Society of Actuaries in Ireland

Consultation on the future of DC pensions

30th October 2013

Executive Summary

The Society of Actuaries in Ireland (the Society) welcomes the Pension Board's (Board's) consultation on defined contribution (DC) Pensions.

We note, however, that the consultation focuses only on some aspects of the DC pensions landscape. Rather than tackle specific issues on a piecemeal basis, ***we urge the Board to develop and articulate a clear, over-arching vision for the future of DC pensions, and to make this a high-priority task***. The vision should address *inter alia* the overall structure of the market and simplification of the regulatory framework. We recommend a fundamental overhaul of the DC pensions landscape, which should be built upon the Board's vision for the future of DC pensions, once developed. We would be happy to help create and explore ideas on what the vision should be and how it could be implemented.

We have mentioned simplification of the regulatory framework – we consider the complexity of the pensions system to be a key impediment to member and employer engagement and we strongly recommend that simplification measures be introduced. We believe that an analysis of international best practice would provide considerable insights into potential approaches that could work in terms of simplification, and would be a useful starting point in developing a vision for the future of DC pensions.

Trusteeship

In our experience, there are a number of examples where the trustee model works very well to deliver high quality outcomes for members. However, we do not advocate a "one-size fits all" approach to trusteeship, and suggest that a wider debate around the role of trustees and the structure of the trustee model would be a beneficial first step, before getting to the specifics of codes of governance or self-certification.

We believe that the trustee model adds complexity without adding significant benefits to the many one-member schemes, which are primarily "executive pensions" where often the member, employer and trustee are the same person. Therefore, we believe that it would be beneficial to determine if the benefits of the trustee model could be more effectively delivered in another way. We suggest that it would be worthwhile to explore possible alternatives to the trustee model in detail, rather than solely focussing on adding further complexity to the role of the trustee.

If the trustee model is retained, then, while in principle setting minimum standards for trustee knowledge, understanding and behaviour would be likely to help raise the standards for trustees generally, it would also undoubtedly discourage people from being trustees and may by extension discourage employers from contributing. In our opinion, it is important to consider which aspects of the trustee model are most important, and to ensure that the standard-setting and the measurement of trustee performance is most aligned with those aspects.

We believe that, if it is determined that changes in the trustee model for DC pensions are beneficial, it would be important to consider whether those changes would also be beneficial in relation to defined benefit (DB) pensions.

Regulation

While we agree in principle with the aim of regulation improving standards of governance, we note the importance of taking the ultimate desired outcomes into consideration. We do not believe it is appropriate to have one standard for older schemes and another standard for new schemes. If schemes are required to meet a particular standard to be approved by the Board, we recommend that this be signposted in advance, with the new standards applying for <u>all</u> schemes from a date in the future.

In our opinion, the ultimate goal of providing good outcomes for members must be set against a backdrop of encouraging pension provision, and therefore there should not be onerous regulation at the employer level.

Investments

Too much focus is given to investment choice in the DC discussion generally, with other important areas, particularly contribution adequacy and value for money, receiving less focus than they deserve.

We do not think it makes sense that the same generic measure of risk should be used for all members. Therefore, a useful measure of risk in DC must take personal circumstances into account – in particular the time remaining to the DC member's planned retirement date.

In relation to default investment strategies and fund choice, we are of the opinion that many trustees work hard to choose a suitable default, and often take expert advice in reaching their decision. There is general agreement that DC scheme members become confused if faced with too many fund choices. It is, therefore, reasonable for many members to be offered a limited number of fund choices and to select the default option, given that most are unlikely to have access to more expertise or time than the trustees and their advisors.

Disclosure

We believe that the annual benefit statement is a compliance-driven document that provides useful information – unfortunately, however, some key messages (funding adequacy, investment suitability, value for money) can often become lost in the detail.

In our view, it is difficult to communicate or engage effectively with members in the absence of a clear and achievable retirement benefit target.

Once the member has a good understanding of his/her retirement goals, the challenge of engaging him/her in the DC plan becomes more well-defined. The Society's Defined Contribution Working Party has identified a number of key principles that are set out in our full response below.

