Notice of Intention to Conduct an Examination into Terms and Conditions in the Electrical Contracting Sector pursuant to Section 15 of the Industrial Relations {amendment} Act 2015.

An Alternative Scheme designed to provide Additional Choices for Pension, Life Cover and Health Benefits

Introduction

The Sectoral Employment Order (SEO) currently requires all pension schemes to conform to certain criteria – but these conditions are so restrictive that an employer MUST effectively join the one and only pension scheme that is currently available, namely the CWPS pension scheme.

We believe that in the interest of fair play and competition that Employers and Members must be given a choice of providers – and that Contracts of employment or Business Tenders/Contracts should not be conditional on the membership of that one scheme; that employers and members can choose which scheme and which fund/strategy is right for them.

Consumers need additional choices and options to ensure the best outcome for pension scheme members - and the freedom to choose for themselves.

Submission - Summary

We wish to make a submission to the Labour Court to introduce an alternative scheme to give members better choice - so that they can choose the provider of these benefits based on service levels, admin and fund charges and very importantly investment performance. These key elements will be proactively monitored against performance review metrics to assess the quality of the services provided – so that changes and improvements can be made, if and when required.

We will offer a new scheme with terms, benefits, and contribution rates no less favourable than those currently on offer – and employers and members will be given appropriate Financial Advice based on their own particular circumstances.

The basic structure of the scheme is likely to exceed that what exists already in terms of sickness pay, contribution rates and death benefit. We are in discussions with leading insurers to provide benefits that, at a minimum, will match those currently in place – and depending on the take up and age profile is likely to provide a higher benefit and/or a lower cost.

But crucially, Employers and Members will be allowed to choose the provider(s) and funds, in the same way that all other employers and members in the country can make that choice.

Key Features

There are a number of factors in designing the alternative pension arrangement which can improve members outcomes.

▶ Terms, benefits, and contribution rates no less favourable than those currently on offer

▶ Employers be given appropriate pension and financial advice based on their own particular circumstances, by independent, qualified, professional Pension and Financial Advisers.

▶ Future-proof – the new scheme will meet the requirements for a dynamic and mobile workforce and will satisfy the proposed requirements for the planned Automatic Enrolment when it is introduced into law.

▶ The scheme will not impose any restrictions, such as only accepting employers with minimum staff numbers or earnings.

▶ There will be a default investment strategy that is suitable for members who don't want to actively make their own fund choice.

▶ The scheme will also offer a variety of investment choices, as this can be important to certain members.

▶ There will be full oversight and measurement of the investment performance. The scheme trustees will set clear investment objectives and have a suitable process in place that allows these to be regularly monitored and reviewed, and will incorporate Environmental, Social, and Governance (ESG) factors into investment decisions.

▶ In addition giving members greater investment choice, we will also offer a competitive charging structure. In a Defined Contribution scheme, the benefits at retirement are based on factors such as the contributions made, the charges and the investment performance. It is therefore particularly important that members and employers understand the charges and investment performance - and can move to another provider if they are not satisfied that they are receiving a good investment return or value for money.

▶ We will monitor the administration and service delivery of the selected providers and Registered Administrators.

▶ The Scheme Trustees will have a written policy for engagement with members and employers. The policy will set out in detail the format and frequency of engagement with members and employers and a commitment to active engagement with members and employers. Employers and Members will be able to view information about their pension and its performance in a variety of accessible formats (e.g., online pension account information, pension benefit statements, projected savings). Through a DC portal, it will be possible for the Employer and Adviser to obtain high level scheme metrics, together with such other relevant information.

▶ The new scheme will maintain the highest standards of compliance with the Pensions Act and other relevant legislation and will meet all the Governance and Risk Obligations of IORPS II – with a robust system of risk management and effective internal audit functions.

▶ The new scheme will ensure that the trustees are responsible for prioritising the interests of the members and that they are proactive - with a clear and recognised separation of the roles of trustee and founder.

▶ A comprehensive Conflicts of Interest policy will ensure that there is active engagement on any potential conflicts - and they will be given significant consideration.

The Evolving Risk/Return Dynamics of Investment markets

Central bank intervention post the financial crisis of 2008 has sent yields on both government and corporate bonds to record low levels. This is true of all developed market investment grade government and corporate bond yields but particularly pronounced in Europe. At the time of writing, the US 10-year treasury is yielding 1.52% versus the German 10 year of -0.18%. The return on corporate bonds is also at record low levels, with the aggregate S&P Investment grade corporate bond index yielding 0.38%.

Not only are fixed income yields essentially zero, but the real return on these assets will very likely be negative after inflation. A further risk to holders of these fixed income instruments is rising interest rates. The price of these bonds will also fall as interest rates rise, unless held to maturity, further accelerating losses.

