

Building a robust scheme



Francesca Fabrizi speaks to Frances McNally, manager of Ireland's Construction Executive Retirement Savings master-trust scheme, about the latest developments within the fund



It's coming up to nearly five years since CERS was rebranded in June 2012. What were the initial aims and objectives of the scheme and have they changed over the years?

CERS provides low-cost, bespoke pension solutions to the construction and related industry sector. Our objectives haven't changed over the years but how we strive to achieve them has changed over time. The main CERS objectives are to provide members with adequate and sustainable income in retirement through promoting the benefits of making pension contributions, offering a considered range of investment choices, a low charging structure and preferential annuity conversion rates at retirement.

It also aims to provide peace of mind for employers and members through our independent and dedicated board of trustees, which provides strong governance. Transparent information (including charges) is provided in a clear concise format on our website, booklets, and information leaflets. Experienced pension consultants offer one-to-one meetings and annual staff presentations.

What would you say have been the biggest successes, and indeed biggest challenges, the scheme has experienced?

Both the pension and the construction industries have faced a challenging few years in the recent past, with the recession hitting the Irish construction industry and also the volatile returns in the markets at the same time, which both made administering CERS difficult at that time for us and also had an impact on our members.

The re-brand of CERS in 2012 was very positive for the scheme and since 2012 we have been concentrating on building awareness of CERS in the industry and continuing to engage with members. Member engagement and education continues to be a considerable challenge for CERS, and indeed for all pension arrangements. It may be improving slightly, with some younger members being more aware of the tax advantages of pension contributions, but overall people are busy working through their adult lives and saving for retirement is the last thing on their priority list until they start to think about retiring from age 55 and then it is too late.

How do you meet the balance of offering a good range of investment choices without confusing the members?

The investment objective of the

CERS default fund is to deliver superior long-term investment returns with below-average volatility by protecting the fund and by cushioning it against the severe falls in value that may accompany bond, equity and property bear markets.

The investment philosophy of the CERS trustee board is firmly based on their intimate understanding of the particular requirements of the CERS members. The members, quite rationally, demonstrate a lack of appetite for high volatility in their investment returns, given that construction industry employment is both highly cyclical and vastly correlated to business and investment developments.

The trustee determined, having observed the traumas inflicted on the construction industry and investment markets by the recent financial crisis, that the membership should never again be exposed to such adverse movements.

The CERS trustee developed an investment solution that is appropriate to member requirements, sensitive to evolving investment market conditions, truly diversified and balanced across the range of asset types and cost effective.

The trustee maintains a close relationship with members through ongoing detailed and informative communications with regular updates to the website and through fund factsheets. More formally, regular meetings are held with CERS consultants.

Members are given direct access to the underlying bond, equity, property, alternative assets and cash funds. These options sit alongside the default fund.

The multi-asset fund continues as an ideal default option. A lifestyling process is in place, designed to reduce risk as the member approaches retirement. An ARF lifestyle option is also available.

How are you addressing the ongoing challenges of both robust governance and effective member engagement?

CERS aims to engage and communicate effectively with its members to ensure they are aware of the importance of retirement planning. The CERS trustee board has a strong governance structure in place, with frequent meetings of both the board and investment sub-committee, and it has appointed experienced professional advisers to assist it in making informed and valuable decisions.

The CERS trustee has also appointed an experienced and highly-professional registered administrator (RA), which works closely alongside it for the benefit of the members. The trustee board fulfils their trustee training obligations and have a very strong understanding of the particular requirements of the scheme's membership, as well as having many years of experience in the construction industry.

The scheme is unique in that it is set up under a master-trust arrangement with a structure of sub-schemes for individual employers in the construction and related industries. This allows for the individual schemes to be tailored to meet the specific requirements of all their stakeholders, including whether DB or DC benefits are offered, and using varying contribution structure, while at the same time benefiting from the economy of scale efficiencies of being a master trust.

The trustee offers a dedicated CERS website that offers online

access for members, a bespoke pension calculator, access to scheme booklets and trustee annual reports, and a myriad of both CERS and general pension information. There is a dedicated team of pension consultants and administrators available to answer email and phone queries and annual presentations to members and one-to-one meetings are regularly arranged.

The trustee is committed to ensuring that the statutory and general communications that members receive are easy to read.

What do you think are the main challenges facing Irish pension funds today? For instance, is it increasing regulation or uncertain markets?

As I mentioned earlier, member engagement and education will be crucial if we are to try to reduce the effect of the looming 'pension time bomb'.

Increased regulation does affect how schemes are administered but the regulations are there to protect members. Within the current regulatory framework, we need to try to bring pensions back to basics and make pensions simple. We need to ensure that schemes and options available to members remain beneficial, relevant, cost effective and easy to understand.

Over time, 'pensions' and all the acronyms we use for all the different kinds of schemes and options, have created a complicated framework with different rules and regulations, which can be very difficult to understand and this only moves people further away from thinking about retirement saving.

And what other issues is the scheme facing?

Auto-enrolment first comes to mind. Employers are an integral part of the solution. Apart from the tax

advantages for them, many employers recognise the really important role that pension schemes play in recruiting and retaining staff. The introduction of auto-enrolment is fast approaching, where employers will be obliged by law to include their employees in a pension scheme. This is the system used in many countries, and was introduced in the last few years in the UK with good success. It is inevitably part of the overall pension solution in Ireland.

I think we will see different types of schemes in future. A recent report from The Pensions Authority revealed that Ireland has more pension schemes than any other country in Europe, even though some of these countries have 20 times our population. This makes no sense from an efficiency and cost point of view. I think we're going to see a move towards master-trust arrangements, like CERS, where there is an umbrella scheme, which lots of employers can then join and personalise their own arrangement to suit their company and employees.

Some employers may not be equipped with the necessary skills to be effective trustees. Worse still, some can end up conflicted between the rights of pension schemes members and commercial pressures they may be facing in their business. I think we will see a further move towards the establishment of independent, professional trustee boards as we have in CERS.

Finally, if we can simplify the whole area of pensions, focus on the tax advantages of them, perhaps widen the rules around transferring from one scheme to another and streamline the rules around drawing down benefits; this will all help to encourage member engagement and will go some way to ensure members are adequately covered when they reach their retirement years. ■