



Association of Pension Trustees of Ireland

The voice of the Professional Trustee

APTI Conference 2020 Chair Speech

Good afternoon Ladies and Gentlemen, Fellow APTI Members and Guests. Thank you for taking the time to attend APTI conference 2020. I would also like to thank representatives from the Department of Employment Affairs and Social Protection, Central Bank, Brokers Ireland, Insurance Ireland, Dublin Chamber of Commerce, Chartered Accountants Ireland, ISME for attending also. Our representatives from the Department of Employment Affairs and Social Protection have made the point that they are here as observers rather than guests, nonetheless we want to wish them a warm welcome and to let them know that we are always open to meet and exchange views with the department.

So, these are troubling times. As we speak, with the onset of the virus, there is a great deal of uncertainty about what the future holds in the short and medium term, in terms of public health, the markets, the global economy but still today we have an important opportunity to focus on the big pension questions. We believe that private sector pension provision is at a cross roads and we have been at the same cross roads for a number of years now. And in our view the likelihood of achieving solutions to pensions adequacy and coverage is becoming more remote as time passes. At this point I would like to add our support to the IAPF who have called for the appointment of a Minister for Pensions.

The primary driver for our crisis is a mix between increased longevity and zero interest rates. This is being further exacerbated in the medium term by international Central Bank action further cutting interest rates in a response to the crisis. The prospects for private sector pension savers securing income in retirement is becoming even more remote. And into this mix we have to make progress with a range of initiatives:

- The Consultation on Simplification and Reform
- The Consultation on Master Trusts
- The Consultation on Auto Enrolment
- The Roadmap for Pension reform
- Introduction of IORPII
- Secondary debate on tax reliefs for pension contributions.

APTI was founded as a technical association, to set standards within Self-Administered schemes, to liaise on behalf of our professional members with Revenue Commissioners and Pensions Authority. We are a group of indigenous firms of pension professionals. We are service providers. The majority of our professional members work in a fiduciary capacity with our clients, seeking to maximise their investment choices, using transparent charging structures and we seek the best outcomes. It is not in our nature to challenge our regulators but to consult with them for the good of our clients, private citizens. By and large, what we do works very well. We have increased our client numbers over the years and we enjoy a high degree of engagement with them.

However, with the introduction of a range of Pensions Policy initiatives, we believed that the time had come for us to make our own contribution, to add to the debate.

On the consultation **on Simplification**, our members' submissions made up a significant proportion of the total number of submissions made and of course APTI made its own submission. Our members collaborated and discussed these issues not just during working hours but on evenings and weekends leading up to the hard deadline set by the Authority.

We took the step to engage on these issues because we believe that we are doing the best for our clients and that, as stakeholders, as professionals, we are doing the right thing. We have expertise. We are immersed in what we do and we believe there is value in sharing our views.

Pensions complexity has arisen out of disjointed approach between all stakeholders; pension professionals, the regulators, the politicians.

In APTI we believe that **Simplification** is the key to reform. And we think that Simplification can largely be achieved under the current legal framework - that nothing new is needed if stakeholders, the pension professionals, the regulators and politicians, work towards the same goal which is to optimize the outcome for pension investors. It is well recognized that the historic lack of engagement between citizens and private pension provision has been largely due to complexity and a lack of transparency. Nobody is disengaged from the balance in their bank accounts. Pensions ought to be the same. We have shown that we can engage with our clients and we believe that others can learn from our approach.

May I draw your attention one example of the inequity which can result from unnecessary pensions complexity. I was asked to advise a client recently, a director who runs a small firm with 2 other co-directors. He is 54. His salary is 50k and he has just over €400,000 savings in his pension which although a lot of money would still only buy an income of C€9,417.20 pa. In the event of his death before retirement the max that fund can pay out is €200,000 and the balance would be used to purchase an annuity of perhaps €4,500 per annum. His spouse would lose all his accrued fund. He is uninsurable and he has no income protection cover. If he was invested in a PRSA, a Retirement Bond or if he was retired and was invested in an ARF, his entire fund would go to his estate. But for a variety of reasons, at this point he can't avail of those structures and so is a victim of this anomaly. With just a little willingness and a little effort, this simple and obvious anomaly, this unfairness could be rectified. Shouldn't this be an immediate focus for the interdepartmental group established to review this and other anomalies?

Following through on that theme, In APTI we believe that, Improved coverage should be achieved using existing structures. Why? Because they provide a significantly less expensive solution to the one being proposed and can be put in place immediately. Yes, we support Auto Enrolment but the idea of simplicity, again, should prevail. This is the main reason why we are not in favour of the **Department's Strawman** proposal for auto-enrolment. We do not see that the benefits of introducing yet another pension structure with separate distribution strategy, new method of tax relief, new parameters for investments, are essential for achieving the aim of increasing pensions coverage in this country. Again, with respect to the department, we suggest that we have the PRSA. It was introduced 18 years ago as a general-purpose pension vehicle to do what Strawman is proposing now. Government can introduce compulsory

contributions by adapting the PRSA. Perhaps give it an identity which will capture the imagination in the way the “Super Ann” has in Australia. All essential elements are already there, save for an agreement on contribution rates between employers and employees which is really a matter between the social partners. But action is needed, as every year of non-actions means further hardship for people without adequate pension provision.