Value for money

We believe that, with transparent cost information (including the commission payable to advisors), trustees would be empowered to make choices around quality and service relative to the fees being charged.

Given the potential complexity for trustees to make fee/charge comparisons, we believe that trustees would benefit from Pensions Board guidelines/training setting out the factors that should be considered when assessing value for money. We suggest that the guidelines should not focus solely on fees, but should also consider quality and service as well as the ultimate goal of promoting good outcomes for members.

The complexity of the current pensions system is a significant driver of costs. We believe, therefore, that simplification of the pensions system has the potential to result in significant cost savings.

Introduction

The Society of Actuaries in Ireland (the Society) welcomes the Pension Board's (Board's) consultation on defined contribution (DC) Pensions. The Society agrees with the Board that future occupational pension provision in Ireland is likely to be predominantly DC, and believes that significant reform is needed to ensure that DC pensions deliver positive outcomes for members.

Vision

While the Society welcomes the Board's consultation, we believe that the starting point for reform in this area is to develop a clear, over-arching vision for the future of DC pensions. The paper identifies a number of areas where the Board has concerns in relation to the current operation of DC pensions (primarily cost, investment choice, member communications, the role and number of trustees and the number of schemes generally). However, the paper does not identify a vision for the future of DC pensions, and the solutions consulted on appear to be directed at very specific areas of the DC landscape, without taking a step back to assess the overall structure of the market.

To develop a vision for the future of Irish DC pensions, we can look to, and build on, much strong work that has been done internationally. Many countries, including Australia, Chile and Denmark have introduced interesting reforms in the area of DC pensions. In our opinion, an assessment of international best practice would be a useful starting point in developing a vision for Irish DC pensions along with building on the recent good work carried out by the OECD in the area of DC pensions.

The Society recommends a fundamental overhaul of the DC pensions landscape. The scope of the overhaul would include changes to the regulatory environment for pensions, and would potentially require significant changes to legislation including tax legislation. We acknowledge that this goes beyond the remit of the Board, but would question the benefit of piecemeal changes to regulation without an over-arching vision for the future of DC pensions.

We urge the Board to develop and articulate a clear, over-arching vision for the future of DC pensions, and to make this a high-priority task. We would be happy to help create and explore ideas on what the vision should be and how it could be implemented.

Simplification

The Society considers the complexity of the pensions system to be a key impediment to member engagement. This impacts members' ability to understand communications addressed to them, and has cost implications for companies operating in the pensions market which are ultimately borne by consumers. To a lesser extent, the complexity of the pensions system also impedes employers. Given the importance of employer engagement, simplification should also consider the incentive for employers to set up DC schemes.

The Irish pension landscape features a myriad of products, each with different features and rules in relation to contributions, tax free lump sums, forms of retirement benefits that can be taken, earliest retirement age and ability to transfer among others. The decision-tree involved in an individual's journey from starting work into retirement and through a post-retirement life is complex and highly individual. Even through potential future measures such as auto-enrolment or mandatory pensions it will not be possible to have a successful system without some form of personal engagement from individuals. In our opinion, the complexity of the pensions landscape is a significant impediment to this engagement.

As with the development of an over-arching vision for the future of DC pensions in Ireland, we believe that an analysis of international best practice would provide considerable insights into potential approaches that could work in terms of simplification.

Trusteeship

"The Board's view is that trustees' performance needs to significantly improve in order to best protect members' interests and that trustees should have to self-certify their competency and ability to meet specified knowledge and experience criteria before appointment and annually thereafter.

Do you agree with this?

What would you suggest as minimum standards for trustee knowledge, understanding and behaviour?

Do you agree that the Board should issue a code of governance in order to clarify the standards it expects of DC trustees? If not, what other vehicle could we use to provide further education and guidance for trustees in order to drive up standards of governance and administration?

