



# Cracking the DC Code - The Journey to Better Member Outcomes



**DENIS LYONS**  
SENIOR INVESTMENT CONSULTANT,  
AON HEWITT

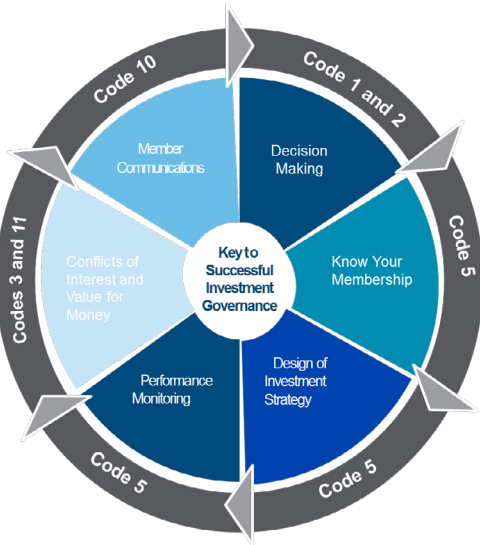
## Introduction

Defined Contribution ("DC") pension schemes are increasingly becoming the predominant mechanism for saving for retirement, due to the continued decline of Defined Benefit ("DB") Schemes. Recent data released from the Pensions Authority show that active members in Occupational Defined Contribution Schemes totalled 299,782 at the end of 2016, up from 281,629 at the end of 2015. This contrasts with the number of active members in Defined Benefit Schemes (subject to the Funding Standard), where the active membership continued to decrease, down 14,460 over the year to 111,535 as at the end of 2016. This continues the long term trend of increased participation in DC Schemes, at the expense of DB.

Recognising the increased importance of DC Schemes to current employees, the Pensions Authority recently released eleven Codes of Governance for DC Schemes, in order to assist Trustees in "delivering good member outcomes", an initiative we very much welcome as it will increase the overall standard of Governance in DC Schemes. Whilst these Codes are related to all aspects of DC governance, (e.g. compliance, administration, communication, investment etc), this article concentrates on Investment Governance, and discusses the key areas and solutions Trustees and Sponsoring Employers could consider to improve the level of Investment Governance applied to their DC Scheme, in order to help members achieve better outcomes.

## Key to Successful Investment Governance

The following chart separates Investment Governance into 6 key areas, and outlines which DC Code of Governance is applicable to each area.



It is important to note that just complying with DC Code 5 (Investing Scheme assets) will not lead to successful Investment Governance in isolation, and to ensure the highest level of Investment Governance, Schemes should also comply with the following codes:

- DC Code 1 - Governance Plan of Action;
- DC Code 2 - Trustee Meetings;

- DC Code 3 - Managing Conflicts of Interest;
- DC Code 10 - Member Communications; and
- DC Code 11 - Value for Money.

## DC Code 5 (Investing Scheme Assets)

This Code of Governance sets out the Pension Authority's view of good practice in the area of setting Investment Strategy. Among the key areas highlighted in the code are:

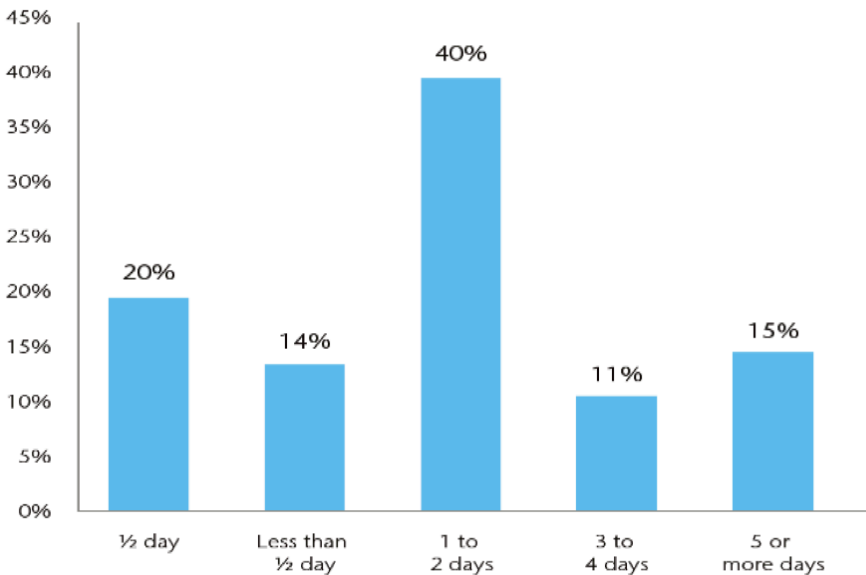
- Ensure procedures are covered in the Service Level Agreement with the investment manager;
- Develop and adopt an appropriate investment strategy ensuring that investment choices are regularly reviewed and are appropriate for members. Ensure all such reviews are fully documented;
- Provide a default investment strategy (DIS) that reflects the profile and needs of the scheme membership, and review it regularly and monitor its ongoing suitability for the membership;
- Produce a Statement of Investment Policy Principles, if appropriate;

- Provide a Statement of Reasonable Projection at least annually, if appropriate;
- Ensure the performance of all investment options is regularly assessed against the investment objectives;
- Meet with the investment manager(s) as required, but at least once a year; and
- Agree performance benchmarks. Periodically review the performance of the investment managers and if necessary replace them.

