IAPF PENSION SCHEME TRUSTEE TRAINING

TRUSTEE ESSENTIALS COURSE

PART 2

06 August 2020

WELCOME – WE WILL COMMENCE AT 10AM

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WELCOME & INTRODUCTIONS

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AGENDA - REFRESHER TRUSTEE TRAINING

Part 1 –

- **Background to Irish Pension Provision**
- **Legal Issues**
- **Essentials of Trustee Governance**
- **Essentials of Investment**
- **Data Protection**

Part 2 –

- **Pensions Regulation and Compliance**
- **Disclosure of Information**
- **Pensions Authority Codes of Governance**
- **IORP II – Pensions Authority Guidelines**
- **Essentials of Actuarial Practice**

DURING Q&A

Turn Webcam & Audio on

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Please state who the question is for.

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Alternatively

Ask question via chat function directly to Ollie throughout the presentation.

PENSIONS REGULATION AND COMPLIANCE

PENSION SCHEME REGULATIONS

- Trust Deed & Rules
- Statute
- Trust Law
- European Law

- **Two Regulators**
  - Revenue Commissioners
  - Pensions Authority

AGENDA

- Revenue
- The Pensions Authority
- Regulatory & Compliance Activities
- Investigations
  - Proactive
  - Reactive
- Sanctions

REVENUE COMMISSIONERS

Approved Schemes Benefit from Tax Exemptions

- Employer
- Employee
  - No BIK
  - Relief on personal contributions made within allowable limits
  - Tax free growth on investments
  - Lump sum at retirement
- Death Benefits

REVENUE LIMITS ON BENEFITS

- Standard Fund Threshold
- Normal Retirement Date (NRD)
- Salary
- Pension
- Lump sum
- Early Retirement
- Death Benefits
  - In service
  - In retirement
- Pension Increases - DB

REVENUE LIMITS ON BENEFITS (cont.)

- Annual Earnings Limit - €115,000
- Standard Fund Threshold - €2,000,000
- Retirement Lump Sums - First €200,000 - Tax Free
- Next €300,000 - Standard Rate
- Balance - Marginal Rate

- ARF Rules extended to DC Scheme 2011

THE PENSIONS AUTHORITY

- Previously known as “The Pensions Board”
- 3 Members
  - Chairperson
  - Representative of Dept. of Social Protection
  - Representative of Dept. of Finance
- Its Chief Executive is known as The Pensions Regulator

An tÚdarás Pinsean
The Pensions Authority

MAIN FUNCTIONS OF PENSIONS AUTHORITY

- To monitor and supervise operation of Act
- Implement and Supervise EU Legislation (IORP Directives)
- Issue guidelines to trustees of occupational pension schemes
- Issue guidelines to PRSA providers
- Encourage training for trustees
- To Register Administrators and supervise (1.11.08)
- Provide information to members on their rights

An tÚdarás Pinsean
The Pensions Authority

MAIN FUNCTIONS OF PENSIONS AUTHORITY

Also

- Register Schemes and collect fees
- Register PRSA's and collect fees
- Investigate complaints
- Monitor Funding Standard (DB)

An tÚdarás Pinsean
The Pensions Authority

REGULATORY ACTIVITIES

Key Areas

- Registration
- Payment of fees
- Supervision of Registered Administrators
- Equal treatment
- Compliance, for example
    - Disclosure of information
        - Benefit Statement / SORP / Annual Report & Accounts
    - Funding standard (DB)
    - Trustee Training
    - Member Nominated Trustee Election

An tÚdarás Pinsean
The Pensions Authority

REGISTRATION OF SCHEMES

- Registration – a Trustees Duty
- Within 1 year of commencement
- Special registration form
- Accurate and up to date information
  - Monitoring compliance
  - Carrying out investigations
  - Payment of fees
  - Providing tracing facility for early leavers

An tÚdarás Pinsean
The Pensions Authority

PAYMENT OF FEES

- Trustees must pay an annual fee to Authority
- Basis for calculation of fees is prescribed
- Payable in respect of each year of account
- Based on number of active members
- Invoices are issued by Pensions Authority

An tÚdarás Pinsean
The Pensions Authority

EQUAL TREATMENT

- Compliance with principle of equal pension treatment
- Discrimination prohibited on 9 grounds
- No discrimination on any of the grounds in respect of any rule of a scheme
- Applies to
  - Access to scheme
  - Contribution arrangements
  - Entitlement to and calculation of benefits
  - Retirement ages
  - Survivors' benefits
- Office of the Director of Equality Investigations (ODEI)

An tÚdarás Pinsean
The Pensions Authority

DISCLOSURE OF INFORMATION

- Trustee responsibility
- Part V of Pensions Act

  To:?
  - Members
  - Prospective Members
  - Their Spouses
  - Other Scheme Beneficiaries
  - Authorised Trade Unions

An tÚdarás Pinsean
The Pensions Authority

DISCLOSURE OF INFORMATION

What?