In our experience, there are a number of examples where the trustee model works very well to deliver high quality outcomes for members. However, we do not believe in a "one-size fits all" approach, and suggest that a wider debate around the role of trustees and the structure of the trustee model would be a beneficial first step, before getting to the specifics of codes of governance or self-certification.

Our view is that, in general, the trustee model currently works well for large schemes. Our understanding is that the governance of large DC schemes and the knowledge, understanding and behaviour of trustees of those schemes, is in general, at a high standard. However, we agree that measures of the type described by the Board in the Consultation paper would be useful in helping to ensure consistently high standards across all schemes, if the trustee model is retained across the board.

However, as set out in the consultation, there are many one-member schemes, which are primarily "executive pensions" where often the member, employer and trustee are the same person. We believe that the trustee model adds complexity without adding significant benefits in these cases. Therefore, we believe that it would be beneficial to determine if the benefits of the trustee model could be more effectively delivered in another way.

Contract-based pensions may be a better approach for arrangements of this nature, but we note that tax rules may encourage the choice of executive pensions over PRSAs for example. Therefore, our view is that changes in this area need to be in the context of a wider simplification of DC pensions structures, including changes to the tax code to facilitate the simplification of the product environment for members and their employers. There are a number of key functions which must be discharged in relation to a pension scheme, including: collection of contributions, investment of assets, agreement of a default investment strategy, consideration of asset security, communications with members and payment of benefits. These responsibilities are largely administrative, and it is possible that a pension administrator that was subject to a strong governance framework could discharge these functions more effectively than trustees. The remaining key role of managing costs and obtaining value for money from the scheme could rest with employers rather than trustees.

Such a model could also be effective for the many schemes which are neither one-member schemes nor large schemes – and, indeed, for large schemes too. We suggest that it would be worthwhile to explore this and other possible alternatives to the trustee model in more detail, rather than solely focussing on adding further complexity to the role of the trustee.

Returning, however, to the particular questions posed in the consultation paper: these suggest that the Board is in favour of retaining the widespread application of the trustee model, and our responses below are offered in that context.

The Board is concerned that there are too many schemes, and too many trustees. However, it is not clear if the intention of the Board's proposals to raise the standards required of trustees is designed to simply raise the bar in terms of the standards required of trustees, to encourage people to stop being trustees/discourage new trustees, or both.

While in principle setting minimum standards for trustee knowledge, understanding and behaviour would be likely to help raise the standards for trustees generally, it would also undoubtedly discourage people from being trustees and may by extension discourage employers from contributing.

Despite the Board's concerns about the current numbers of trustees, it is not clear to us what the impact of discouraging people from being trustees will have on smaller schemes. More consideration needs to be given to how the governance of those schemes would be affected and possible solutions that could be implemented to help improve governance, before additional requirements are imposed on trustees. For example, the development of industry-wide schemes or master trusts could be encouraged or facilitated, but this would require additional support to achieve, including possible legislative or tax changes. This relates back to our general concerns about the lack of an over-arching vision in the consultation. We believe it would be better to develop a vision for the desired outcomes for schemes of this nature, and then consider what measures could facilitate those outcomes, than to impose particular measures without consideration of the overall pensions landscape.

Minimum standards on trustees

There are a number of additional specific comments that we wish to make in relation to the imposition of minimum standards on trustees.

Firstly, there may be trustees who offer insights in particular areas, but who may not have expertise in all areas that might be required of a trustee. Therefore, it may be counter-productive to discourage such people from being trustees. Consideration should be given to designing governance standards that promote a minimum standard of knowledge and understanding for the trustees of a scheme as a whole rather than necessarily for individual trustees. As well as expertise in particular areas (e.g. investments), it is also beneficial to have trustees with particular perspectives or backgrounds. In particular, we believe that there is considerable benefit to schemes in having the input and perspective of member trustees, but the obligations of being a trustee can discourage members from being involved. "Raising the bar" for trustees may further discourage the involvement of member trustees and this may not be beneficial at an overall level.

