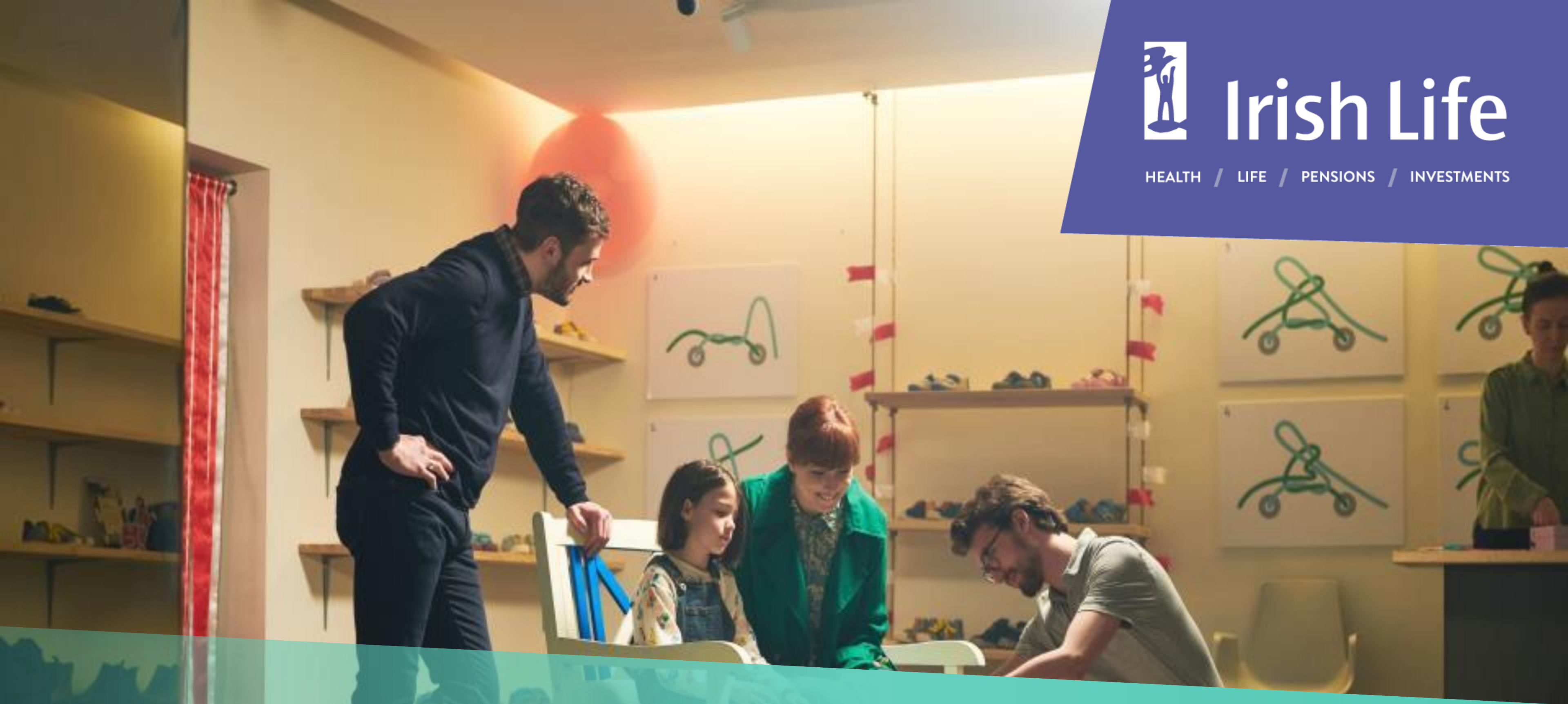

Irish Life

HEALTH / LIFE / PENSIONS / INVESTMENTS

Presentation to the Joint Committee on Employment Affairs & Social Protection

IORP II Directive

– Impact on People in Small Irish Pension Schemes

November 2019

Presented by:

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ABOUT IRISH LIFE

Irish Life Assurance Plc is a subsidiary of the Irish Life Group and is one of Ireland’s leading life and pensions companies with over **1.4 million customers**.

In existence for over 80 years, we help people look after their life insurance, pension, investment and health insurance needs.

Irish Life Group includes Irish Life Assurance and Irish Life Health and its associated companies Irish Life Investment Managers and Setanta Asset Management.

Irish Life currently have **2,400** people working at our campuses in Dublin and Dundalk, and we continue to grow.

