*Response to the*

*Pensions Authority Fees Consultation paper*

*from the*

# Irish Association of Pension Funds

## Introduction

The IAPF has a number of general concerns in relation to the proposed changes to the Pensions Authority's fee structure as outlined in the Consultation Paper.

Firstly, these proposals come at a time when schemes are already facing increased costs that will arise from the introduction of the IORP II requirements. Many schemes have also incurred significant additional costs as a result of the introduction of the Central Bank of Ireland and ECB reporting requirements. Further reporting costs may arise once the ECB reporting requirements are implemented. Many employers currently pay the additional costs associated with running a pension scheme. However, the scale of cost increases means that they are less likely to continue to absorb these and the costs will reduce member benefits. Furthermore, many employers are facing economic uncertainty as a result of the impact of Covid and this, combined with additional pension costs, may cause them to question the feasibility of continuing pension provision for their employees.

The implementation of IORP II is likely to result in a significant change in the pensions landscape in Ireland in the coming years. It would be more appropriate to consider the fee structure once the nature of this change is more apparent. The number of Master Trusts in operation and the level and scale of consolidation that will occur is unclear and makes it very difficult to be precise about the impact of changes at this point in time. This is exasperated by the lack of detail on fees for Master Trusts and the "substantial" fee for continuing standalone schemes.

While the paper proposes covering all the costs of the Authority by raising fees from regulated entities, it does not provide any detailed breakdown of the costs of the Authority. Not all of those costs relate to regulation, and it is difficult to understand why members of pension schemes should pay for advice the Authority gives to the Minister for Social Protection or running a public information service.

The Consultation Paper states that "the greater the pension assets held by or on behalf of a member, the greater they benefit from the supervisory work performed by the Authority". It would be important that this can be demonstrated. We are unaware of the current interaction the Authority has with large schemes resulting in any recommendations or action required from those schemes. The scale of potential increases for some schemes is very significant, hundreds of thousands in some cases. It is difficult to see that the Authority would spend hundreds of thousands in any year on a single scheme. It also contradicts the current flat fee basis where the fee reduces for larger schemes. Consideration should be given to having a maximum fee for schemes that would be proportionate to the resource spent by the Authority on any one scheme.

Introducing an asset-based fee would also mean that the fees will be difficult to predict and may fluctuate significantly in times of market turbulence. There is no indication as to how the Authority will provide for decreasing fees and simply increasing the percentage of assets would not be reasonable.

The decision to effectively freeze the fees for public sector schemes seems unfair. While they are exempted from many of the IORP II requirements they still account for a very significant number of members of pension schemes in Ireland and it is clear from cases that end up with the Financial Services and Pensions Ombudsman that there are often issues with disclosure and calculation of benefits. Again, a more detailed breakdown of the activities of the Authority would provide an indicator of the proportion of time spent regulating those schemes.

The remaining issues we outline are areas where we feel more clarification is required or issues that could be considered further.

## Fee structure 'design'

- Has consideration been given to bringing Deferred/Pensioner members in under the current pricing model? What would that look like in a comparative 'flat fee' relative to a fund-based fee?
- The Authority also previously indicated it would categorise large DB schemes based on the level of risk and that would dictate the level of supervision undertaken. Is it intended to link the fee paid by those schemes to their categorisation?
- What facility is there where the Plan Sponsor may wish to continue to cover some or all of the ongoing Authority fee under the proposed fund-based model? (One would expect that would have to be flat equivalent annual fee due to administration overhead to implement otherwise.)
- What is the likely rate/range for the 'substantial' scheme charge suggested for single-trust schemes? Clarification on this would be an important aspect for those schemes that are deciding whether to continue on a stand-alone basis or move to a Master Trust.
- How does the Pension Authority see this proposed fee model aligning with Auto-Enrolment and expected 'all in' fee under that structure of 0.5%?

## Reporting

- How will schemes and members relate their proposed Authority fees to actual spend? What level of visibility and transparency will be available through Authority reporting?
- Value for money in any fee review is key and, particularly, in how fees paid by members of pension schemes are used. How will the Pension Authority ensure funds are discharged in the most efficient way for the betterment of members?
- Can the Authority provide further detail on likely fee/budgetary management where we see years of surplus/deficit due to positive/negative investment performance?

## Master Trusts

- The consultation paper flags that schemes in Master Trust will pay a higher free. Our understanding would be that Master Trusts would be easier to oversee from the Authority's point of view and therefore should be a lower fee.

## Implementation

- There will be a significant effort required for the Authority and the industry to bring in an asset-based charge on DC schemes at a time when schemes and service providers are already grappling with the implementation of IORP II.
- Does the Authority see potential for fee arbitrage on paid-up schemes? There is also a challenge to their fee/supervision structures given the significant assets under management.
- A similar point can be made on one member schemes, i.e. no short-term change to fees but many schemes can be more complex and have higher values.
- The Consultation Paper indicates that these changes are to be implemented from January 2022 but sent for approval in the Autumn of 2021. Most employers will have completed their 2022 budgets by that time and must be given ample time to plan for these potential increased costs where these are borne by the employer. It also leaves little time for the implementation of processes to deduct fees from member funds where the members will bear the costs.
- Due to the quontum of the increases envisaged, we would propose that any fee increases are phased in over a number of years.
- The paper proposes that fees for schemes subject to the five-year derogation would be unchanged for the duration of the derogation. This further complicates the implementation of any fees to be charged by having to categorise and segregate schemes in the short-term.

We would be happy to discuss these issues in further detail with the Authority.

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