From a governance perspective, it would therefore be of some benefit to encourage schemes to consider the overall balance and breadth of trustee knowledge and experience, with potentially a collective certification that the standards are met, rather than an individual certification of all standards being met by each trustee. Member trustees should not be expected/required to be experts initially but rather should be given sufficient time to develop in their roles as trustees. If there is a requirement for self-certification, consideration should be given to whether repeating the certification annually adds value.

Secondly, it is important to consider which aspects of the trustee model are most important, and to ensure that the standard-setting, and the measurement of trustee performance is most aligned with those aspects. For example, the ability of a strong trustee model to deliver value for money by negotiating fees or to deliver good member outcomes by reviewing investment manager performance, may be highly valued. We believe that any changes to the standards imposed on trustees, or to the certifications that trustees must provide, should consider issues of this type. For example, a certification that trustees had carried out a review of the charges in a scheme in the context of charges in the wider market, or a certification that trustees had carried out an assessment of the performance of the investment managers, may be more value-adding than certifications of knowledge or training.

We note that a number of schemes are paid-up or frozen, and that closure of those schemes may be hampered by the current legislative or tax environment. Simplification of the tax and legislative environment for pensions could provide some benefits in this area.

As a final comment in this area, we believe that if it is determined that changes in the trustee model for DC pensions are beneficial, it would be important to consider whether those changes would also be beneficial in relation to defined benefit (DB) pensions.

Regulation

The Board proposes the introduction of legislation requiring new schemes to satisfy the Board that scheme design and the trustees are fit for purpose before being granted approval. Older schemes could be given a time frame in which to comply with the provisions.

Do you agree with this suggestion?

It is not entirely clear to us what is meant by "scheme design". In broad terms we agree with the proposal to provide greater clarity over the standards of governance that would be expected of pension schemes, and within that framework the sorts of skills that pension trustees should have.

Extending the concept of approval of "scheme design" to include the structure of benefits and charges may cause considerable transitional difficulties for older schemes, and we believe that further analysis of this issue would be required.

However, we do not believe it is appropriate to have one standard for older schemes and another standard for new schemes. If schemes are required to meet a particular standard to be approved by the Board, we recommend that this be signposted in advance, with the new standards applying for <u>all</u> schemes from a date in the future. This will give existing schemes time to transition to the new standards, and many new schemes are likely to aim to meet the standards from inception, but it would mean a single set of standards applying in the market place.

While we agree in principle with the aim of regulation improving standards of governance we note the importance of taking the ultimate desired outcomes into consideration. Higher levels of regulation can lead to increased costs which, if passed on to consumers, can affect value for money. In addition, it would be important for additional requirements to be proportionate. The ultimate goal of providing good outcomes for members must be set against a backdrop of encouraging pension provision. Therefore, there should not be onerous regulation at the employer level; the employer should simply be required to select a suitable vehicle for contributions. The less onerous the requirements on employers, the more likely it is that employers will engage and set up schemes.

Investments

While it is important for defined contribution members to have investment choice, the options offered can be complex and default strategies not always suitable for the needs of members.

Do you have suggestions as to how we can ensure that defaults offered are appropriate and do not expose members to unnecessary and unexpected amounts of risk?

Would it be helpful if the Board produced practical guidance on the design and governance of default strategies?

The Society understands that the investment choices made during the DC accumulation period will have a significant impact on the retirement outcomes achieved. However, we believe that too much focus is given to investment choice in the DC discussion generally, with other important areas, particularly contribution adequacy and value for money, receiving less focus than they deserve.

In this section we comment on some of the areas where we think useful work can be done to develop the DC investments area – in particular, investment risk discussions, the nature of a suitable default fund and the level of choice made available to members.

Risk

Much of the investments-related discussion in DC is concerned with investment risk, and indeed this is a very important topic. However, there is often little clarity on what exactly is meant by risk in this context, or on the impact that risk can have on different members' outcomes.

"Investment risk" is typically quantified using some measure of the volatility of returns achieved over relatively short periods. Whilst this measurement of risk has the advantage of being easily calculated, and easily compared between investment funds , it is very limited when it comes to expressing the true risk for a specific individual member in a scheme.

