



Citizens Information Board Submission to Pensions Board on defined contribution pensions

The Citizens Information Board (CIB) recognises the importance of encouraging people to contribute to occupational (and other private) pension schemes in order to ensure an adequate income in retirement. While tax relief on pension contributions is the principal way in which the State provides such encouragement, it is also very important to ensure that there is public confidence in the pensions industry. Good regulation is one way of improving this confidence. The CIB therefore welcomes the Pensions Board's focus on improving the regulation of defined contribution schemes.

The CIB has already made a submission on the *Report on Pension Charges* and considers that the issues raised there are applicable in this context.

Below, we set out answers to the specific questions raised. There are a number of general issues which the CIB also considers relevant.

Role of different regulators

As well as the Pensions Board, the Revenue Commissioners and the Central Bank have significant roles in different aspects of pension regulation. The CIB would like to see greater co-ordination between the three bodies in order to ensure overall better regulation. For example, trustees are subject to Pensions Board and Revenue rules and these should be the same set of rules. The Central Bank is setting standards for the financial services industry generally and the rules for pensions should, at minimum, be co-ordinated with these. The Central Bank is the regulator of personal pensions and it seems to the CIB that broadly similar rules should apply to all pensions.

Possible introduction of an auto-enrolment system

Any changes to the regulation of defined contribution schemes should take account of the intention to introduce an auto-enrolment pension arrangement. While no details have been

agreed and no date has been set for this, it would seem sensible to ensure that any change would facilitate the introduction of such a scheme.

The trust model

The request for submissions states that the Pensions Board favours the retention of the trust model. The CIB considers that it, and other possible models, should be examined as part of this overall review. It may be that such an examination will conclude that the trust model is the most appropriate but the problems associated with it should be clearly recognised.

The law on trusts is mainly common law and it is quite difficult to establish that a trustee has breached the trust. On an immediately practical level, it has to be recognised that the imposition of greater requirements on trustees, while clearly desirable, is likely to result in a reduction in the number of people willing and able to serve as trustees.

Proliferation of small schemes

The proliferation of small schemes does make regulation more difficult. The CIB agrees with the Pensions Board's view that it is not possible to adequately regulate a very large number of schemes and monitor the qualifications and activities of so many trustees.

It is difficult to see how the Pensions Board can prevent the establishment of schemes but it can certainly draw attention to the costs and risks involved and discourage the proliferation of smaller schemes. However, it would need to be sure that, by so doing, it was not doing a disservice to members of such schemes.

It is established that small schemes are more costly to run than larger schemes but the CIB is not aware of evidence to suggest that their returns are not as good. The proliferation of single member schemes and other small schemes is probably due, at least in part, to a lack of confidence in the investment strategies being pursued by pension fund managers. More information is required about the performance of small schemes and about the reasons people choose to be members of such schemes.

Specific questions

1. Trusteeship

The CIB agrees that there is a need to improve the quality of trustees. However, it doubts that self-certification is adequate. While it would be onerous and may lead to a reduction in the numbers willing to act as trustees, the CIB considers that some form of external certification and assessment is required.

Minimum standards for trustee knowledge, understanding and behaviour should be developed in conjunction with the Central Bank and the Revenue Commissioners. The Revenue Commissioners already require a stricter standard for trustees of small self-administered pension schemes. This standard should, at minimum, be applied to all pension trustees.

The Pensions Board should set out the standards which apply to trustees in a code of governance or other manner. The precise manner is not important but the enforceability of the standards is. So, any such code would need to have legal backing in the same way as the Central Bank's codes on mortgage arrears and consumer protection.

2. Regulation

The CIB agrees that legislation is required to ensure that standards are enforceable. Older schemes would have to be given some time to comply but this should be relatively short, say five years.

3. Investment

In practice, it is unlikely that most pension scheme members (other than those in small self-administered schemes) actually exercise any choice. The defaults offered could be subject to requirements that trustees have consulted widely and that the risks involved have been thoroughly assessed. There is no risk free investment choice but the trustees could be required to rate the risk involved and inform the members accordingly.

The guidelines set out in the *OECD Roadmap for the Good Design of DC Pensions* should be used. The Pensions Board could consider requiring that one option available would be a minimum return guarantee.

4. Disclosure

As already pointed out in the CIB's submission on pension charges, the language used by financial services providers is often unclear and inaccessible. Pension providers are no exception.

The depth of ignorance about pension arrangements among scheme members is clear from the *OECD Review of the Irish Pension System (Preliminary Version, April 2013)* which shows that almost 14% of pension scheme members did not know whether they were in a defined benefit or a defined contribution scheme.

The Pensions Board cannot determine what charges are made but it can set out clearly and unambiguously the quantity and quality of the information which schemes must provide to members. Specific approval of such information could be part of the requirements for registering a scheme.

5. Value for money

The Pensions Board could require schemes to provide information on both charges and returns in a specific format which would be accessible to members. Templates could be developed showing precisely what charges are involved and what returns were received.