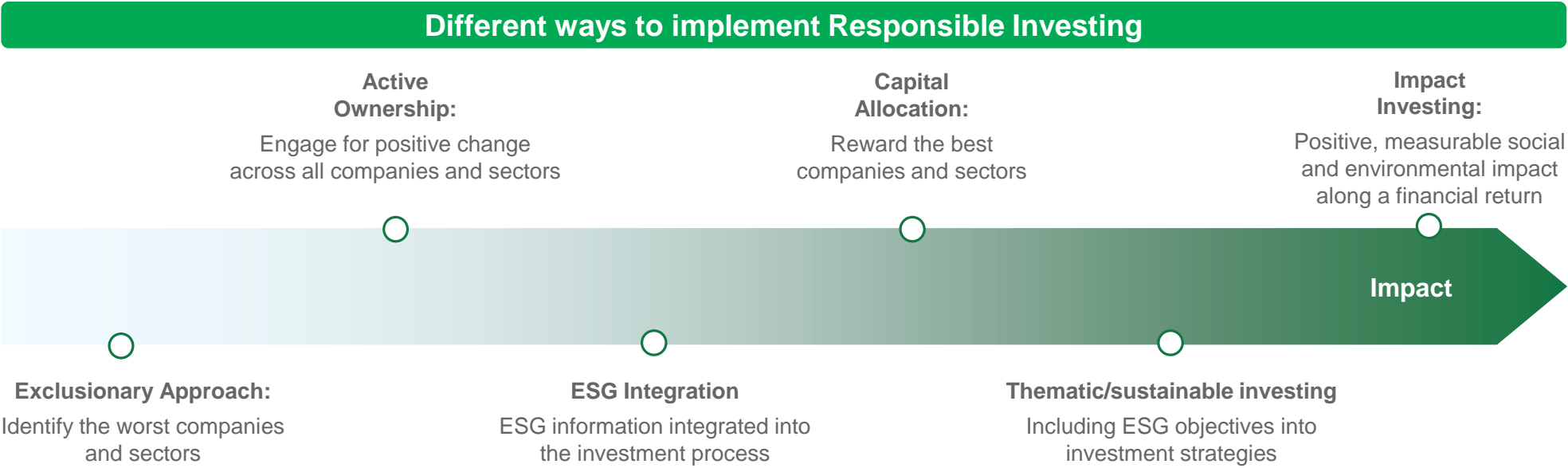
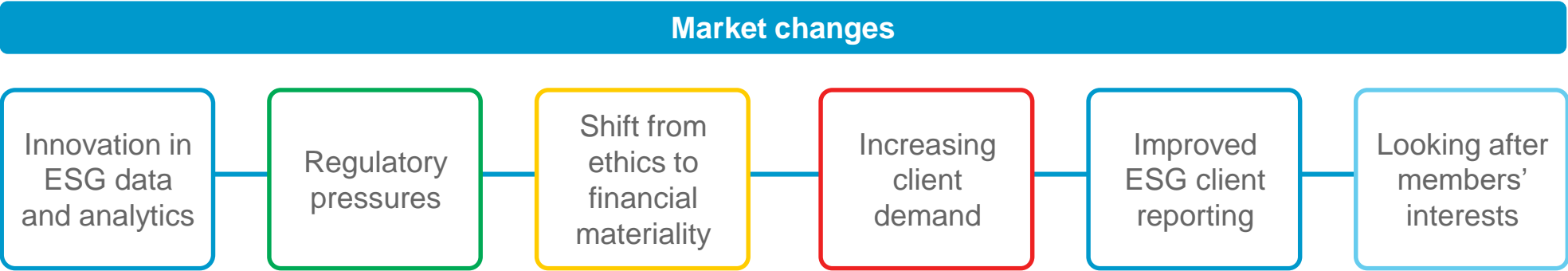


