

# IRISH ASSOCIATION OF PENSION FUNDS **PENSIONS QUALITY STANDARD (PQS)** FOR DEFINED CONTRIBUTION SCHEMES

EFFECTIVE JANUARY 2019



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# FOREWORD

## Background

As Defined Contribution (DC) pension provision becomes increasingly widespread there is a growing need for individuals to develop a better understanding of DC pensions, especially of the DC pension offered by their employer.

Too often, employees have only a vague idea of how much they need to save and the amount their employer is willing to contribute. Moreover, many employers say that their employees have a poor understanding of the pension offered and tend to value pension contributions less than take home pay. This is despite the fact that many employers dedicate significant time and resources to communicating the benefits of the DC pension they offer.

The IAPF promotes improved communication. If members do not understand or act appropriately at an early stage in their working lives this may result in unfulfilled pension expectations and extended working lives. As a result, the IAPF believes that appropriate education and information must be provided to ensure the reasonableness of member expectations.

While it is recognised that the responsibility for providing this is shared by the State, employers, trustees, pension professionals, representatives and individual members themselves, the IAPF want to recognise those pension schemes that attain a certain standard which reflects qualitative contribution, communication and governance strategies for DC Schemes.

## **The Pension Quality Standard**

The IAPF DC PQS offers key stakeholders in a DC scheme a number of advantages:

- The opportunity to promote the scheme/employer to potential and existing employees
- An additional tool to retain or achieve a competitive edge against similar employers
- A means to help promote better awareness of pension saving amongst employees and potential employees
- An extra way of building and enhancing the company's reputation with the public and consumers

An employer with or trustees of a DC scheme can apply for the PQS provided the scheme meets a set of core standards. Eligibility for the PQS is based on the pension scheme itself – not on the average pension provision of the employer.

Applications for the PQS will operate on the basis of self-certification against the core standards. These will then be assessed by the IAPF Office.

There are three levels of accreditation available - PQS, Merit, Merit Plus. Once a scheme has been accredited with the relevant PQS standard, the scheme will be provided with a certificate endorsing its attainment of the PQS and this can be used on relevant employee communications and pension's literature, including job advertisements etc. The award will be valid for three years and subject to reassessment at least every three years after initial accreditation.

## THE CONTRIBUTION STANDARD

The IAPF recognizes that many existing employers benchmark how their scheme operates relative to their peers. In accordance with this, and whilst also recognizing that members of DC Schemes need to have an adequate pension in retirement, the following contribution rates have been set as those which qualifying schemes will aim to achieve as a minimum:

AWARD STANDARD	NON CONTRIBUTORY SCHEME		CONTRIBUTORY SCHEME	
			Minimum Employer contribution	Minimum Employee contribution
<b>PQS with Merit Plus</b>	20%	or	15%	5%
<b>PQS with Merit</b>	15%	or	10%	5%
<b>PQS</b>	10%	or	6%	4%

### Notes

- It is understood that risk costs and operating expenses are in addition to the rates noted above
- Evidence will be sought of all applicant schemes to ensure they meet the contribution standards including those schemes which operate matching contributions. This will relate to employer and ordinary contributions only and will exclude Additional Voluntary Contributions (AVCs). Evidence is required for contributions paid in the previous three financial years
- For schemes with matching contributions, evidence of contributions actually in payment will be considered for the purpose of the award. The award standard classification will be subject to a minimum of 50% of eligible employees paying at the upper end of scale
- For voluntary schemes, the award is only considered against actual membership, subject to a minimum of 67% of eligible employees having joined the scheme
- Compulsory features of contribution design (e.g. auto escalation) to be recognized at the highest point of scale

## THE COMMUNICATION STANDARD

Good communications are essential to improve member understanding and therefore member appreciation of the pension on offer. It is also important that any communication is done in a clear and straightforward manner.