The CWPS investment policy was established at a time when an allocation to global fixed income could yield a safe 4/5% per annum, this is no longer the case. As a result, the lifestyle solution this scheme offers, whereby the assets are de-risked according to age, is no longer appropriate. The current asset allocation of the full scheme has over 43% of asset allocated to fixed income or cash which will be a negative returning asset for the next 5 – 10 years.

Past Performance

Chart 1 below shows the performance of the CWPS scheme against a selection of the medium risk funds chosen by a very large percentage of pension investors. We could only obtain the performance information for 2013 to 2019, as the performance is reported on a segregated age basis, we took an average of these individual performance.

As you can see, the CWPS fund has been underperforming versus comparable multi-asset funds. This is no doubt due to the overweighting of low yielding fixed income assets in the scheme. This problem can be seen in some other large pension schemes, whereby the returns of the overall scheme are hindered by the "de-risking" element for the older members.

Chart 1:

CWPS performance versus comparable risk funds

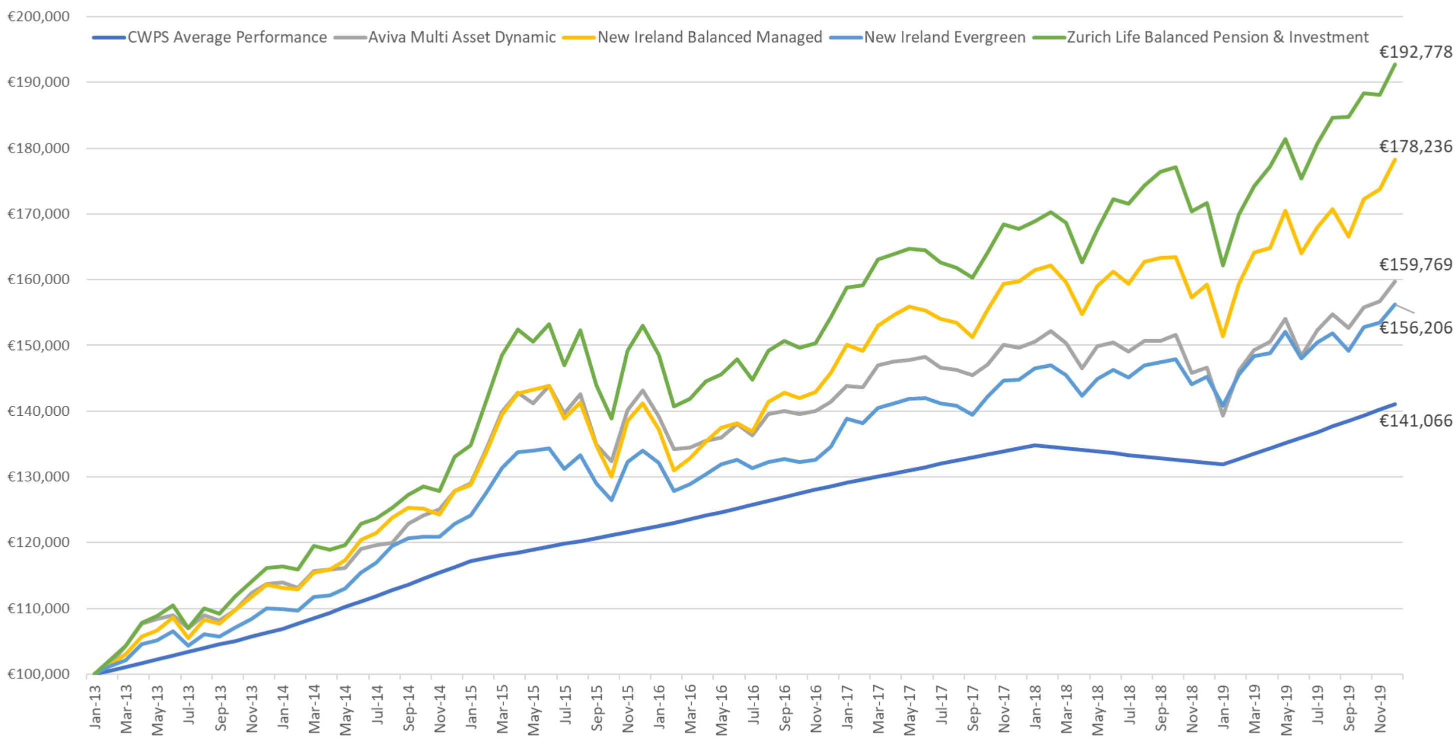
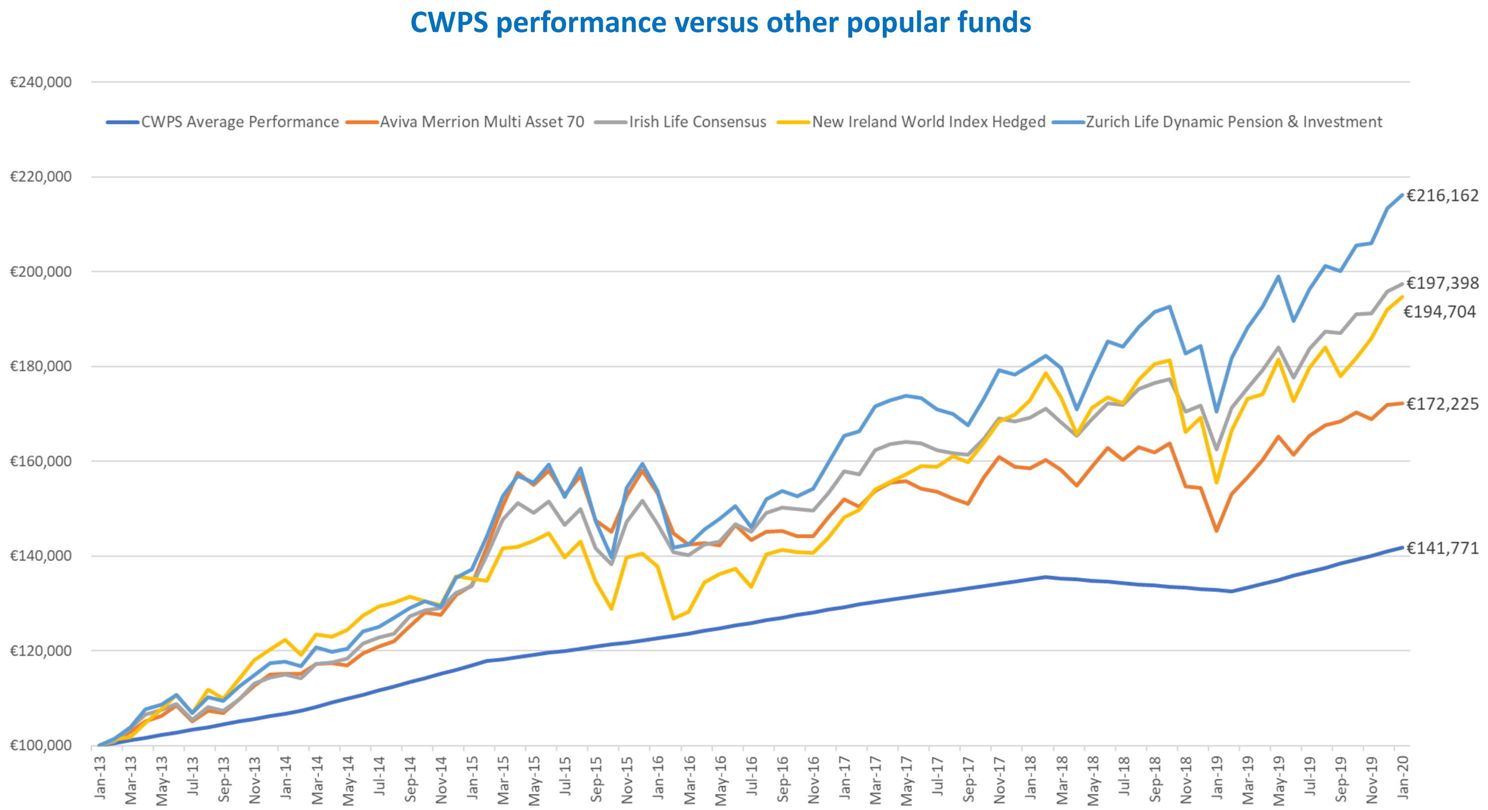


Chart 2 below also shows the performance of the CWPS versus a selection of higher risk funds chosen by pension fund investors. These funds are deemed to be higher risk due to their volatility and allocation to risk assets. It is most appropriate for these funds to be used for clients, in a pension structure, where they have a longer time horizon that 10 years. In other words, under the age of 55. This is not true for the assets in the CWPS scheme.

Chart 2:



The Changing needs and requirements during Retirement

Old age is being transformed; retirement is now seen as bringing a whole new lease of life, an opportunity to kick start new learnings and opportunities. Changes in personal retirement expectations are matched by changes in retirement planning.

However, deposits and bonds rates are at an all-time low - and consequently Annuity rates have fallen over the last 15 years. For many retirees it has not made sense for most consumers to be forced to buy an annuity and customers are now looking for alternative options.

The rise in popularity of Approved Retirement Funds (ARF)/Approved Minimum Retirement Funds (AMRF) as a more flexible retirement vehicle is obvious and they are now an integral part of the retirement conversation with scheme members.

