Looking into the future of Irish pensions

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When looking into what the future holds for Irish pensions, this is a worrying time for employers.

Although perhaps not for the reasons you might think. Or at least not only for the reasons you might think.

While data protection is still very much the hot topic for leaders and senior management, there is growing concern that GDPR-focused employers are at risk of missing another corporate elephant thundering around the boardroom.

While it is certainly no secret that the Irish pension landscape has been experiencing a period of change in recent years, it might come as a surprise to some to realise just how significant that change has been – and what exactly the implications are for employers across the country.

The landscape has not only evolved dramatically – but in pensions terms, it has recently evolved at breakneck speed. Irish employers are seeing a fundamental shift away from the traditional Defined Benefit model, where an individual's pension is based on a formula linked to final salary and service, towards the Defined Contribution (DC) model, where an individual's pension is based solely upon the value of the "pension pot" they have accumulated.

So, what's the problem? Well, this 'shift' actually represents a seismic change for many Irish employees. DC plans undoubtedly offer a simplified retirement solution for both the employer and the employee in terms of funding requirements, as the level of contributions paid by both parties is clearly understood in advance. However, what is not immediately clear is the precise level of benefits that will be paid out when the time comes for the employee to retire.

At the same time, employees are now personally, and in some ways singularly, responsible for ensuring that their pension will adequately provide for their retirement. Many of us are already, perhaps unbeknownst to us, shouldering this new responsibility – despite legitimate concerns around our readiness to do so.

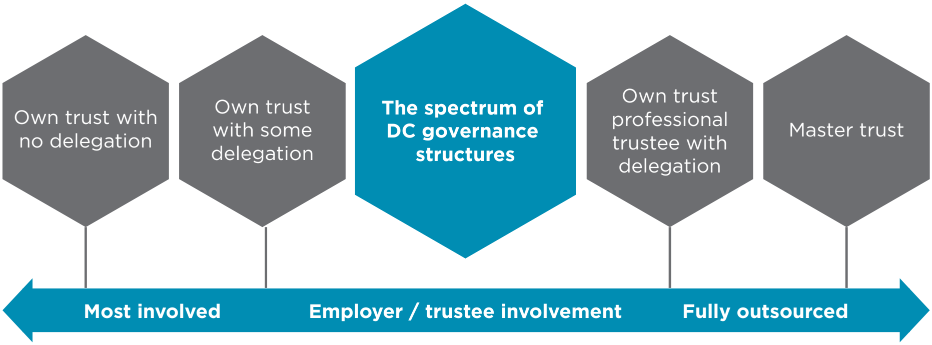
At retirement, individual DC pension pots will ultimately depend on the amount that has been actively saved by the employee and the investment return that has been achieved on those savings. This means that employees must be empowered to take a 'hands-on' approach to understanding and regularly engaging with their pension. As a result, business leaders and trustees are feeling corresponding pressure to support their employees in their new role as part-time investment managers and to make them aware of the actions they need to take throughout their working life.

And therein lies a challenge. The current workforce can now count four very different generations, who are often engaging and communicating in different ways, across different channels. As a result, many employers and trustees are struggling to meet their new education and communication needs with the traditional 'one size fits all' approach.

Add to this the fact that some worrying trends are emerging within the Irish DC market. The Pensions Authority recently announced its plans to consolidate the number of DC plans in Ireland from over 160,000 to around 150. At the same time, a much more formalised approach to DC plan governance is emerging, largely driven by the Codes of Governance issued by the Pensions Authority. Auto-enrolment is also looming, with the Government proposing its introduction from 2022. And there is no sign of this market evolution slowing down, with IORPII set to place increased responsibility on trustees from 2019.

So how are employers currently managing this transforming DC environment? The diagram below represents the spectrum of popular DC governance structures in Ireland, ranging from most involved for employers and trustees on the left, through to fully outsourced on the right.

The most involved is the own trust model with no delegation.



Typically the preserve of very large organisations, this type of structure would look something like: own trust deed & rules, own trustees, investment options selected by the trustees, a pensions department providing "in house" administration, etc.