The main requirement is that the sponsoring employer and trustees proactively promote the scheme and facilitate some or all of the following features:

- Plain language focus on statutory communications
- Provision of comprehensive scheme information at the induction/joining stage
- Provision of an ongoing communications support programme
- These could include a range of options, including the use of a dedicated newsletter, website or intranet page, group presentations or one-to-one guidance sessions
- Periodically updated investment information including information on investment options and fund performance and fund updates and is provided on a website/intranet or via regular news letters
- Provision of guidance and tailored communications to those members approaching retirement
- The provision of pension adequacy communications on a periodic basis
- The offering (or subsidising the cost) of financial advice for members approaching retirement
- For voluntary schemes, evidence of efforts to raise awareness and recruit members into the scheme

### Notes

- It is intended that the communication requirements complement those required by the Pensions Act 1990
- Evidence of the communications listed above will be required in the application process
- It is noted that not all schemes may provide the full range of communications listed but this should not preclude a scheme from applying for the PQS. The application will be considered on the whole

## THE GOVERNANCE STANDARD

There must be a clear policy and demonstrable procedures to meet the governance standard. Those schemes whose trustees can demonstrate that governance is high on the agenda not least by having and recording regular meetings, by undertaking on-going training and by having a clearly monitored governance agenda will meet the standard.

Compliance with the DC codes of governance is expected of all DC schemes that attain the PQS.

The main requirements are that the trustees can provide evidence of the following (although it is noted that exceptions can be made where there is a valid reason to do so):

- A scheme specific lifestyle review in last three years
  - Evidence that the lifestyle strategy can factor in individual members expected retirement fund structure (ARF, Annuity, Cash).
- Investment manager/performance reviews including a review of the SIPP and benchmarks in last three years
- Provisions of a range of appropriate self-select choices on full risk/reward spectrum
  - Evidence that the funds & strategies are risk appropriate to the individual members and that this is reviewed on a regular basis
- Risk management plan and/or risk register
- Conflict of interest policy
- Process documents/service level agreements with administrator
- Administration and compliance reporting in place
- Data protection policy
- Modern up-to-date Trust Deed and Rules which incorporates best practice requirements and has been revised in the last three years to reflect legislative changes (where applicable)

## CONCLUSION

The IAPF DC PQS is intended to support the valuable time, effort and money which sponsors and trustees spend on making their pension scheme to be fit for purpose with an underlying agenda for the members to value their pensions offering.

In doing so, it is hoped that it will encourage the many employers who already offer a good DC pension to maintain and improve the pensions they offer.

By focusing on the three core standards of contributions, communications and governance, the IAPF believe that the IAPF DC PQS will encourage not only more adequate pension saving, but also pension saving that meets the needs of members and also helps them understand the value of the pension offered.



## APPENDIX 1 – HOW TO ENTER

### What is the application process?

It is expected that the employer or trustees will often initiate the application for the award but, given their role in supporting the importance of pension provision, it is also possible that – with the agreement of the employer or trustees – advisers, consultants or members of DC pension schemes may also apply for the award on behalf of the pension scheme.

The applications are completed online. You will be asked a series of questions about your scheme focusing on contributions, governance and communications. We recommend you refer to the PQS standards when completing the application.

After you complete the application you must print page 15, sign it and send it to the IAPF together with the relevant evidence.

Please include as much as possible of the following documentation (note not all documents must be provided if they are not readily available)

- Evidence how you meet the contribution standard
- Evidence of latest Annual Benefit Statement (including Statement of Reasonable Projection) and Explanatory Booklet which affirms adherence to the contribution standard
- Example of joining communications
- Example of ongoing communications
- Example of ‘at retirement’ communications
- Trustee Board meeting agenda and confirmation that at least one annual meeting has been held
- Evidence of a SIPP (where applicable)
- Trustee confirmation that your Scheme adheres to the IAPF Investment Guidelines
- Management Committee meeting agenda (if applicable)
- Information about the annual scheme review
- Presentation to new and/or existing scheme members
- Investment options explanation document
- Trustee Declaration that the Scheme is compliant with all applicable legislation
- Any other information or documentation which you believe is relevant including relevant Service Level Agreements (SLAs), conflicts register, risk register, data protection policy, governance plan
- Copy of scheme’s governing trust deed and rules

### **How are the applications assessed?**

We check your answers in the application form and then read through the evidence you sent us. We will contact you if we are missing any information or if we need further explanation about certain points.

### **How long does the assessment process take?**

The length of assessment depends on each individual application. It can be as short as two weeks, depending on how quickly you answer any additional questions we might have.