What is clear about retirement is that it is becoming one of the most important financial decisions a person will make and one that should not be made without proper advice. Choosing an annuity is a once in a lifetime decision. Choosing an ARF is the continuation of a life of investing - people should not make a decision on either route without first seeking financial advice.

There are a wealth of useful needs analysis tools and calculators to help give members a realistic picture of what their retirement will look like. Most of these will inevitably (and in many cases correctly) recommend that members increase the amount they are saving to give them the best chance of having an adequate pot of money at retirement.

To de-risk or not!

Another element of the pre-retirement conversation will revolve around de-risking in the years leading to retirement. Traditionally, retirement savers would move from higher risk investments into lower risk options in the years approaching retirement. It was important to shield a customer's savings from market volatility before the purchase of an annuity.

In recent years we have found that the conversation with members is suggesting that an ARF might be the planned route for retirement, then the de-risking asset mix also needs to change. ARF investors are going to remain invested post retirement, so it makes sense to have a pre-retirement de-risking strategy take this into account.

ARF's also give great flexibility and options for inheritability – but as people get older, we understand their desire for stability and security – which is why all ARF-holders also have the choice to buy a defined benefit (annuity) - not just at the point of retirement but also in the future as and when markets offer the best rates.

At retirement, many members will feel that the annuity option offers poor value and would prefer the inherent flexibility of the ARF option. However, in later life for some, an annuity may become a viable proposition and, as annuity rates increase with age, the member may then use some of the ARF value to provide certainty of income in later life.

As part of any ongoing review, we will keep a watchful eye on annuity rates and possible changes to the members attitude to risk, and if appropriate, explore the option of converting some (or all) their ARF to an annuity.

Partnering with an institution of the size of, say, Zurich Life is more favourable than the CWPS as the capitalised value of such an institution dwarfs that of the CPWS especially when it comes to insuring benefits.

For example, Zurich Life Assurance plc (ZLAP) and is part of the Zurich Insurance Group – one of the world's largest insurance companies. ZLAP is regulated by the Central Bank of Ireland; its Solvency II Solvency Capital Requirement ('SCR') ratio was 129% at 31/12/2019. Zurich Insurance Group is regulated by the Swiss Financial Market Supervisory Authority FINMA. The Group's Swiss Solvency Test (SST) ratio based on standard yield curves allowed by the Swiss Financial Market Supervisory Authority FINMA was 186% at 31/03/2020 while the Group retains an AA- rating from Standard and Poor's.

Improved Member Outcomes

The stated objectives of the Pensions Authority include to the need to reduce the overall number of pension schemes operating in Ireland and improve Member outcomes – which they will achieve by Supervision, Compliance and Accountability – and by providing choice to the consumer.

In the most recent Annual Report (2019) from the Pensions Authority (published in July 2020), the pensions regulator notes that ***"..the purpose of the (IORPS) Directive is to improve outcomes for members.."*** the Regulator adds that there are **"*too many schemes that are not run to the standard that members are entitled to expect*".**

The Regulator points out that luck should not be a factor for members when it comes to how well their pension schemes are run and that there is no justification for a lower standard of care applying to retirement savings as opposed to any other type of savings.

In discussing the changes that the IORPS Directive will bring about, the Regulator states that trustees will need to "*satisfy themselves and the Authority*" that they have the expertise, commitment, and professional support to meet their obligations to members – and we feel that this can only be achieved by there being competition and choice for members.

Conclusion

Finally, as stated in our introduction, we believe that in the interest of fair play and competition that Employers and Members must be given a choice of providers.

Consumers need additional choices and options to ensure the best outcome for pension scheme members - and the freedom to choose based on important criteria.

Competition will result in better outcomes for members as it will lead to:

- Higher standards of service
- Higher standards of member communication
- Better value in terms of charges and service
- Greater choice of funds and returns which will result in better standards of living

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Clearchoice Investment Consultants:

The graphs and figures have been provided by Clearchoice investment consultants. Clearchoice obtain performance figures used in the graph from FE Analytics, a wholesale provider of investment fund data. The figures are reported net of performance fees and on a bid/bid basis. FE Analytics make best efforts to verify performance figures, but their accuracy cannot be confirmed as other charges and figures may apply. For any further queries in relation to the data used in this graph please contact Kristian@clearchoice.ie

Disclaimers:

Warning: The value of investments may go down as well as up.

Warning: Past Performance is not a reliable guide to future performance.

Warning: The underlying funds within the portfolios are subject to market volatility.

Warning: The income from investments may go down as well as up.

Warning: This document is based on our current understanding of revenue law and practice which is subject to change without notice.

E&OE

29/06/2021