Next on this "delegation spectrum" we have the own trust with some delegation – 'own trustees', perhaps with administration / investment delegated to an external provider.

From there, we come to own trust professional trustee with delegation – where trusteeship is outsourced to an independent or corporate trustee.

These last two options are currently the most common approaches to DC plan governance used in Ireland. However, the key point is that as you move across the spectrum each one of these increases the delegation away from the employer and lay trustees towards professional advisors.

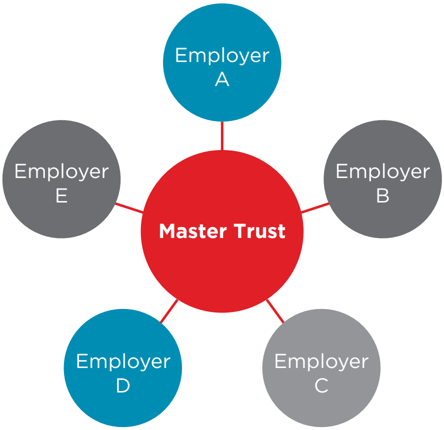
But there is another solution that is rapidly growing in popularity: the master trust model.

So what is a master trust?

A master trust is a DC arrangement which incorporates multiple employers but is managed by a single, professional, corporate trustee.

Within a master trust, every participating employer has their own 'section' and is able to retain full control over decisions around benefit design, eligibility, contribution levels and death in service benefits.

The trustee assumes the management of more sensitive, time-consuming activities like governance, investment strategy, administration, member communication and digital delivery.



It isn't hard to see the mammoth potential for the master trust model in Ireland; it is already hugely successful in the UK, and we in Aon believe that it will become significantly more commonplace in Ireland in the coming months and years. In this respect, the experience in the UK, provides us with invaluable learnings and takeaways as we begin to move into this area.

For example, the UK has already observed a very important relationship between auto-enrolment and master trusts – something which will be of real interest to the Irish market. A report produced by The Pensions Regulator (tPR) in 2017 showed that over 80% of all individuals enrolled in a DC plan in 2016 were, in fact, to a master trust arrangement.

With Aon's master trust offering in the UK already enjoying great success, Aon in Ireland has been uniquely positioned to shadow its journey and progression, and develop an intelligent, market-ready offering this side of the Irish Sea – The Aon Ireland MasterTrust. Investing in this solution has long been a top priority for our Irish business, largely due to the many clear benefits a master trust provides to both the employer (governance, value for money, time and resource efficiency) and the employee (easier engagement, high quality investment options, leading potentially to better outcomes at retirement).

This emerging retirement model is being held to a pleasingly high standard by the industry. The IAPF awards its Pensions Quality Standard to master trust arrangements which meet the highest standards in quality communication and governance strategies – a recognition that Aon was delighted to achieve recently in respect of our master trust offering.

While the master trust model may not necessarily be the right solution for every need, the standard to which it holds itself accountable is one that every occupational DC plan should seek to emulate for its members.

Navigating the road ahead

So, what should employers be doing to ensure they are helping their employees to achieve retirement success? If the landscape continues to evolve at the pace that it has of late (and that continued evolution seems all but certain), business leaders will need to introduce an approach or formalised solution that is able to easily adapt and grow with the industry.

They must do all they can to understand the changes happening throughout the broader pension industry; take sufficient time to fully understand their scheme and how it works; consider their employees – and their varying priorities; and then do everything in their power to increase employee understanding and awareness of their scheme's characteristics.

Whether employers choose an arrangement that ticks all the boxes in one easy solution, or favour a more bespoke approach, the most important thing is to ensure the chosen model is held to the highest possible standard of excellence.

This period of change is bringing with it new requirements, new decisions to be taken, new boxes to be ticked – but it's also bringing an exciting feeling of 'independence', and of autonomy. In the modern DC market, every future retiree is in control of their own pension pot. Retirement security remains the ultimate destination, but the successful journey to that destination is now down to us all.

It's time to lace up our boots and get going!

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