We are part of the Great-West Lifeco group of companies, one of the world’s leading and most secure life assurance organisations. Great-West Lifeco and its subsidiaries have about CAD$1.3 trillion in consolidated assets under administration and over 30 million customer relationships.

The Irish Life company vision is

WHAT IS THE IORP DIRECTIVE

The IORP II Directive is the EU Directive on activities and supervision of institutions for occupational retirement provision (Directive 2016/2341). The Directive builds on the provisions of the first IORP directive and provides for EU wide pension scheme standards.

What reasons have been given for this regulation?

- To improve governance and scheme risk management
- To ensure pension scheme trustees are fit and proper
- To improve communications to members
- To introduce appropriate long-term investing standards, e.g. schemes to consider ESG* factors
- To encourage cross-border pensions schemes (very little up to now in EU)

Ireland has interpreted every occupational pension scheme established under a trust to be deemed an IORP. This interpretation has meant that of 155,447 IORPs in the EU in 2016, 112,212 (72%) were Irish.

**Environmental and Social Governance*

APPLICATION OF DIRECTIVE – Options for Implementation

Member States must apply:

- all articles of the Directive to IORPs where membership is 100 members or more
- certain articles, regardless of size e.g. Investment Management rules & Depositary.
- certain sections where membership is 15 or more.

Member States have discretion to apply:

- all articles to IORPs where membership is less than 100
- specified articles to the occupational retirement provision business of life insurance undertakings – see separate slide

Principle of Proportionality

The Directive is very clear and states in a number of Articles that the application of the requirements should take into account the **size**, **nature**, **scale** and **complexity** of the activities of the IORP (pension scheme).

APPLICATION OF DIRECTIVE

- Currently under the provision of the first IORP directive all schemes with one member were exempt from implementing any new provisions and schemes with less than 100 members were also largely exempt from implementing any new provisions other than investment rules.

- The purpose of both IORP I & IORP II was to provide minimum harmonisation rules for managing collective retirement schemes for employers on behalf of their employees.

- The Minister has indicated however that the intention would be to now include all schemes regardless of size within the parameters of IORP II. This is a fundamental change on how these schemes have operated to date.

- It is also questionable how a single member scheme can be deemed a “collective retirement scheme” as by their very nature they cannot facilitate multi-membership – Irish Life would therefore question the inclusion of single member schemes at all within the parameters of the IORP Directives. A number of EU Members States do not count Single Member schemes within their pensions numbers.

APPLICATION OF DIRECTIVE

- In the UK the Department of Work and Pensions carried out a cost benefit analysis of the implementation of IORP II and concluded that:
  - Schemes with fewer than 15 members were exempt from the regulation;
  - Schemes with 15-99 members were expected to read the regulations but are not expected to take any further action unless they deem it appropriate to do so.

- If a similar cost benefit exercise were to be carried out in Ireland for smaller schemes Irish Life believes it would reach a similar conclusion to that of the UK. None has been conducted to date.

- The Directive was due to be transposed into Irish law by 13th January 2019, however, due to litigation this has not occurred to date and no draft regulations have been published to allow trustees, scheme members or service providers gain an understanding of requirements or provide any feedback.

NUMBER OF DEFINED CONTRIBUTION SCHEMES WITH ACTIVE MEMBERS – 31 DECEMBER 2018*

	Number of Schemes	Active Members
Non-Group	63,001	63,001
1-10	6,368	17,861
11-20	959	14,052
21-30	480	12,012
31-40	275	9,669
41-50	197	8,911
51-99	384	26,713
100-500	339	70,737
501-100	50	32,727
1000+	43	95,974
Total	72,096	351,657

Over 152,000 members will be impacted by the changes.

* Source Pensions Authority.

AVERAGE SCHEME MEMBERS PROFILE*

The average salary of single member schemes is just above the average industrial wage.

Scheme Membership	1 Member	1-5 members	6-20 members
Average Salary	€39,400	€55,912	€54,344
Average Monthly Contributions	€500	€511	€502
Average Pension Pot Size	€75k	€110,228	€62,226

*Source Irish Life scheme members correct March 2019

IORP II – AREAS OF IMPACT

1.	Scheme Governance and the “fit & proper” test for pension scheme trustees;
2.	Scheme Policies and Procedures and in particular the requirement for an internal audit and risk function;
3.	Scheme documentation e.g. the production of annual reports, audits accounts and publication thereof;
4.	Scheme Registration;
5.	Scheme Investment Rules.

All of the above provisions are entirely appropriate and reasonable provisions to apply to very large pensions schemes; however, their benefit to smaller schemes needs to be seriously challenged.

