

IIPM Conference

The impact of fees on pension fund returns

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Agenda

- Key Messages
- Background to Bord Gáis Energy
- Bord Gáis Energy Pensions
- Investment Strategy and Fund Selection
- Fees
- Long-term impact of Fees
- Trustees role as Pension champion



Key Messages

1. Bord Gáis Energy's investment strategy and how we used our relationship with Centrica to negotiate a competitive fee for our members
2. The impact of fees and charges on the long-term returns for pension funds
3. The responsibility of trustees to champion the message of higher member contribution levels



Bord Gáis Energy

- BGE has operated in the Irish gas market for over 40 years and it entered the Irish power market in 2007
- In 2013 the Irish Government decided to divest Bord Gáis Energy and the company was sold to Centrica plc in July 2014
- Centrica plc is an integrated energy company with North Sea oil and gas assets, power stations and retail businesses in the UK (British Gas), the US (Direct Energy) and Ireland (Bord Gáis Energy)
- Centrica is also a FTSE 100 company and currently employs over 39,000 staff



BGE Pensions

- As part of the sale process, Centrica agreed to maintain the pension benefits provided to BGE staff
- Two new schemes were established
 1. A new Defined Benefit scheme for those staff members that already had DB membership
 2. A Defined Contribution scheme for DC members and any new joiners
- The Bord Gáis Energy Defined Benefit scheme has a membership of between 150-200 members and it is closed to new entrants
- The Bord Gáis Energy Defined Contribution scheme has membership of between 125-175 members and it is open to all staff and staff AVC's



Trustee Meetings

- The Trustees benefit from the support of our HR team and a Pensions specialist within Bord Gáis
- We also rely heavily on our pension administrators
- Trustee meetings are chaired by an independent trustee who also has experience of how Centrica operates its pensions
- The Trustee chairman is UK based and has brought into focus the importance of governance in the Board:
 - Risk Register for both schemes
 - Conflict of Interest Register for all Trustees



Investment Strategy & Fund Select

- **Defined Benefit vs. Defined Contribution**
 - Different selection criteria and risk profiles
- **Active Management vs. Passive Management**
 - Possible better returns weighed against lower management costs
- **Bonds vs. Absolute Return vs. Alternative Investments**
 - Given the very low return on fixed income, where could we invest in order to reduce our equity exposure and target a stable return?



Investment Strategy & Fund Select

Defined Benefit

- 50% Equities (FTSE World Index) – passive management
- 50% Absolute Return – active management

Key selection criteria:

- Sponsors risk profile
- Expected liabilities over the lifetime of the plan – quite a young age profile for a DB fund
- Diversification between asset classes
- Low management fees



Investment Strategy & Fund Select

Defined Contribution

- Equities (FTSE World) – passive
- Absolute Return – active
- European Bonds – passive
- Cash – passive
- Default Lifestyle Fund

Key selection criteria:

- Diversification between asset classes
- Management fees
- A flexible default option



Impact of Fees on Pension Fund Returns

Fees

- During the selection process Management fees became one of the key considerations
- Fee's were a key consideration for choosing a passive equity fund over an actively managed equity fund
- Furthermore we chose a fund manager that Centrica had already invested with
 - This allowed us to leverage Centrica's interest with that provider to achieve a lower management fee for our members
 - It also gave us comfort as Centrica has an investment committee that had reviewed and approved the Manager
- For diversification, and in order to target an absolute return within our volatility target, the Trustees chose an actively managed absolute return fund
 - recognising the value that active management brings this type of fund