# E,S and G – what's considered in each?



# How to think about ESG

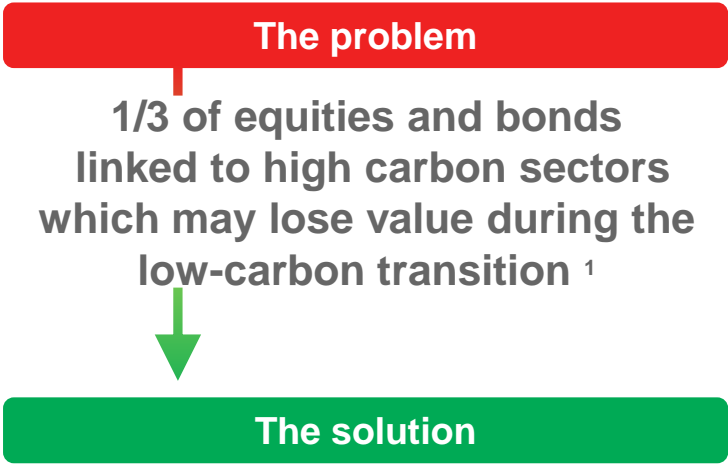
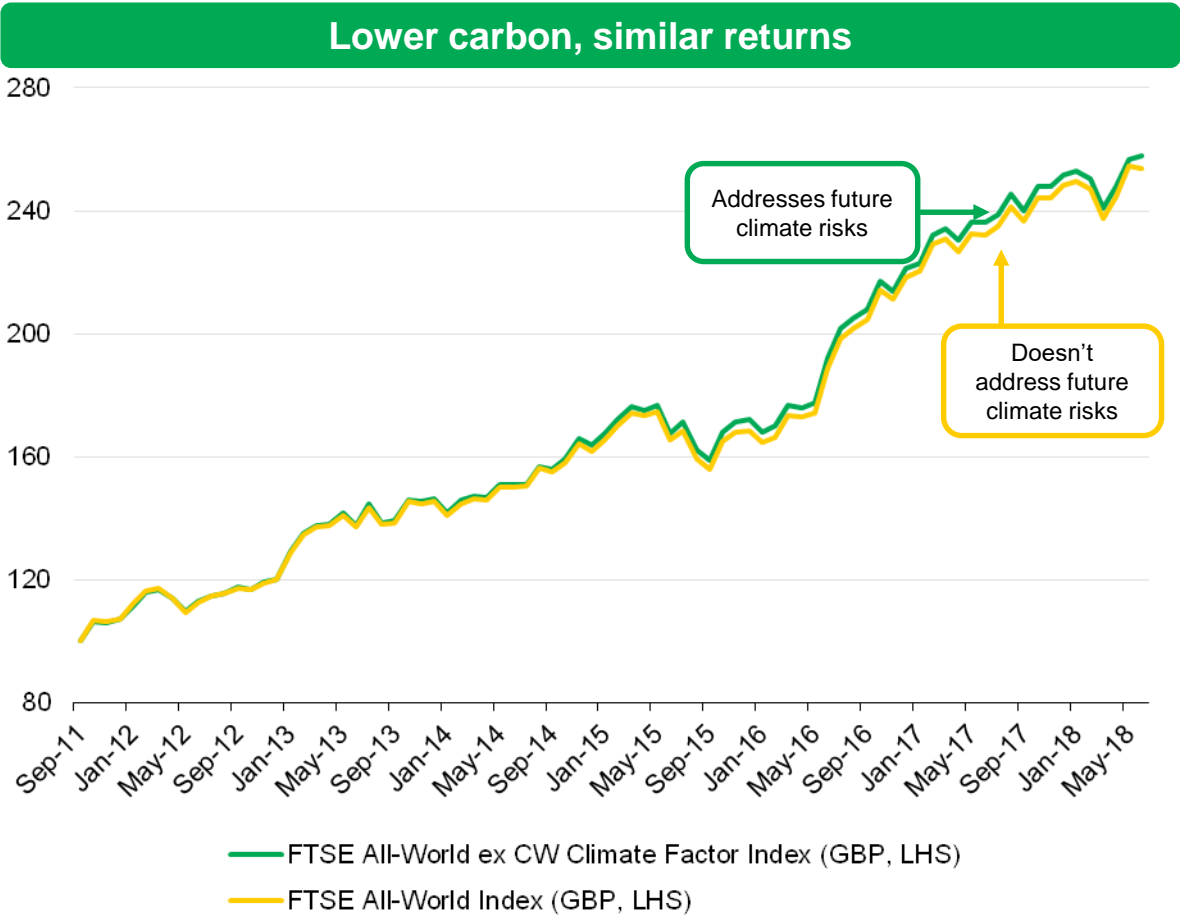
If this is something you want, how do you express it?



For illustrative purposes only.

# ESG and returns

## Future proofing of portfolios



**A carbon ‘tilted’ index vs. the benchmark**

Carbon reserve reduction	73%
Carbon emission intensity reduction	48%
Green revenue increase	43%

Sources: 1. Bank of England (2018). 2. - FTSE and LGIM, as at June 29, 2018. (Modelled performance from 30/09/11 to 07/11/16, live performance thereafter. Past performance is not a guide to future performance. Capital is at risk.

# Great stories to tell pension scheme members

Helping schemes to encourage engagement

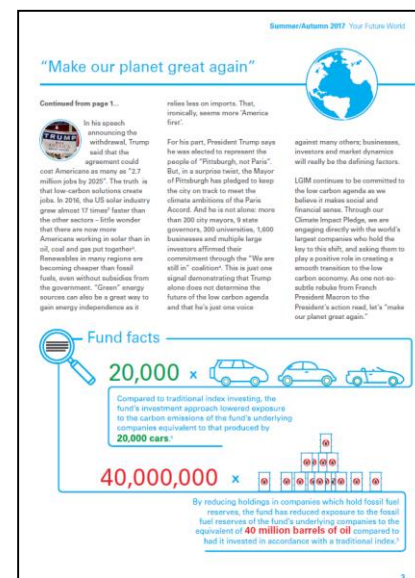
Our research shows that there is a growing interest in how investment is put to good use, particularly among millennials

"In a world of increasingly bad news stories I think there's undoubtedly a market for funds that make a positive contribution and drive for change. It would be great to see my investment make a difference as well as simply grow."

