

Planning your pension in a volatile market

Aon Ireland Retirement & Investment CEO, Rachael Ingle, speaks to Barry McCall about the need for employers to deal with several challenges relating to increased pension regulation and turbulent investment markets, as they seek to provide the best retirement income solutions for their employees.

Almost every conversation concerning the Irish retirement landscape has to begin with the investment marketplace. The state of the markets not only has a profound and direct influence on the health of pension schemes, it also affects people's attitude towards pension investment in a quite fundamental way, and current conditions are not good from either perspective.

"There has been a huge amount of volatility over the past year," says Aon Ireland Retirement & Investment CEO, Rachael Ingle. "Last year was one of the most volatile in a very long time. And there is no real end in sight. This followed one of the longest bull markets in history – there had been an increase of over 400% in the FTSE All World Index (in euro terms) from its low point in March 2009 up to the end of 2017."

She points out that 2018 was one of the worst years for markets since the crash of 2008. The majority of major asset classes suffered losses making it very difficult for investors. "The markets fell 15% from their high point in October 2018 to Christmas Eve. Since then, they have recovered much of these losses. That's an indication of the extreme volatility at the moment. I don't believe that's going to change in the near term but the markets are always fickle, so who knows?"

This has led to heightened concern among the pensions community. Defined benefit schemes that haven't de-risked will be very concerned at the possibility of further losses. Defined contribution schemes will wonder where is best to invest in 2019 in order to deliver the best outcome to members. "We are now back into 'don't know what's going to happen next' territory," Ingle adds.

The situation is also being affected by international trends in economics, geopolitics and demographics. "Ageing populations, sluggish economic growth, events like Brexit and so on are all having an influence on pension plan members' outcomes and technological changes sits on top of that and affects everything," she notes. "This is all adding complexity to the pensions market and we are trying to help employers help employees navigate this new retirement landscape. The defined benefit world is continuing to reduce while defined contribution is the vehicle of choice for many employers. But companies are struggling with the resources to tackle these issues and don't have the bandwidth to develop sophisticated investment strategies."

The government is trying to introduce change to improve the



Rachael Ingle

situation, however. "The Roadmap to Pensions Reform, published in 2018, was the first true engagement from government since the 2007 Green Paper," says Ingle. "It contains six strands, covering state pensions, public sector pensions and private sector pensions. Brexit planning seems to have put back a lot of the timelines for the reform and that has not been helpful. But the proposed changes are generally positive, it is just taking longer for them to happen, but they will happen."

The most well-publicised element of the Roadmap is Strand 2, which proposes the introduction of a national auto-enrolment pension scheme.

"The government published a strawman consultation paper in relation to this last year," she notes. "The aim is to have a scheme introduced by 2022 which will start off with employees making a 1% contribution matched by employers. The government is to make its contribution through an SSIA style top-up equal to one third of the employee contribution. There has been a bit of a push back against this as it would involve a change in the tax system covering pensions and many people do not consider this a good idea. The overall proposal is welcome, though. Pensions coverage in Ireland is low by comparison to those countries that have embraced the mandatory/ auto-enrolment model – only 35% of the private sector workers in Ireland have private pension provision and this is despite the validity of relatively generous tax reliefs. This is not a good statistic. But there is more coming in terms of governance and regulations."

The most imminent change comes in the form of the Institutions For Occupational Retirement Provision (IORP) II directive. "This was meant to be transposed into national law in January but hasn't happened yet, possibly because of Brexit preparations taking precedent," Ingle says. "This will place lots of new governance requirements on pension schemes. They will need written policies on areas like risk management, outsourcing and actuarial. They will also need to have designated people to carry out certain functions like internal audit and risk management. It will mean more hands-on involvement in running trustee boards. There will also be fit and proper standards to be reviewed annually. These changes have the potential to drive up costs and time commitments and there doesn't seem to be any proposed derogation for smaller schemes."

Schemes will also have to deal with the European Central Bank (ECB) and

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European Insurance and Occupational Pensions Authority (EIOPA) stress tests.

"Under the tests, over 400 pension plans in Ireland will have to report quarterly and the remaining smaller ones will have to report annually. The reports will need to cover specific details on both the investment and liability profiles of pension plans and will be collated by the Central Bank of Ireland. The aim is to ensure that the ECB has a full picture of what pension plans in Ireland and across Europe look like. It will be a really huge undertaking for many schemes and will present a serious challenge in terms of cost and time."

She believes these issues present an opportunity for organisations to review their pension arrangements and make plans for the future. "These new requirements are coming at speed and employers should ask themselves why they have a pension plan and what they are trying to achieve with it. They should also ask how they can provide best retirement solutions for employees. With auto-enrolment coming in 2022, they should talk to their advisors about the design of their pension plan and how it compares with the proposed new scheme. Do they want to equalise contributions with the ultimate 6% employee and 6% employer level sooner or later? They should also think about employee engagement, how they communicate with pension plan members and ensure they understand the value of the pension benefit being provided."

Employers also need to educate themselves on the new governance and reporting requirements and their implications in terms of time and resource commitments and costs, she adds.

"There are alternatives available. There is the master trust route which offers a defined contribution collective vehicle for occupational pension schemes. They enable employers to benefit from a well-run, sophisticated pension plan where governance and compliance costs are shared with others. This will allow them to shift their focus away from fiduciary responsibilities of reporting and compliance towards engaging with employees and being more focused on for instance, determining if the level of pension provision is appropriate for their workforce. The Pensions Authority has said it wants consolidation of defined contribution pension plans and expects in the future to be dealing with only 100 to 150 defined contribution schemes in Ireland. This change is definitely coming."

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