AREAS OF CONCERN

1. ARTICLE 29 – ANNUAL ACCOUNTS AND ANNUAL REPORTS

- All Pension Schemes will be required to:
    - Draw up and publicly disclose annual accounts and annual reports
    - True and fair view of assets, liabilities, financial position to be given
    - Disclosure of significant investment holdings
    - Consistent, comprehensive, fairly presented, and duly approved by authorised persons, in accordance with national law

While the above is perfectly reasonably for very large schemes, which already must produce Annual Reports and Audited Accounts this would impose a large and disproportionate cost on smaller schemes.

For one member schemes, who currently already receive annual benefit statements there appears little value in producing these reports and their public disclosure could cause privacy concerns.

The cost of producing an Annual Report and Audited Accounts if required could add up to €3k per annum to small schemes.

AREAS OF CONCERN

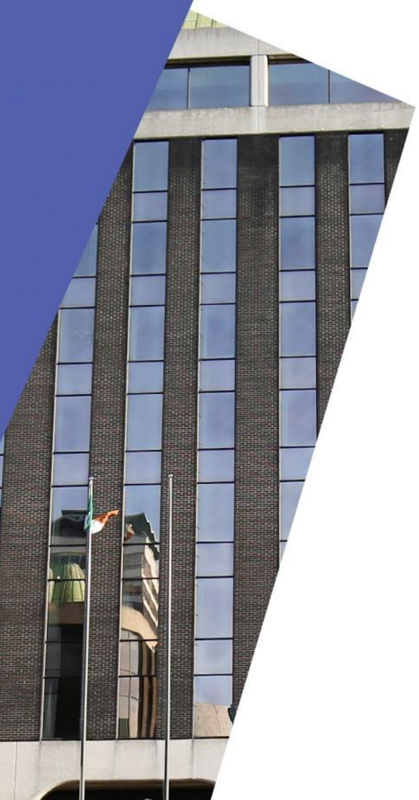
2. SYSTEMS OF GOVERNANCE – REQUIREMENTS TO HAVE AN INTERNAL AUDIT & RISK FUNCTION

The new Regulation will require the following:

- Internal Audit Function – must be separate person/unit from risk management;
- Risk Management Function
- Outsourced Activities
- Contingency Plans
- Remuneration Policy – to be publicly disclosed
- Own Risk Assessment to be carried out every 3 years
- Conflict of interests policy

These provisions are reasonable protections for schemes over 100 members, however, the value of implementation of such provisions to smaller schemes is questionable. In particular, these schemes are established in their majority by small or medium sized employers who do not have the resourcing or knowledge to carry out these functions.

AREAS OF CONCERN

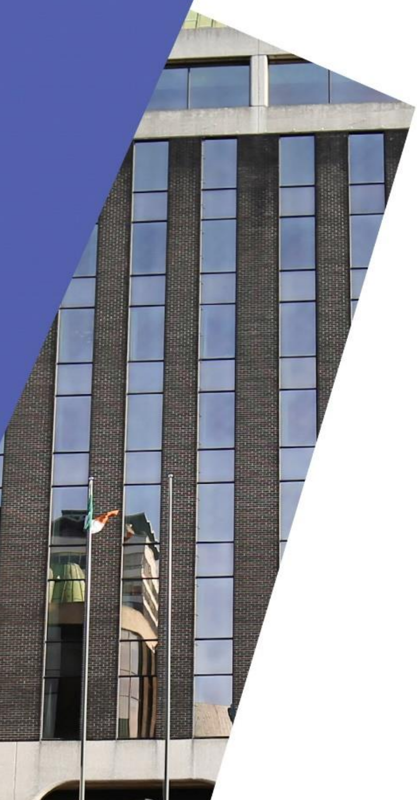


3. INVESTMENT RULES & STRATEGY

IORP II includes some specific rules on investments which may impact smaller schemes and in particular single member schemes:

- A scheme’s assets must be predominantly invested in regulated markets;
- Direct property investments will be restricted;
- Borrowing can only be used for liquidity purposes and only on a temporary basis (this will affect the scheme’s ability to borrow for direct property);
- Environmental, Social and Governance (ESG) issues must be considered when making investments;
- Trustees have a duty of care to manage the scheme’s assets prudently.