Male, age 27, Software Designer

"Given choice over pension funds, I would always opt for the product where some form of wider social benefit was evident."

Female, 27, Housing Association Manager



Bi-annual newsletter for members

# Keeping you informed

## Regular reporting to clients

- Annual Active Ownership Report
- Quarterly ESG Impact Report
- Updates in quarterly investment report
- Voting records online

Active ownership

Active ownership means using our rights as shareholders to influence the way companies are run, to ensure they are acting in the long-term interests of our clients.



Active ownership

Q1 2018 ESG Impact Report



## Thought leadership







The importance of gender diversity

LGIM's approach to corporate governance and responsible investment

LGIM's approach to responsible investing

LGIM supports Rio Tinto's climate and energy advocacy shareholder resolution

Why voting matters for index investors



## Direct client engagement

- Annual client event
- Client roundtable seeking feedback on policies
- Regular education events and meetings

“Only Legal & General host an annual member forum”

ShareAction

Source: ShareAction survey of UK's largest auto-enrolment pension providers, [The Engagement Deficit](#)



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Richie Kelly



John Lynch  
Partner – LCP Ireland

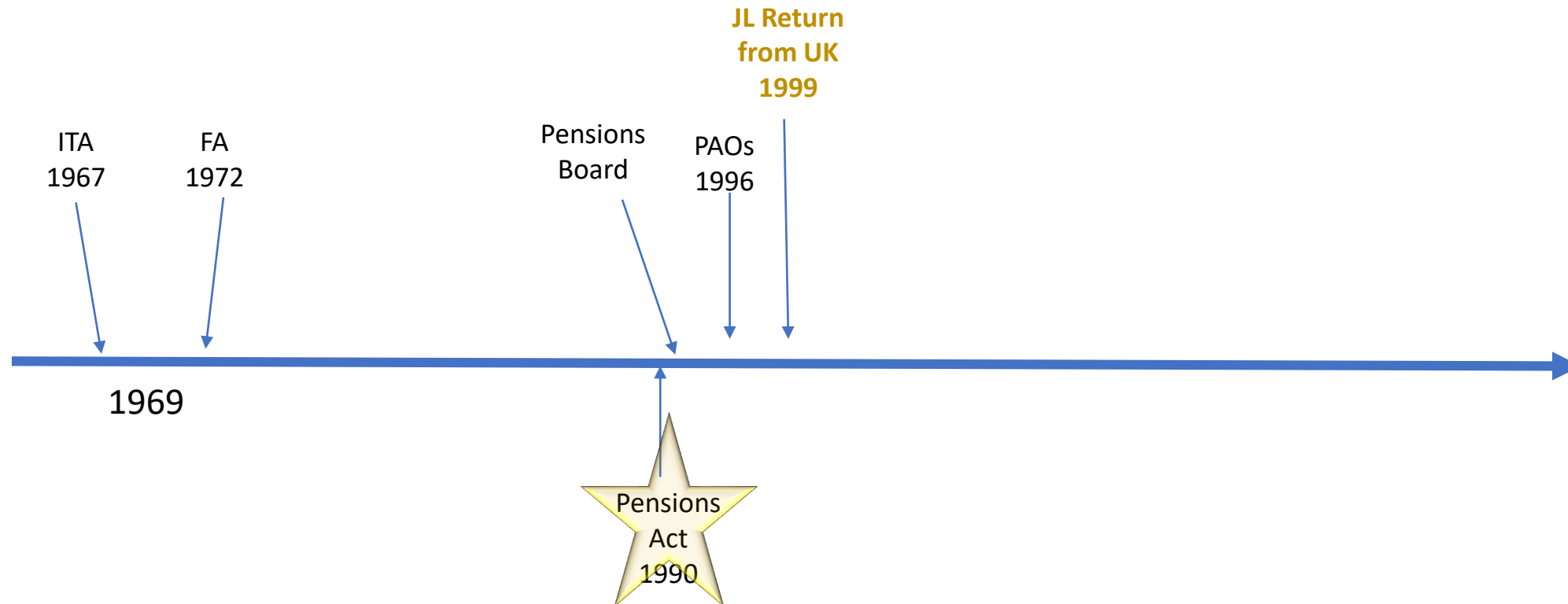


# The Evolving Regulatory Framework

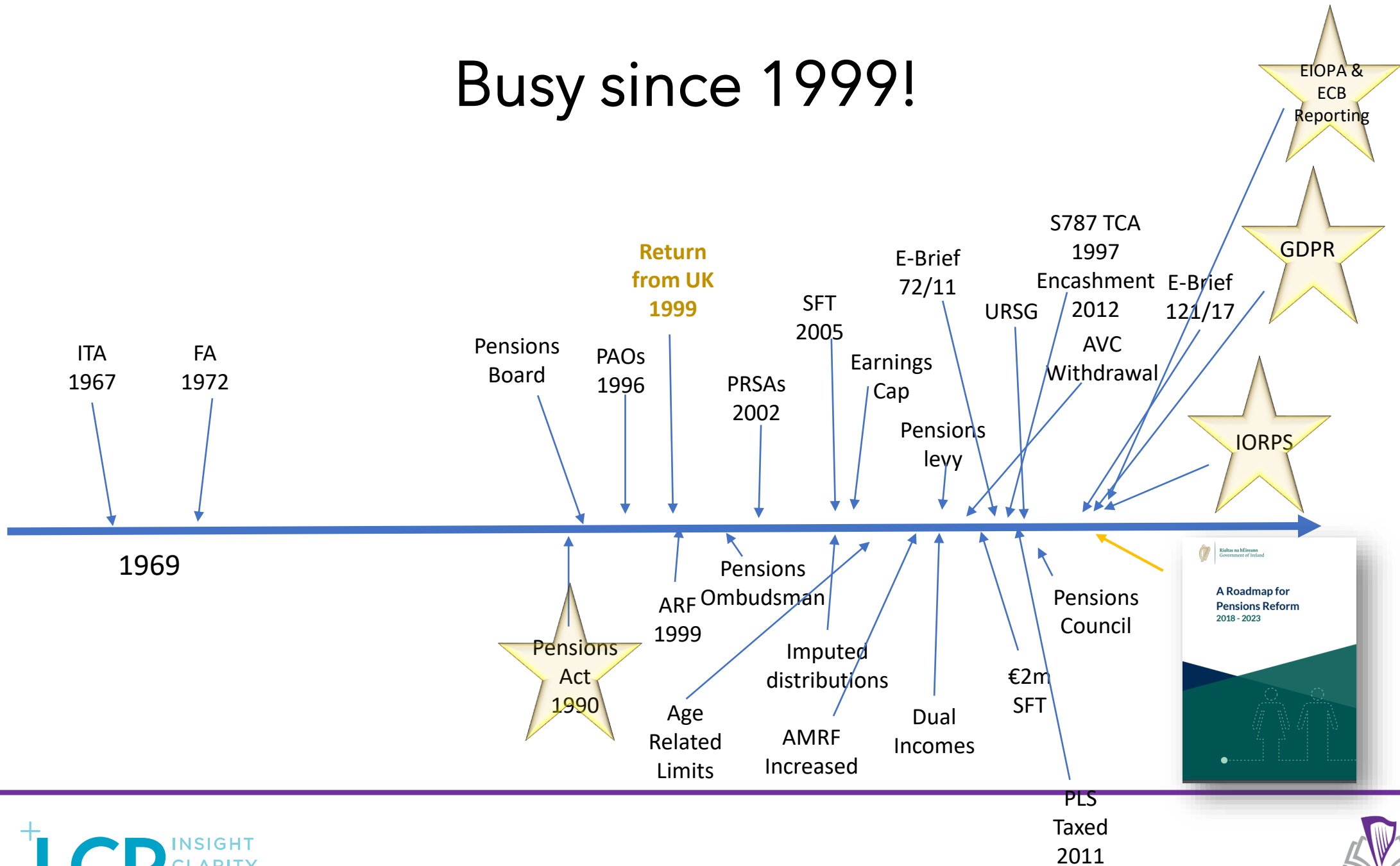
Pension Consultancy Viewpoint

John Lynch, FSAI

# Legislation timeline



# Busy since 1999!



# Upcoming legislation - highlights

- IORPS
- Master Trust
- Auto enrolment
- EIOPA / ECB Reporting
