Society of Actuaries in Ireland

## Investment Approaches for Automatic Enrolment

In our submission to the Strawman Public Consultation in November 2018, we noted in response to Section 4.5 which set out the proposals in relation to Investment Options that *"investment is an area that requires considerably more analysis and debate before the final AE framework is developed."*

We would be pleased to discuss with the Department of Social Protection and Employment our views on the most appropriate approach to be adopted for the default fund which is likely to be used by the vast majority of savers.

We believe that the investment strategy for the default fund [for contributors with at least 10 years to go to retirement age] should:

- Focus on investment in real assets, primarily equities

  In order to provide an acceptable level of retirement income, it is necessary to achieve a reasonable real return on contributions paid, which is unlikely to be obtained from investment in low-risk assets. For a long-term investor, volatility in returns should not be a concern, although communication to members in years when markets have performed poorly will need to be carefully managed. As the member nears retirement age, the strategy adopted will need to be adjusted to provide for the withdrawal of 25% tax free cash, and the purchase of an annuity if this is the member's preference, so a phased move into cash and bonds would be appropriate in such cases. However, we would caution against beginning the reduction in the equity portfolio too early and losing the additional return expected, as the increase in the fund from even a small risk premium could be significant at that stage.

- Facilitate continuation of some equity investment for a period post retirement

  Members should be able to purchase an annuity to provide for guaranteed pension income in retirement, but should also have the option to keep the balance of their accumulated fund, after taking tax-free cash, invested in an appropriate vehicle (e.g. an ARF or a similar in-scheme facility). As members may expect to live for twenty years or more post retirement, we would recommend that they continue to invest a proportion of their remaining funds in real assets for a period after retirement to continue to receive the benefit of the expected higher returns on such assets.

- Comply with appropriate sustainability criteria

  We believe that all long-term investors should adopt a sustainable investment strategy which meets appropriate ESG (Environmental, Social and Governance) criteria. It is likely that an increasing proportion of investments in DC schemes will be invested in a sustainable manner as most investment managers now offer and promote such funds. Although there have been concerns expressed about "greenwashing" i.e. labelling funds as ESG compliant when they do not meet appropriate standards, these are likely to diminish as EU standards become the norm for labelling and rating such funds.

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