I was very interested to hear Joanne Roche’s contributions on **tax treatment** within pensions. We are not against discussing tax relief on pensions; we acknowledge that all sorts of ways by which the Government spends money may be up for discussion.

However, this discussion or review must include the cost of the public sector pensions provision. Every year the Department of Finance publicizes the costs of providing private pension tax relief; at the latest count c. 2.6bn annually. To this figure however we must add the c.2.1bn which is the estimated cost of providing BIK exemption for public sector pension accruals. We are happy to discuss but only if we can discuss it all. There can be no sacred cows.

And then there is **IORPII**. Of course, we support its implementation but with the inclusion of a derogation for single member schemes which was granted at the introduction of IORPI. What happened should not have happened. We did not want to pursue this issue through the courts. We were left with no other course of action because of the absence of consultation with either the minister or the department. We expect with a new Government and Minister there will be room for consultation leading to an improved position for those SME's and the self-employed who wish to control the investment of their own pension schemes. Again, I would like to acknowledge and thank the representatives of the department for attending today. Please know that our door is always open to constructive discussions with the Minister of the Day and the Department. We want to act in common purpose with you so that we are all serving the interests of Irish citizens.

We believe that single member occupational pension schemes are not Institutions; they are pillar 3 schemes like personal pensions and PRSAs. Accordingly, when we, in APTI, consult with the new Government and the officials in the Department, we will be making that point. If further measures need to be introduced we will be available to consult to achieve an equitable approach to benefit SME's and Self-Employed, the back bone of Irish Industry,

our clients. But we hope it will not happen under the auspices of IORP II implementation.

Let's look at two key points which are important to our clients and our members.

IORPII requires that 50%+ be invested in regulated markets. Private Sector pension investors are worried that they cannot secure steady income. There is no regulated investment that can provide a secure return of even a couple of percent. Low risk regulated funds have failed to deliver due to low interest rates, management costs and hedging costs. Equity markets, as we have seen again this week, have become wildly volatile. Imagine that you are approaching retirement age and you are invested in a broad based managed fund which is dropping in value at an alarming rate - how would you feel? How much peace of mind would you have?

Many pension savers look to buying a property, to generate a rent which can underpin their retirement income, providing them with that peace of mind. Now, if you hold a fund of say €500,000, and you are obliged to hold half of that in regulated assets, that restricts you from investing in most parts of the property market. Under the current IORPII proposal, if a pension investor held property and wished to sell it and buy another, that would not be permitted. If a pension investor wished to move employment and was required to set up a new scheme, the property held in the previous pension could not be transferred to the new. This would not sit well with many pension savers.

And then there is the question of costs. We estimate that the additional requirements imposed by the Directive including the requirement for an audit would result in additional fixed costs per annum of c€3k. Insurance Ireland estimated that those costs could be between €3/5k per annum. And there would be no work around for life assurance employee pensions – that position confirmed by IAPF, Insurance Ireland and articulated by Irish Life at a meeting with the Dail committee on Employment Affairs and Social Protection earlier this year. And it would be up to SMEs and the Self Employed to foot the bill.

We do not see any benefit to individual members, particularly those who are trustees of their own schemes, to be subject to the Directive. And we are not alone. That view is supported by Insurance Ireland, IAPF, Society of Actuaries and others. We see that the imposition of the Directive, in its totality, on our clients, would be a great wrong. Again, we did not want to engage in the High

Court action last year but we had to. And we had to, because there was no consultation, no time out, no attempt at a meeting of minds. We would like to turn over a new leaf and we would welcome talks with the new minister and the department.

I would like to finish off now with some thanks. Thanks to our regulators and guests for attending. Thanks to our speakers for their excellent contributions. Thanks very much indeed to our sponsors, KPMG, Goodbody, ITC and TierOne. Of course, thanks to Robert Bourke solicitor, Martin Hayden SC, and Jack Thrakian JC for the way they have run the IORPII legal case to date. I would like to pay particular thanks to Wealth Options and Quest Capital Trustees Ltd. for being named on the case and finally enormous thanks to Paul Murray and Tommy Nielsen for their total commitment to and professionalism in managing the case on behalf of APTI and its members. They paid a high personal price to pursue this cause and I know I speak on behalf of all our members when I say we deeply appreciate their tireless efforts.

So that concludes our event. Thank you for attending. I hope you benefitted from today. I'd like to wish you safe home and all the best in the challenges we face ahead.