- Pensions Roadmap reform

# Short Term Impact

- Talk / discussions
- Waiting on detail for action
- Dread



# Short Term Impact

- Talk / discussions
- Waiting on detail for action
- Dread
- Immediate increase in governance
- Immediate increase in responsibilities
- Trustee board re-composition



“OK, all those in favour of delegating decision-making, shrug your shoulders.”

# Trustees will inevitably be more accountable

- Talk / discussions
- Waiting on detail for action
- Dread
- Trustee board re-composition

# Longer Term Impact

- Small & Medium DB Schemes
  - Significant increase in governance time/costs, no solution
- Small & Medium DC Schemes
  - Significant increase in governance time/costs, easy solution
- Large DB & DC
  - Higher costs
  - Higher standards/governance



# Small / Medium DB Schemes

- Schemes set up 20/30 years ago when world was a different place
- Schemes closed to future accruals and new members
- Employers committed/tied to schemes, but worry about costs
- Typical Trust Deed and Rules prevents wind up without material contribution
  - Contribution rate set by Actuary/Trustee (without company involvement)
  - Company must pay contribution requested
  - 1 month notice to cease contributions
- On wind up any contribution calculated would likely use (pseudo) market annuity rates and close to 0% discount rate.

# Actual Example – small scheme

- Small Scheme
- Stable profits
- Scheme closed to new entry 2006
- Scheme closed to accruals 2013
- DC scheme 10% Employer Contribution
- DB Scheme not on the radar
- In truth – employer would probably LOVE to wind up DB, but cant afford to due to cost and cashflow.

