



Submission form

Consultation on codes of governance for defined contribution schemes

Please add your responses into this form.

Send your submission by Tuesday, 16 June 2015:

- by email to: mbroderick@pensionsauthority.ie
- or by post to: Mary Broderick, Policy Unit, The Pensions Authority, Verschoyle House, 28-30 Lower Mount Street, Dublin 2.

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No:	Questions
1	Are there any issues not covered in the codes at this point which you think should be?
2	Does the level of guidance included in the codes provide sufficient details to assist trustees in the effective governance of their schemes?
3	Do the codes contain enough practical guidance on the standards and competence that the Authority expects from DC trustees?
4	Have you suggestions on how we could improve the codes?



Question 1. Are there any issues not covered in the codes at this point which you think should be?

The Society believes that the Authority should give consideration to covering the following areas:

- Contribution and benefit adequacy: we think there should be more emphasis on this, most likely within the Code on Communications and the implications of low contributions and small funds. While acknowledging the potential for conflicts of interest for employer appointed trustees, ways of achieving this would be a requirement for an action plan to promote membership within the eligible employee body (if membership is voluntary) and to encourage and highlight the advantages of making AVCs. Related to this point and the Investment and Communication codes is the potential for poor outcomes if members with medium to long investment term horizons choose particularly conservative investment options such as a cash fund.
- Given the expansion of member options, notably the access to ARFs in respect of the full fund and associated different retirement lump sum regimes, we believe there should be a separate code dedicated to managing the benefit decision. This would involve details around communication to the individual members at appropriate intervals before retirement, providing access to independent financial advice or at least providing details of recommended financial advisors.
- Finally, we think that a separate code dedicated to managing deferred members should be considered. It could cover items such as:
 - Maintaining contact
 - Whether different expense charges should apply
 - Options for transferring out.

Question 2. Does the level of guidance included in the codes provide sufficient details to assist trustees in the effective governance of their schemes?

In general, yes, although as noted under Question 1 there are a number of key areas of omission that we believe could be added to the codes. On the other hand, our view is that there is too much emphasis throughout on the need to have all processes formally documented in a Service Level Agreement – which for smaller schemes in particular may add significantly to the governance burden without necessarily improving the quality of governance to a material degree. The danger is that while a scheme may be functioning very well on short term operational matters, it may be weak or lack focus relative to more strategic longer term objectives – essentially the trustees should be asking themselves whether they understand their members' expectations at retirement, whether those expectations are reasonable and whether their contribution and investment choices are consistent with delivery of those objectives.

In terms of the individual codes, we would make the following recommendations around points of detail that could assist in the effective governance of schemes:



Code 1: Trustees should be encouraged to establish and maintain a master file or repository of scheme documentation, policy documentation, meeting minutes, member booklets, etc.

Code 4: The wording "hear reports from investment managers" should be replaced with a recommendation to review investment performance and assess the appropriateness of fund choices and investment managers. Many well-governed trustee groups have recognised that listening to reports from investment managers is often not effective and therefore they no longer routinely invite investment managers to trustee meetings. Instead the focus should be on effective oversight of the investment arrangements.

Code 5: In relation to ensuring the timely remittance of contributions, the suggestion to "prepare, maintain and revise if necessary a scheme payment schedule showing..." could be replaced with a broader recommendation to ensure appropriate arrangements are put in place to ensure the timely remittance of contributions.

Code 6: Trustees' attention should be drawn to the need to ensure appropriate insurance of life assurance benefits and robust processes in relation to medical underwriting where required.

Code 7: Trustees' should be encouraged to remind members to keep letters of wishes up to date.

Code 10: In many cases, particularly in the case of smaller schemes, trustees have limited ability to re-design standardised communications materials produced by providers and/or there may be cost implications associated with bespoke materials. We believe this needs to be recognised in the code.

Code 11: We agree that communicating all costs is essential and suggest that, in terms of asset-based fees, trustees be encouraged to focus on total expense ratios as well as headline annual management charges. In general, provided charges are clearly and regularly communicated, we would not see the need to "Develop a communications action plan on pension charges".

Question 3. Do the Codes contain enough practical guidance on the standards and competence that the Authority expects from DC trustees?

General comments

The Society welcomes the introduction of these codes but adherence to them without significant levels of support is likely to be possible only by trustees of those schemes with sufficient resources of experience and finance.