Risk is not the same for all members, varying depending on a wide range of factors - e.g. their level of accumulated saving, other wealth and personal preferences, and most importantly the remaining time until their planned retirement date.

Members who are close to their retirement date have already saved a relatively large proportion of their ultimate retirement fund, and have limited time and ability to respond to investment related shocks. Conversely, younger members with a long period remaining to retirement have most of their pension saving ahead of them, and lots of time in which to respond to investment volatility. For members close to retirement, short term volatility can therefore be a significant risk; for members further from retirement, the risk that the real value of savings is eroded by inflation may be more significant.

It cannot make sense that the same generic measure of risk should be used for all members. Therefore, a useful measure of risk in DC must take personal circumstances into account – in particular the time remaining to the DC member's planned retirement date.

In our view, a more suitable and productive measure of investment risk would reflect the impact the particular investment option has on the level and range of volatility in expected retirement benefits, and the likelihood of achieving the target benefits.

Such a measure would support very different investment choices by members at different stages of the savings cycle. For example it might illustrate that a very cautious 'cash' investment strategy actually represents a high risk investment approach for a younger DC scheme member – because it makes the achievement of a satisfactory retirement benefit outcome very unlikely.

Default investment strategy

Trustees of DC schemes are required to set a clear default strategy to be used by those members of their scheme who do not wish to make their own investment choice, for whatever reason.

Some commentators are of the view that high usage of the default indicates low member engagement in a scheme. The Society does not agree with this view. Trustees work hard to choose a suitable default, and often take expert advice in reaching their decision. It is reasonable for many members to use this option, given that most are unlikely to have access to more expertise or time than the trustees and their advisors.

In practice, most members in DC schemes use the default option, and therefore this is a key area for trustee, provider and policymaker focus. We believe the default strategy should satisfy the following key principles:

- Low cost
- Reflect individual member's term to go
- Reflect individual member's likely benefit mix at retirement (including benefits that may be with other providers).

Research carried out by the OECD in relation to default investment options supports lifestyle strategies – see 2010 paper entitled "Assessing Default Investment Strategies in Defined Contribution Pension Plans".

In practice, the cost of any investment option is driven by the underlying costs associated with the asset classes and investment approach being used, and by the competitiveness of provider charges. Trustees must satisfy themselves that any excess cost is justifiable.

The providers in the market offer a range of structures that can be used as a default investment strategy – at a high level these can be grouped as individual funds, target date investment strategy funds, and lifestyle investment strategy solutions.

Pensions Board guidance suggests that the default should reflect the nature and duration of the liabilities. Moreover, as discussed earlier, the reality is that investment volatility becomes less palatable for members as they approach their planned retirement date. Therefore, a single fund solution seems inappropriate as a default strategy for a DC scheme because it cannot be equally effective for members of different ages.

The ‘target date’ and ‘lifestyle’ solutions both have the flexibility to manage down the level of exposure to investment volatility over time, acknowledging that the impact of investment losses becomes more serious for members as they get closer to their planned retirement date. Therefore, these solutions have the potential to adequately reflect each individual’s term to go to retirement.

Close to retirement, both ‘target date’ and ‘lifestyle’ strategies seek to reallocate the member’s funds to a fund mix that is designed to minimise the volatility of the retirement benefits achieved. In many cases this is based on a blend of cash and bond funds, based on the retirement benefit mix of the average retiree.

In practice, the manner in which benefits are drawn down at retirement varies widely between members – for example, many members with relatively low levels of saving take most or all of their fund as a tax-efficient lump sum.

The lifestyle investment strategy approach can bring extra flexibility by varying its target asset mix depending on each individual member’s projected retirement benefit mix – giving this approach some attractions relative to the target date approach.

In response to the specific question on whether the Board should produce practical guidance on the design and governance of default investment strategies, we believe that, given the importance of default strategies, any practical guidance would be helpful; however, it should be principles-based.

Fund choice

Trustees are responsible for choosing an appropriate range of funds to be made available to members of the scheme for which they are responsible.