	Going Concern €million	
Active	1.0	
Deferred	2.0	
Pensioner	2.2	
Total	5.2	
Assets	4.3	
Deficit	0.9	
Contributions	120k	

Expect fully funded in circa 6/7 years

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	Going Concern €million	Wind up €million
Active	1.0	1.7
Deferred	2.0	3.8
Pensioner	2.2	2.5
Total	5.2	8.0
Assets	4.3	4.3
Deficit	0.9	3.7
Contributions	120k	€3.7 million

Expect fully funded in circa 6/7 years

# Example – small scheme

- Trustees to meet formally four times a year
- Written policies / procedures – potential large cost
- Appoint new risk function holders – additional annual cost
  - Internal Audit
  - Risk Management
- Own risk assessment – additional costs
- Deferred members – annual statements

Significant increase in costs, questionable if commensurate benefits achieved

# Example - small scheme



Significant increase in costs, questionable if commensurate benefits achieved

# Scope

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IIPM Conference 2019

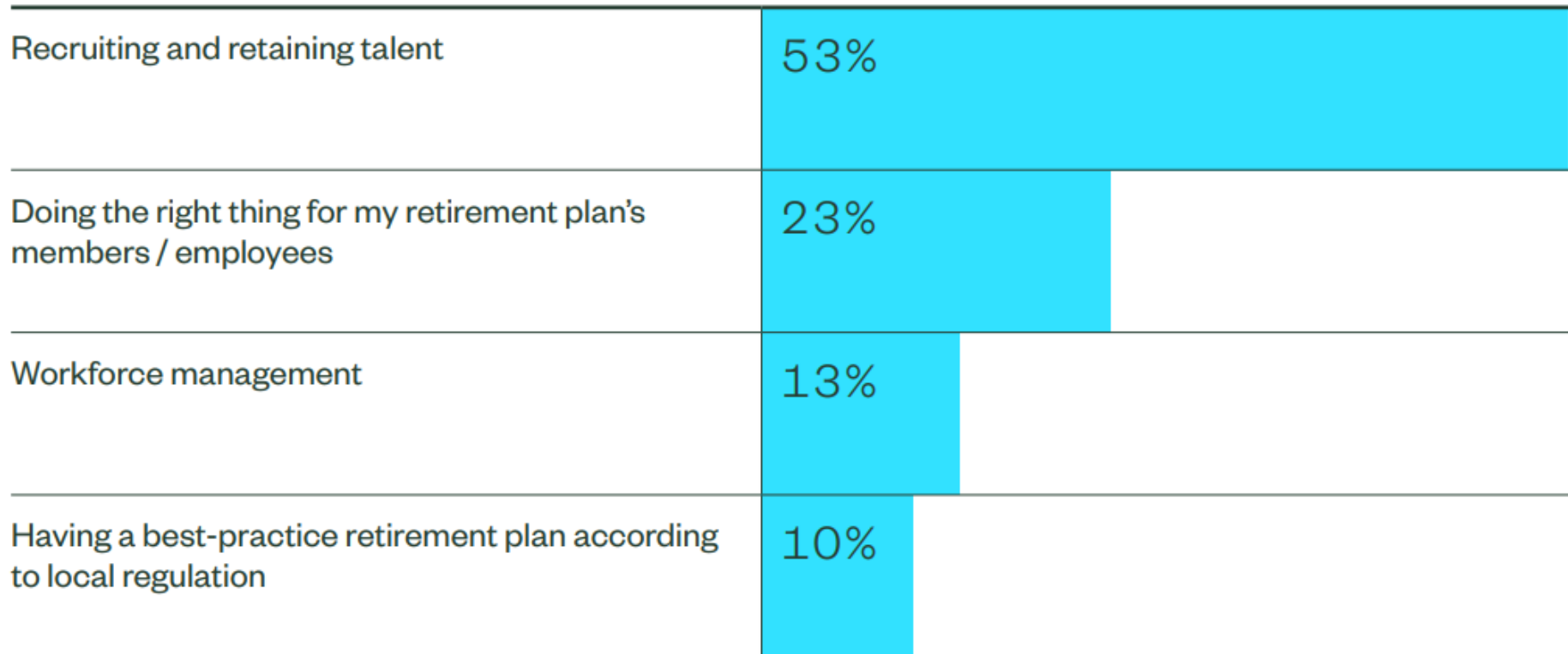
# Changing Regulatory Framework – an independent trustee perspective