The vast majority of DC schemes will be small both in number of members and assets. A potential outcome is that, if full compliance with these Codes is made the sole responsibility of the trustees (and will ultimately be subject to annual self-certification of compliance), such schemes will be terminated and, hopefully but not certainly, be replaced by contract-based products.



It may be preferable to have a modified compliance regime applying to smaller schemes which might be determined to be those with less than 100 members (actives and deferreds) AND less than €5 million in assets. Research should be undertaken as to whether these levels are practical in terms of numbers of schemes subject to the full compliance regime.

An alternative to a modified compliance regime (and we recognise that it is difficult to justify why individual members, who happen to work for smaller entities, should have lower levels of protection because smaller schemes are granted a lower governance bar), is to provide an ability for trustee groups to document why full compliance was not possible. The Authority might consider this sort of "comply or explain" pragmatic approach when formulating its policy on the "Annual Compliance Return" mentioned in the introductory section to the Codes.

Specific comments

As a result of the introduction of the Codes, it is likely that providers will introduce governance packs into their offerings to assist trustee groups in meeting the expectations of the Authority in this area. To a large extent many providers already offer strong support to trustee groups in adhering to the principles encapsulated in the Code and the industry can be expected to efficiently evolve to new requirements.

We suggest that the Authority consider permitting smaller schemes, as defined above, an option of delegating compliance with certain codes to a provider. For example certain codes such as 6 & 8 are conducive to full delegation, others trigger a monitoring requirement only (codes 5 & 7) while trustees should not be able to delegate responsibility for the codes relating to monitoring of investment performance, value for money and conflicts of interest. This approach would facilitate a somewhat less onerous modified compliance regime for schemes with constrained resources. Confirmation of compliance with any delegated codes must form part of the administration report provided to the trustees and trustees would, subject to the agreement of the provider, have the option of retaining responsibility for any permitted delegated code should they so wish.

To assist trustees with complying with codes for which they must retain full responsibility, trustees will need access to easily understandable reference data.

- Investment performance statistics are readily available while total expense ratios, encompassing headline annual management costs (AMC) and other investment related costs, must be made available from investment managers.
- Where Registered Administrator costs are passed through to members by deduction from retirement accounts, guidance as to market averages by scheme size (members and assets) needs to be available; this is not necessarily an issue where the sponsor meets costs directly. However, a related point, as highlighted in the DB Financial Guidelines, is that where the employer bears some or all of the costs of running of the

scheme, there should be a written agreement between the trustees and the sponsoring employer(s) setting out the terms, including any restrictions on the freedom of trustees to incur costs.

In respect of tools, it would be useful if a conflicts of interest policy standard could be made available to trustees. It would also be useful if sample versions of such of the other governance documents (e.g. risk register, annual business plan/calendar of events) could be made available or alternatively, the Pension Authority could endorse documents prepared by other non-commercial bodies.

In respect of ensuring a default investment strategy (DIS) is provided we agree that this needs to be accepted by the trustees. However we believe it is reasonable for the trustees to delegate the formulation of a DIS to the provider who will base their advice on verifiable analysis of inputs such as time to retirement, members' attitudes to risk and the form and amount of the benefit decision. Such analysis will be based on studies of the provider's client bank of similar type schemes and industry research.

In our opinion, quarterly Trustee meetings may be appropriate for certain schemes e.g. larger schemes. However, this may not be the case for all schemes and perhaps certain operational matters could be better dealt with at sub-committee level, thus freeing up trustee meetings (held on a less frequent basis) to focus on more strategic matters. Smaller schemes could formally meet less frequently, but should receive quarterly administration and investment reports so they can convene "ad hoc" meetings if necessary.

Question 4: Have you suggestions on how we could improve the codes?

We have highlighted above in our responses to questions 1-3 areas that could be reviewed or other issues that are not explicitly covered in the codes.

Overall we are positive on the format and layout of the code. While we acknowledge that the opening section clarifies that the layout does not indicate their order of importance and that the code is structured deliberately to establish a governance framework for other areas, we suggest that the codes relating to the key areas of investment and communication be given greater prominence. Perhaps consideration could be given to grouping the codes in some way, for example, in the following 5 key areas with appropriate sub categories:

- Governance & Risk Management encompassing codes 1-4
- Administration matters encompassing codes 5-8
- Investment – code 9
- Communication – code 10
- Charging structure encompassing codes 11-12.