There is general agreement that DC scheme members become confused if faced with too many fund choices. Therefore in most cases it seems that a range of 5-6 funds, selected to offer useful alternatives to members who choose not to use the trustees’ default strategy should be more than sufficient. It may be possible to facilitate a wider selection of funds in limited circumstances (for example where members certify on an individual basis that they have the knowledge or expertise to invest in a more specialised range of funds).

Trustees should be satisfied that members will be able to easily access the information they need to assess the suitability of the fund choices available – and should also consider the appropriateness of offering higher price funds in their scheme. Members who select these alternative funds should make these investment choices themselves (or with independent advice) – trustees should not be expected to take any responsibility for suitability, but should be responsible for ensuring that assets are secure and that the relevant investment vehicles offer reasonable value for money.

Disclosure

Many members do not understand enough about their pension schemes to make informed decisions. Information given often has a legal purpose, with sometimes too much information given, and is not necessarily structured so that members are clear how it should be used to make decisions.

How can member information be improved to ensure that it is accurate, clear and understandable and enable members to make informed decisions about their retirement savings?

How can costs and charges borne by members be more clearly and transparently communicated to them?

We understand that there is no shortage of information sent to members of DC plans, however there are question marks over the effectiveness of the communication in creating understanding and member engagement. There should be a clear distinction between communication and information.

Our view is that the annual benefit statement is a compliance-driven document that provides useful information – unfortunately, however, some key messages (funding adequacy, investment suitability, value for money) can often become lost in the detail. One possible approach is to have a simplified annual benefit statement, similar to a bank statement, that gives very clear information about opening and closing balances for the period, with the changes in these balances broken down between contributions, investment performance , tax, levies (if applicable), benefit payments and charges. This statement would provide contributors with important and clear information. Communication with members would be separate to the annual benefit statement and could follow the approach set out below.

Target

In our view, it is difficult to communicate or engage effectively in the absence of a clear retirement benefit target. The target should be set at a level that is achievable for the member, while also being a sensible level of benefit to sustain a reasonable lifestyle in retirement. Each member's circumstances will be different, so the target cannot be 'one size fits all'. Managing the target will be complex, due to the interaction with, for example, state benefits, other deferred benefits, marital status etc. Therefore, the target needs to be set at the individual member level. We suggest that the target could perhaps initially be a function of the contribution rate, with members having the ability to set more suitable targets given their personal circumstances. Targets can be set in monetary terms, or in percentage of salary terms – and the merits of both can be debated.

It is useful to work back from ultimate retirement benefit targets to set interim targets, so that members can assess their progress along the journey towards their planned retirement benefits.

Communication principles

Once the member has a good understanding of his/her retirement goals, the challenge of engaging him/her in the DC plan becomes more well-defined. The Society's Defined Contribution Working Party has identified a number of key principles that can be followed:

- As with communication in any field, the more simple and uncluttered the message can be made, the more likely it is to be understood by members.

- Personalised messages reflecting the member's own circumstances will generally have a higher impact than generic messages. A number of opportunities arise to produce personalised messages in the DC area, for example significant birthdays, birth of children or career events.

- Stage of retirement saving journey – the messages that are relevant to younger members starting off their DC saving are very different to those that are relevant to members approaching retirement.

- Well-designed graphics can be very helpful in conveying complex messages.

- Providers should continually strive to improve the quality of member communications. However, there is also a responsibility on members to commit sufficient focus and attention to ensure they understand the issues they face in planning successfully for retirement.

Key messages

As noted above, it can be argued that the key messages can sometimes be lost within overly complex, compliance-drive documentation. In our view, there are three key areas where high impact communication can have a big effect on outcomes for members:

- <u>Funding adequacy</u>

  Members currently receive a Statement of Reasonable Projection (SRP) on a regular basis. It can be difficult for members to interpret the SRP, and to understand how and why it varies from year to year.

  Moreover, the SRP presents the projection in isolation, without highlighting progress against any target retirement benefit – be that personalised or generic – and most SRP documents make little use of graphics or colour to help emphasise important messages.