15 November 2019



# Do it for me

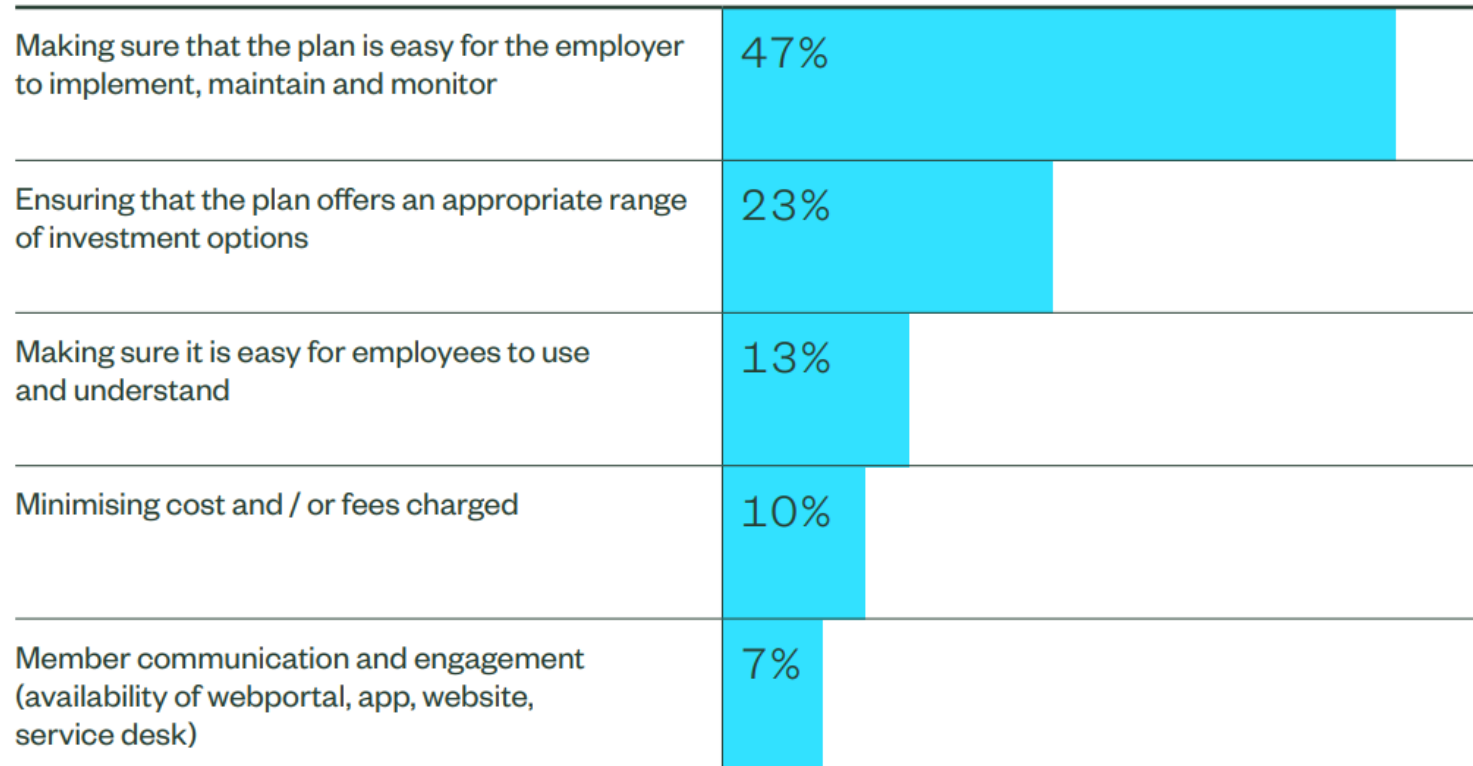
Please rank the following in terms of importance to you and your organisation when it comes to sponsoring a pension plan



Source: State Street Global Retirement Reality Report 2019. n=30.

# Ease of implementation

When you think about selecting a provider for your retirement plan, what are your key goals/objectives?



Source: State Street Global Retirement Reality Report 2019. n=30.

# The need for guidance and communication

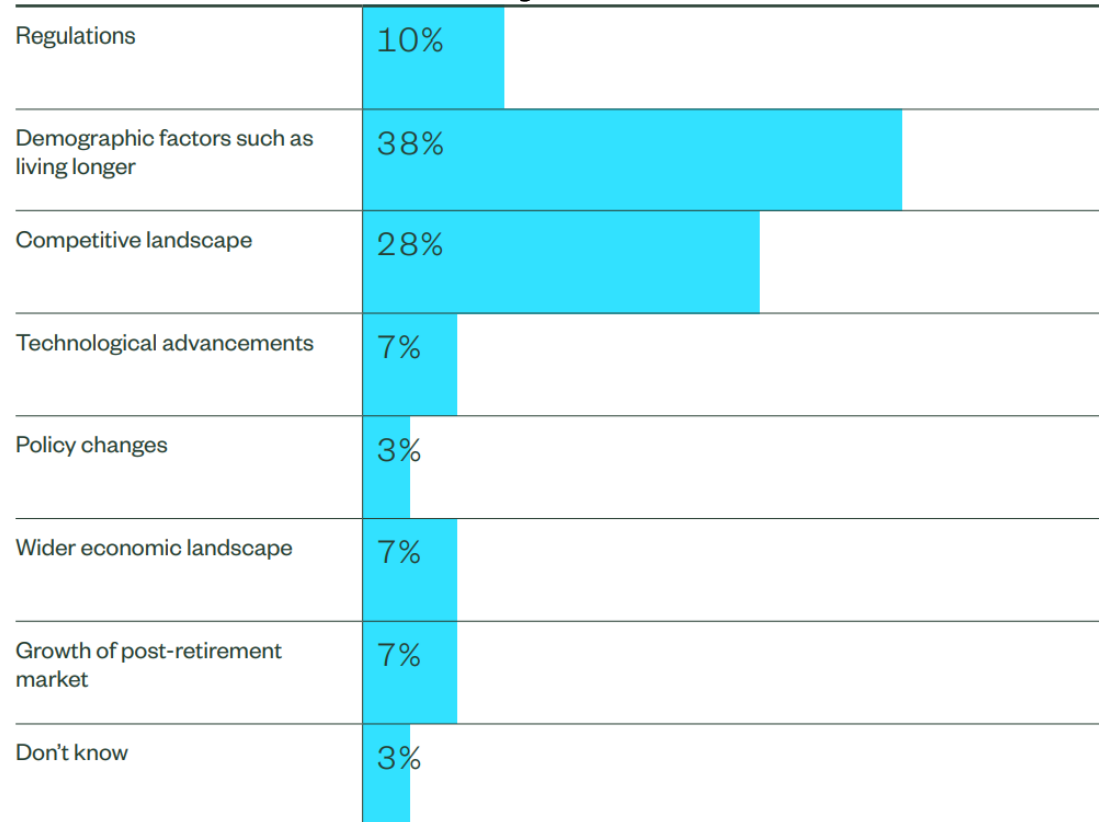
**“New members were not aware about the defined contribution plan. They should educate people about these schemes”**