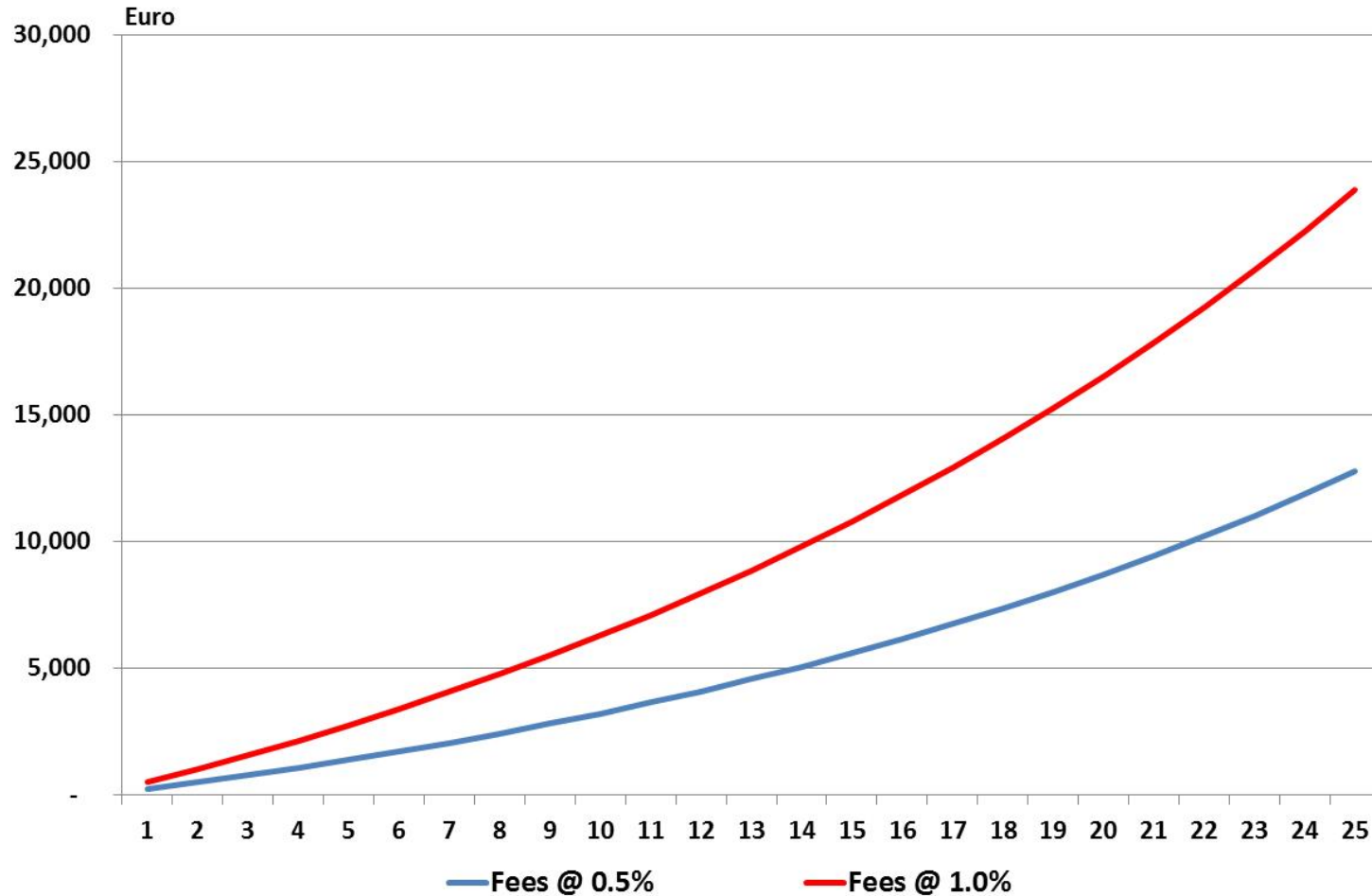
Fees – Long term impact

- In order to illustrate the impact that a small saving in management fees can have on a pension over time I have put together the following slides comparing funds with identical returns but differing costs
- One fund operates under a 0.5% annual fee while the other has a slightly higher fee of 1%
- I tracked the costs and returns over 25 years to see what the pensions are worth at the end of the period