If you need to have the PQS by a certain date, please let us know at the time of your application and we will do our best to expedite the application along as quickly as possible although we cannot guarantee a specific timeline.

The primary means of verification will be a binding declaration that the scheme offered meets the core standards of the PQS as verified by the submission of relevant supporting documents. The IAPF Office will then evaluate the application and supporting documentation.

### **Period of award**

The award will be valid for three years after which the scheme employer and/or trustee will be asked to confirm that the scheme still adheres to the standards in each of the areas. Such schemes will be subject to a random audit to ensure compliance with the PQS but must be formally re-assessed at least every three years after initial accreditation.

### **What if you are unhappy with our decision?**

The purpose of the PQS is to raise quality of the pension provision, so we will not fail schemes on issues that can be easily rectified. You will be given a few months to put things right and then re-apply.

However, some schemes do not meet the required standards and are unable to make the necessary changes to comply with the PQS. If the applicant is unhappy with our final decision, there will be an opportunity to appeal to the Appeals Panel whose decision will be final in all cases.

The appeal process will consist of a number of individuals who are not serving on any IAPF Committee or Council and who are not considered to have any conflict of interest in providing adjudication to any appeal that may arise. All decisions of the Appeals Panel are final.

Please contact us for more information about the appeal process.

## APPENDIX 2 – THREE YEAR RENEWALS

All those who attain the PQS will be automatically assessed for the standard on a three yearly basis unless otherwise advised.

The IAPF office will contact PQS holders to request some or all of the information as set out in Appendix 1. This request will include a request for any changes to the particulars of the Scheme over the previous three years. The primary means of verification will be a binding declaration that the Scheme continues to meet the core standards of the PQS as verified by the submission of relevant support documentation.

### **Notes:**

- The new PQS criteria set in 2019 will be applied to the next evaluation for ongoing PQS accreditation for those who attained the PQS prior to 2019
- The IAPF office fully reserves the right to determine the process that will apply to renewals

## APPENDIX 3 – MASTER TRUSTS

### Master Trust Schemes/Providers

The Pension Quality Standard Ready (PQSR) is the standard that has been designed for Master Trusts.

To qualify for PQSR, a Master Trust needs to meet the PQSR standards on governance and communications. Participating schemes within a Master Trust with the PQSR are eligible for the normal PQS depending on their level of contributions.

The following requirements apply to PQSR:

- The normal governance and communication standards set in the regular PQS apply
- The prevailing Revenue and Pensions Authority approvals for the operation of the Master Trust are fully adhered to
- The trustees of the Master Trust should include some independent trustees who have no connection with any of the service providers to the Master Trust. This is to ensure that trustees can always act in the members' interests and independently of any commercial sponsor or founder

### PQS for Employers Participating in a Master Trust

The PQS can only be communicated to employees by an employer (i.e. participant in the Master Trust) where the contribution rule is covered.

Participating schemes within a Master Trust with the PQSR are eligible for the normal PQS depending on their level of contributions.

## APPENDIX 4 – TERMS AND CONDITIONS

- The PQS is open to any DC Scheme that is a member of the IAPF
- Applications can be made by the employer, pension scheme trustees, advisers, or consultants to a scheme
- The PQS will be accredited by the IAPF Office, using a fair and transparent process, with a detailed explanation of final decisions to be published. In order to protect the integrity of this competition all participating employers, advisors or trustees will be asked to declare that there is no conflict of interest in participating in this competition
- All entries must be able to demonstrate that they are compliant with the Pensions Act 1990 and regulations in supplying Annual Benefit Statements and Trustee Annual Reports
- All those who attain the PQS will be automatically assessed for the standard on a three yearly basis unless otherwise advised

## APPENDIX 5 – SAMPLES OF LOGOS





## Application

Scheme name: \_\_\_\_\_

I, \_\_\_\_\_ (print name), on behalf of,  
\_\_\_\_\_ (company name), hereby apply to  
the IAPF for a PQS Award.

☐ PQS

☐ PQS Merit

☐ PQS Merit Plus

☐ PQSR for a Master Trust

I also accept the Terms and Conditions (Appendix 4) and confirm we will supply  
to the IAPF any information required to support this application.

Name: (printed): \_\_\_\_\_

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

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