**“Proper communications”**

**“Complexity and lack of communication”**

# Changes ahead

What do you think will be the main source of change for your plan over the next 3-5 years?



Source: State Street Global Retirement Reality Report 2019. n=30.

# Step 1 - Develop a clear understanding of the new Regulatory Environment

- Formalise Fitness and Probity Criteria
- Ensure that the right set of skills exist at Trustee level
- What we need V What we have
- Access to:
  - *An Internal Auditor*
  - *A Risk Function Holder*
  - *An Actuary (Defined Benefit Schemes)*

# Step 2 - Develop a Risk Based Strategy

- Identify key scheme specific risks
- Develop key risk indicators and risk metrics

# Risks common to both DB and DC

- Trustee Fitness and Probity
- Data Quality
- Data Protection
- IT Security/Cyber
- Investment (market)
- Liquidity
- Mortality
- Operational
- Outsourced Providers
- Counterparty Failure
- Key Person
- Compliance Deadlines
- Custodianship



# Risks Specific to DB Schemes

- Employer Covenant
- Minimum Funding Standard/Risk Reserve
- Ongoing Funding Adequacy
- Interest Rate
- Inflation
- Longevity

# Risks Specific to DC Schemes

- Contribution adequacy
- Appropriateness of Default Investment Structure

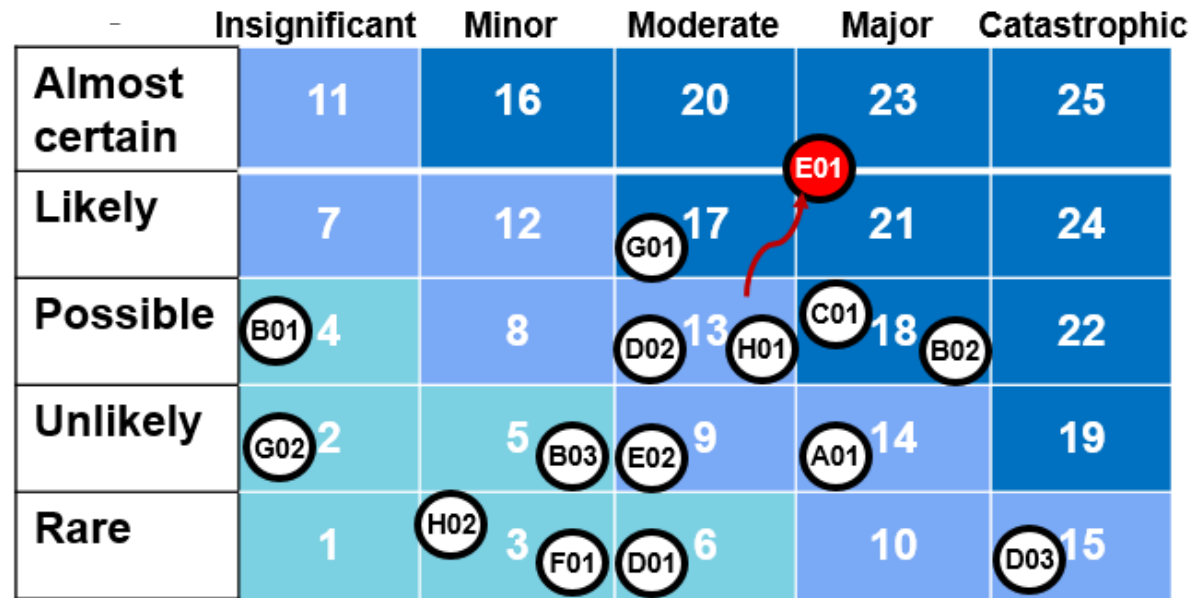
# Step 3 - Appointment and Monitoring of Service Providers