Impact of Fees on Pension Fund Returns

Fees - Cumulative over 25 years

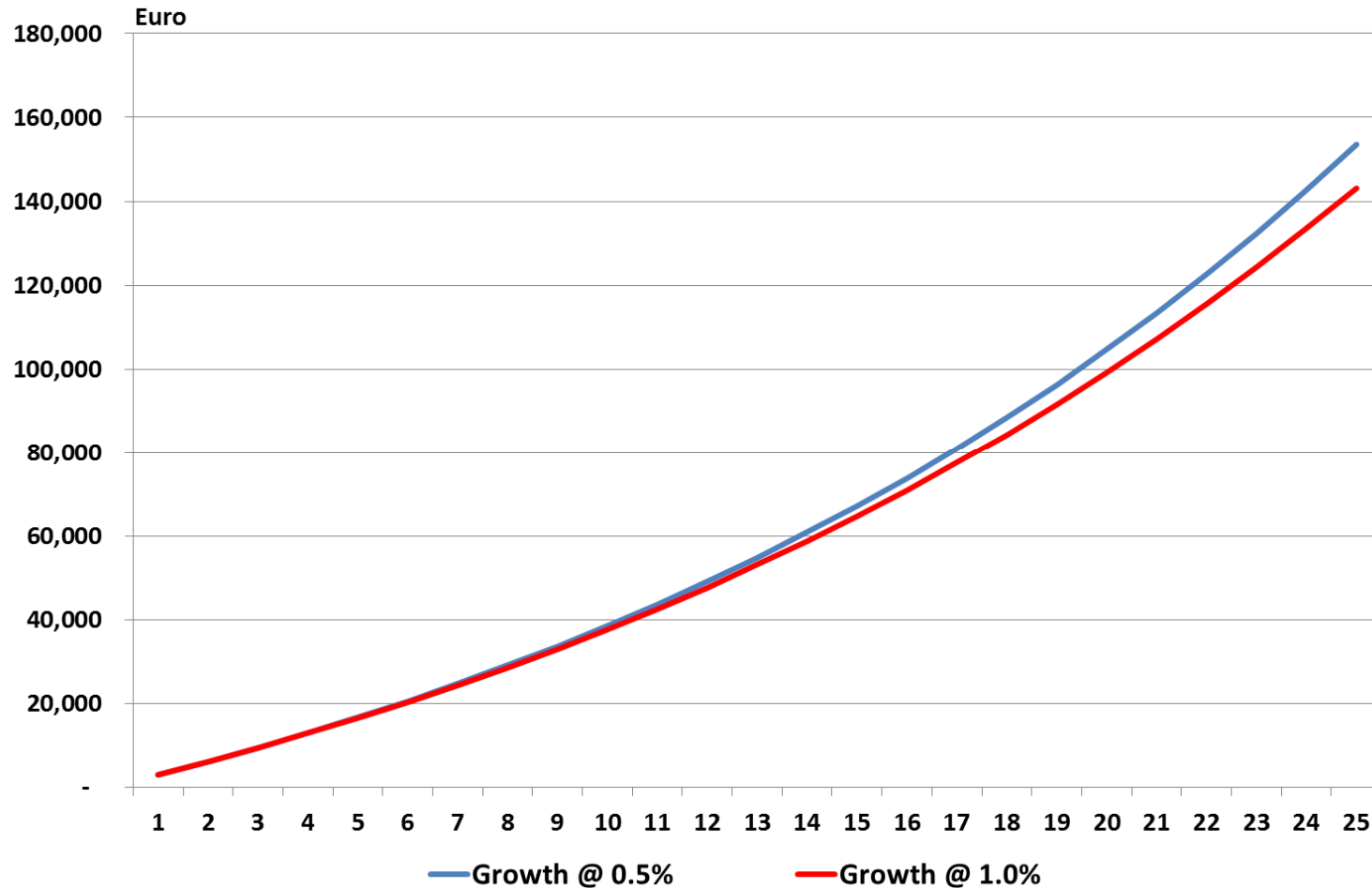


€50,000 fund growing at 6% per annum



Impact of Fees on Pension Fund Returns

6% Growth over 25 years

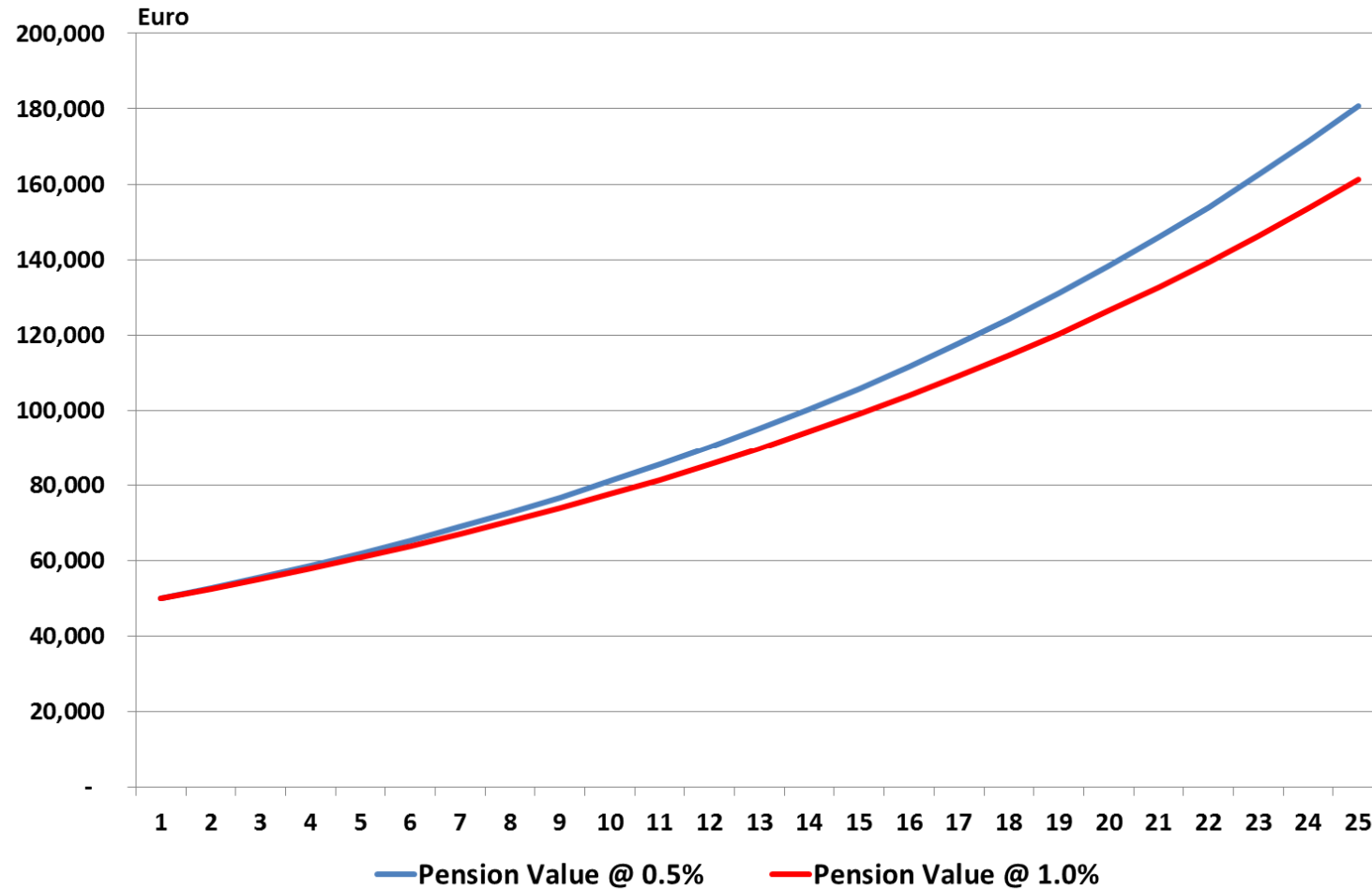


Growth excludes any additional contributions



Impact of Fees on Pension Fund Returns

Pension Value over 25 years



@ 0.5% = €181k

@1.0% = €161k



Impact of Fees on Pension Fund Returns

Results

- Difference in fees was €11,000 over the period
- Because the lower cost fund was paying out a lower fee each year, its capital growth was higher also