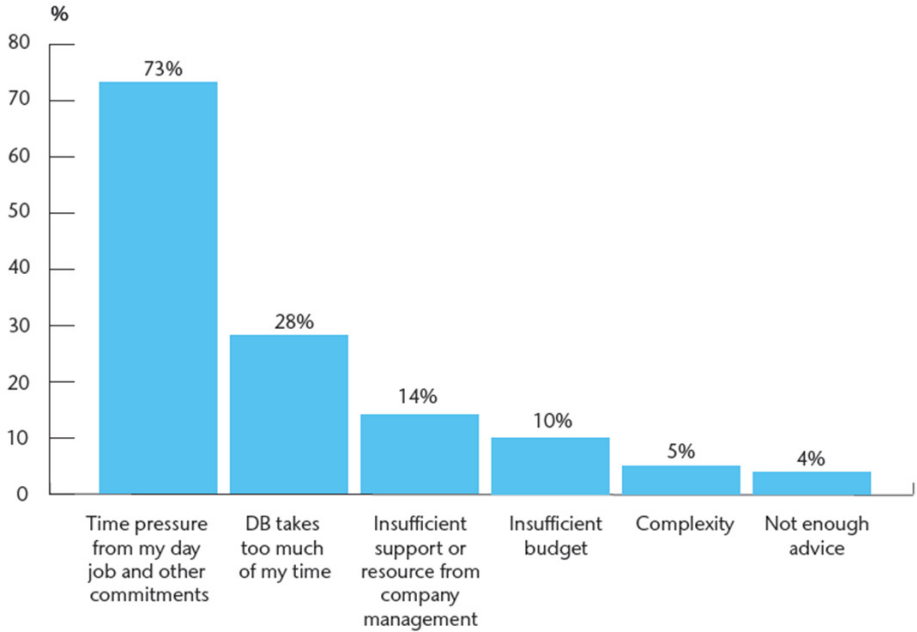
Whilst many DC schemes, in particular larger Schemes, will have been complying with all aspects of this Code prior to its release, many Schemes will now need to "raise their game" to ensure compliance with the Code and to ensure best practice Investment Governance is applied to their Scheme.

### What are the barriers to ensuring the highest levels of DC Investment Governance?

In a word, time. In the recent Aon Ireland DC survey in 2016, participants were asked how much time they spent per quarter on DC matters, see chart below.



Time Spent on DC Matters. Source: Aon Ireland DC Survey 2016



What prevents you from spending more time on DC matters? *Source: Aon Defined Contribution DC Survey 2015*

What was concerning is that over a third of DC plans are spending half a day or less per quarter, or less than 2 days a year on DC matters. This is on all DC matters (not just investment), so the attention given to Investment matters may be a small percentage of this.

In another Aon survey undertaken in 2015, participants were asked "What prevents you from spending more time on DC matters?" Overwhelmingly respondents cited time pressure from

an existing job as the main reason they could not devote more time in DC matters. Insufficient resources and time spent on legacy DB schemes also were some of the main reasons highlighted.

### How to Bridge the Governance Gap

In order to increase the levels of Investment Governance, Trustees and Sponsoring Employer could consider two Governance structures:

## 1. Get Busy

This is where the stakeholders do just that — get busy in investing the time and expertise required to ensure their DC Investments are managed effectively. This can include:

- Ensure they are receiving specialist Investment advice;
- More frequent meetings on Investment matters;
- Consider setting up of an Investment Sub-Committee, and appropriate delegation to the sub-committee;
- Meet investment managers regularly;
- Improve speed of action in taking decisions, and consider structures for making decisions outside the usual Trustee meeting cycle; and
- Increased Trustee training on Investment matters.

## 2. Get Help

A trustee board will retain ultimate responsibility for a scheme's investments, but this doesn't mean that Trustees have to do everything themselves. Certain tasks and decisions can be delegated.

"Get Help" is where the stakeholders outsource some or part of the investment delivery to someone else (with the appropriate skills and resources) to run, taking the strategic direction set by the trustees and sponsor through into implementation. It is intended to ensure that the scheme can benefit from all the opportunities available, but without the stakeholders, eg, trustees, having to 'Get Busy'.

Most DC pension schemes already outsource some functions of their pension scheme (typically member record keeping and investment management of the underlying funds). However, increasingly Schemes are also looking at the next level of Delegation, such as the construction of the underlying portfolios and Lifestyle Strategies, and selection, contracting, monitoring and removal of the underlying investment managers.

## Summary

It is clear that there is no single governance structure that works for all organisations (no matter the size), but Schemes should no longer be shackled by a sub-standard Investment Governance structure.

Good Investment governance need no longer be an option just for larger Schemes. If Trustees do not have the internal governance resources (time, expertise and knowledge) to manage the DC investment structure efficiently, and in particular for small schemes it often isn't financially viable to spend the time and cost needed to comply with the DC codes, then the Delegation model should be considered as a means of ensuring a high level of Investment Governance and compliance with the DC Codes on investment matters.

Aon Hewitt recently hosted a detailed webinar: Cracking the Code: Decoding DC Governance if you would like to view this webinar please click **here.** ■



### ARTICLE AUTHOR

**Denis Lyons**  
Senior Investment  
Consultant,  
Aon Hewitt

Suite 2, Slane House  
25 Lower Mount Street  
Dublin D02 V029



Tel: +353 1 6612427  
Email: [info@iapf.ie](mailto:info@iapf.ie)  
[www.iapf.ie](http://www.iapf.ie)

 @iapf\_info