- Formal Service Level Agreements/Contracts of Engagements
- Clear Identification of who does what and when
- Regular Reporting Agendas and Timelines

# Step 4 - Implement a Robust Regulatory Compliance System

- Maintain Comprehensive Regulatory Compliance Checklist
- Retain Annual Compliance Planner with clearly identifiable timelines
- Keep Compliance Reporting as standard Agenda item

# DC Heatmap



- A01 Trustee Fitness and Probity
- B01 Data Quality
- B02 Data Protection
- B03 IT Security/Cyber
- C01 Mortality
- D01 Counterparty Failure
- D02 Outsourced Providers
- D03 Custodianship
- E01 Key Person
- E02 Operational
- F01 Compliance Deadlines
- G01 Investment (Market)
- G02 Liquidity
- H01 Contribution Adequacy
- H02 Appropriateness of Default Investment Structure

# Food for thought....

# Scope

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# THANK YOU

James R Kehoe





Sarah McCague  
Arthur Cox

# The Evolving Regulatory Framework

-  
a legal perspective

Sarah McCague, Arthur Cox  
15 November 2019

# Evolving regulatory framework - introduction

- The purpose and nature of regulation
- Who regulates pension schemes in Ireland
- Scheme cycle of regulation
- Recent regulatory changes
- Anticipated regulatory changes
- Consequences of increased regulation

# The purpose and nature of regulation

- Purpose:
  - Protect?
  - Promote?
  - Provide?
- Nature:
  - Box tick
  - Risk based

# What bodies are involved in pension scheme regulation?

- Pensions Authority
- Revenue Commissioners (Large Cases Division)
- Central Bank of Ireland
- When things go wrong:
  - Financial Services and Pensions Ombudsman
  - Data Protection Commissioner
  - The courts

# Scheme cycle of regulation

- Guidance based – Pensions Authority codes of practice
- Event specific – transfers, section 50, winding up
- Periodic – reporting requirements, valuations
- Ongoing – GDPR, member communications

# Recent regulatory changes

- GDPR
  - 25 May 2018
  - Privacy notice issued with annual benefit statement
  - Suite of documents: data breach procedure, data protection policy, 3<sup>rd</sup> party agreements
- Beneficial Ownership Regulations
  - For corporates (PE and trustees) and trusts
  - Maintain beneficial ownership register
  - Submit annual return (currently CRO)
- ECB EIOPA
  - Applies to all schemes including frozen and in wind-up
  - Two tier – detailed and reduced
  - Detailed (quarterly and annual) and reduced (annual) returns

# Anticipated regulatory changes

- IORPS II
  - Way cleared for implementation – court case
  - Gap analysis
- Debt on the employer
  - Bill pending since 2017
  - Look to UK
- Auto-enrolment
  - Recent announcement in relation to implementation
  - Interaction with existing pension provision



# Consequences of increased regulation

- Members
  - Increased confidence?
  - Increased information/impetus to save?
- Trustees
  - Increased burden
  - Increased vigilance
- Regulatory bodies
  - Increased oversight
  - Powers to intervene?

# THANK YOU

Sarah McCague



# Brendan Kennedy

The Pensions Regulator

# THANK YOU

Brendan Kennedy

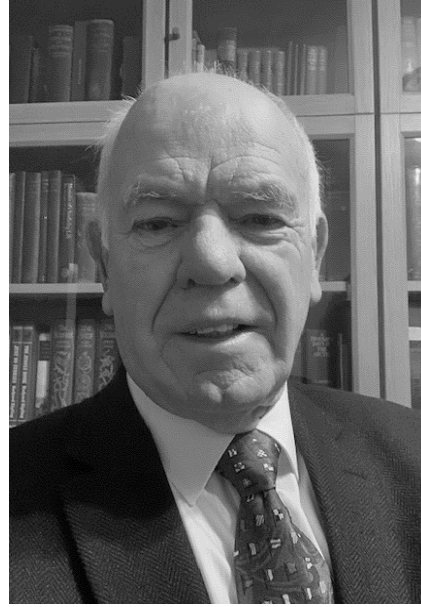
# Panel Discussion



Richard Kelly



John Lynch



James R Kehoe



Sarah McCague

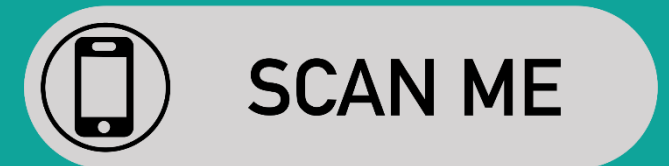


Brendan Kennedy

Remember to update your details on the  
CPD portal: *iipmcpd.ie*

Dates for your diary

- IIPM Seminar : 4 December 2019
- CPD Returns Deadline : 16 December 2019



# JOIN US FOR REFRESHMENTS