- Net impact on pension was about €20,000 over a 25 year period
- Key lesson was that management fees and charges have a large impact on pension returns over the long-term
- It's not just Management fees
 - If Trustees can influence their sponsor companies to pay pension levy's or other costs then it is of huge benefit to the members over time



Championing the pension

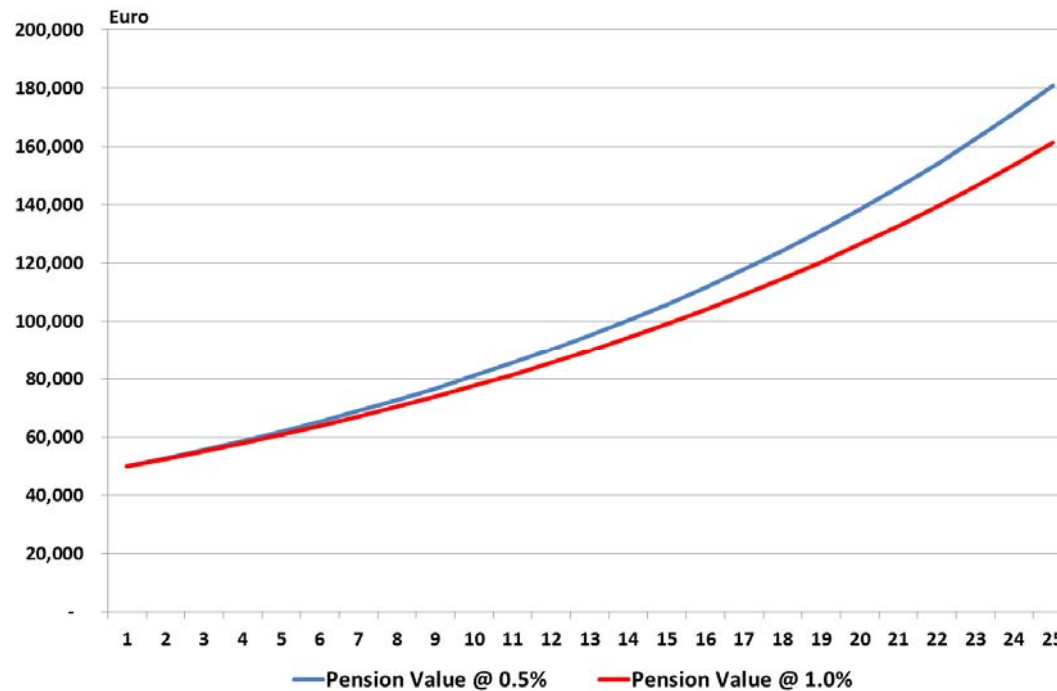
- My final lesson that I have learned since becoming a Trustee is that people don't really want to talk about their pensions
- Most members lose interest quickly when the subject is brought up
- However by using examples like that highlighted earlier or highlighting how the sponsor company could match your contributions, I have found that people can be more engaged
- It's something that most people know they need to look at but are too afraid
- This is where an employee appointed Trustee can help or encourage the person to become more aware of the benefits of a pension



Impact of Fees on Pension Fund Returns

Key Message

- **Keep any pension related fees as low as possible as they have a significant impact on returns over the long-term**



End