AREAS OF CONCERN



3. INVESTMENT RULES & STRATEGY (Continued)

- It has been suggested that the investment strategies of smaller schemes suffered particularly bad relative outcomes during the recession.
- Irish Life conducted analysis of the investment strategies of its single member schemes and found:
  - 82% of these schemes invest in Irish Life flagship multi-asset and consensus funds and/or have a diversified range of asset classes;
  - When investment return was benchmarked against large multi-national pensions schemes over a rolling 10 year period the investment outcomes experience by both client types were very similar in terms of returns and volatility.

CURRENT LEVELS OF GOVERNANCE IN LIFE COMPANIES

All pensions schemes administered by Irish Life have additional protections regardless of their size, namely:

- Prudential and consumer supervision by the Central Bank – including compliance with the provisions of Solvency II;
- Operation of a fitness and probity regime to all staff working in life companies who hold pre-approved controlled functions and monitored by the Central Bank;
- Operation of a three line of defence governance regime – with extensive compliance, risk and internal audit teams to supervise and monitor its pension schemes;
- Provision of information – Irish Life provides members with Annual Benefit Statements and Annual Statements of Reasonable Projections – which include information on current values, current investment choices, contributions to the scheme and projected values at retirement. This information is also provided voluntarily to deferred members of pension schemes.
- Investment services to diversity pension assets across a number and variety of funds.

A detailed assessment needs to be made of the current consumer protections already in place prior to placing any additional regulatory burden on small and medium sized pension schemes.

CONSUMER PROTECTIONS

ADDITIONAL CONSUMER PROTECTIONS:

The Pensions Acts have requirements on all schemes on the collection and investment of pensions contributions – including whistleblowing provisions to the Pensions Authority;

Registered Administrators have requirements around appropriate record keeping;

Revenue approved single member schemes must have an investment strategy agreed between the employer and the member and these must be in line with the options allowed under a company pension insurance contract which is approved by Revenue.

IORP II should not create overlapping layers of regulations that do not result in any specific benefit to the consumer.

IMPACT ON SMALLER SCHEME

1. **Increased Costs** – using the cost as set out by the UK Department of Work and Pensions the implementation of IORP II provisions would involve once off costs of €500 and recurring costs of €370 annually. This is without including the possible additional cost of producing an Annual Report and Accounts.

   For single member schemes, with average contributions of €6k annually these costs could effectively eliminate all investment returns.

2. **Increased administrative burden** – Small and medium sized employers could be faced with a significantly increased administration and regulatory burden in order to keep their schemes compliant with IORP II for little additional protections for the scheme members.

There is a real danger that the net effective of implementing these measures would:

- Reduce the pension pots of people in small and medium sized schemes which have to bear additional costs;
- Cause smaller schemes to shut to avoid increased costs and administration (at a time when policy is to increase coverage);
- Act as a disincentive to new small and medium sized employers to set up pension schemes for their staff.

At a time when Government Policy is to increase private pension coverage care needs to be taken that the proposed regulation does not have the opposite effect.

POSSIBLE SOLUTIONS

1. Carry out a cost benefit analysis of the impact of IORP II and implement measures proportionally so as not to unduly prejudice small and medium sized schemes.

2. Amend the structure of PRSA's so that they are a viable alternative to single member schemes. See below from our Simplification Consultation response:

1.
Employer contributions would have the same tax and contribution rules as occupational pension schemes

2.
Transfer rules into PRSA's would be the same as those between defined contribution pensions schemes

3.
Harmonisation of disclosure rules for PRSA's with occupational pension schemes and options to provide digital information

4.
Same investment choices as those provided to occupational scheme members with alignment of charging disclosures

POSSIBLE SOLUTIONS

3. Master Trusts

Master Trusts are used extensively in other jurisdictions to provide large umbrella structure under which a number of different pensions schemes can sit. This could be a solution for some schemes between 20-99 members. However, changes need to be made to the current structures to:

Introduce a fast tracked wind-up process to transfer schemes into a Master Trust;	Put in place an independent process to regulate pensions providers/sponsors to ensure they have sufficient capital and governance control processes in place;	The scale of regulation should extend with the growth of the Master Trust – otherwise the initially regulatory burden will disproportionally hit the first entrants into the Master Trust scheme.

A sensible, phased transition period is therefore required prior to any implementation of IORP II on schemes under 100 members to allow alternative as a minimum; we argue that 1 person policies should be excluded entirely.

Conclusion

The IORP II Directive is a welcome development in improving the governance, risk management and communications for very large scale pension schemes.

However, implementing the Directive in full to small pension schemes will, we believe, prove financially damaging to the interests of 150k scheme members.

The Irish Government approach is out of step with other EU Member States and it should reconsider applying proportionality to the implementation of IORP II to single member and small schemes.

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Questions?