  A more effective SRP might link to a specific target benefit mix each year, and highlight actions that might be taken to keep on track, if necessary.

- <u>Investments</u>

  The investment disclosures members receive tend to be heavily focused on the performance of the various investment options over different time periods. As noted elsewhere in this response, investment risk information tends to be based on simple analysis of fund price volatility.

  Whilst this approach allows for comparison between funds, it is of little use to members in understanding whether the investment approach they are using is consistent with the retirement benefit targets they are aiming for.

We would argue that what members really need to see is whether the investment choice they have made is consistent with the retirement goals they have set.

Taking the above two sections together, the member can assess whether their funding and investment strategies are consistent with delivery of their retirement benefit goals – and if not, to either re-plan their retirement goals or take appropriate action to align the funding and investment strategies with the retirement goals.

- <u>Value for Money</u>

  Trustees play an important role in ensuring that the members of DC plans receive good value for money. Notwithstanding that, however, it is important that members receive adequate disclosure to allow them to understand the charges they are paying and assess their competitiveness in light of the services they receive.

  Pension scheme charging has generally become less complex over the past 15-20 years – however, it remains an area that is difficult for members to understand. It would perhaps be useful for the Pensions Board to provide benchmarks here that would give members comfort that the charges they are paying are competitive.

Value for Money

Trustees need to be demanding consumers on behalf of their members especially where smaller schemes, which do not benefit from economies of scale, are concerned.

How can trustees be supported/educated to ask the right questions about the different costs and charges incurred by their scheme in order to enable value of money comparisons to be made and to assess the fairness to members of the costs and charges?

As set out above, trustees play an important role in ensuring that the members of DC plans receive good value for money. Notwithstanding that, however, it is important that members receive adequate disclosure to allow them to understand the charges they are paying and assess their competitiveness in light of the services they receive.

In our opinion, value for money depends on:

- the fees incurred by the scheme,
- the quality/level of services being provided to the scheme for the given fees, and
- the outcome for members given the level of fees incurred.

With transparent cost information (including the commission payable to advisors), trustees would be empowered to make choices around quality and service relative to the fees being charged.

Where members achieve poor outcomes from schemes (for example, pensions that fall far short of targets or expectations), they will not perceive that they have received value for money, regardless of the level of fees that have been charged. Similarly, where members receive good outcomes, concerns over value for money will be less likely to arise.

We believe, therefore, that it would be misleading to direct trustees to focus solely on fees – it is equally important that trustees also take the quality of services into account. Notwithstanding this, transparency and comparability of fees are important elements of value for money, and facilitate confidence in the pensions system.

Comparison of fees

For trustees to properly assess whether they are getting value for money, they need to be able to easily compare the fees incurred by their scheme relative to other schemes that avail of similar services.

We understand that this is not straightforward to achieve, given that within any service offering there could be a wide range of service types/levels. However, we suggest that trustees should be aware of the services included in the charges incurred by the scheme.

Given the potential complexity for trustees to make comparisons of this nature, we believe that trustees would benefit from Pensions Board guidelines/training setting out the factors that should be considered when assessing value for money. We suggest that the guidelines should not focus solely on fees, but should also consider quality and service as well as the ultimate goal of promoting good outcomes for members.

Pension scheme charges have received a lot of press following the publication of the Report on Pension Charges issued by the Department of Social Protection published earlier this year. Whilst it is important for schemes of all sizes to have fair charging structures, it is critical that members understand that contribution adequacy remains key to ensuring that they receive a level of pension in line with their expected lifestyle at retirement. The Society's opinion is that the emphasis should be on ensuring satisfactory member outcomes as well as on the level of fees.

The complexity of the current pensions system is a significant driver of costs. In such a complex environment, the cost of ensuring compliance with pensions rules and regulations accounts for a significant portion of the administration charge. We believe, therefore, that simplification of the pensions system has the potential to result in significant cost savings.

Please direct any comments or queries about this submission to:

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