- Constitution of Scheme
- Basic Information
- Personal Benefits
- Reports

An tÚdarás Pinsean
The Pensions Authority

STATUTORY DEADLINES

Requirement	Deadline
Annual Benefit Statement	Within 6 month (5) of Statement date
Completion of Trustee Annual Report (‘TAR’) & Account	Within 9 months (8) of Scheme year end (“completion deadline”)
Availability of TAR to members	Within 28 days of completion deadline
Issue of Member Booklet	Within 2 months of joining scheme or 4 weeks of request
Leaving Service / Retirement Option	Within 2 months of being notified of date
Pension Adjustment Order (PAO)	Non member spouse must be notified of entitlements within 2 months of formal order
Registration of Scheme	Within 1 year of commencement date

STATUTORY DEADLINES (cont.)

Requirement	Deadline
Payment of Pension Authority Fees	On or before 31st March each year
Remittance of Employee Pension Contribution	Within 21 days of month of deduction e.g. Contributions deducted at 31st Jan – due 21st Feb
Remittance of Employer Pensions Contribution – (DB)	Within 30 days of scheme year end e.g. If renewal date is 31 July then 30 Aug
Remittance of Employer Pensions Contribution – (DC)	Within 21 days after the month that they are due
Pension Authority Trace Reports	Within 12 months following change in scheme details
Completion of Triennial Actuarial Valuation	Within 9 months of valuation date
Actuarial Funding Cert	Within 3 years of prior certification
Members Booklets	Kept up to date at all times reflecting current scheme rules & legislations changes

ALSO CANNOT FORGET!

- Statement of Investment Policy Principles (SIPP)
  - Must be in place for scheme membership in excess of 100
  - Renewed regularly

- Trustee Training
  - Mandatory as of 1/2/10
  - Every 2 Years for existing Trustees
  - Within 6 months of appointment for new Trustees
    (Every two years thereafter)

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The Pensions Authority

INVESTIGATIONS

- Pensions Authority has very strong powers

- Regular – Proactive
  - Arising from complaints & audits

- Whistle blowing – Reactive
  - Mandatory for fraud and misappropriation

- ‘Dawn Raids’
  - A Possibility!

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The Pensions Authority

On the spot fines

Social Welfare and Pensions Act 2007

- 17th September 2007- €2,000

- Pension Authority-Notification of Breach
  - -Trustees -21 Days
    - -Remedy Breach
    - -Pay Fine

Pensions Board **Trustee** Checklist

On-the-spot fines

Are you a pension scheme trustee?

If you are, you should be aware that you may be liable to an 'on-the-spot' fine from The Pensions Board if you contravene the specified provisions of the Pensions Act, 1990, as amended ('the Act'). The fines provisions commence on 17 September 2007. The fine for each offence is €2,000.

The following checklist will help you to ensure that you do not contravene any of the specified provisions subject to the fines regime. The words in italics are explained in the Glossary of Terms at the end of this document.

		Yes	No
1	Is your scheme registered with The Pensions Board?	☐	☐
	■ Are your scheme details up to date?	☐	☐
	■ Have you paid your scheme's annual fees to the Pensions Board?	☐	☐
2	In relation to your scheme, can you comply with the *disclosure of information* requirements applicable to the:		
	■ Governing documents	☐	☐
	■ Trustee Annual Report	☐	☐
	■ Audited accounts	☐	☐
	■ Actuarial valuation report	☐	☐
	■ Members' explanatory booklet	☐	☐
	■ Relevant individuals		
	□ During relevant employment (benefit statements)	☐	☐
	□ On leaving service	☐	☐
	□ On retirement and death	☐	☐
	□ Where a scheme winds up	☐	☐
	□ Where a *Pension Adjustment Order (PAO)* has been made in respect of a member's benefits	☐	☐
3	Have you responded to any requests for information about your scheme that you may have received from any of the following:		
	■ The Pensioms Board?	☐	☐
	■ your scheme auditor?	☐	☐
	■ your scheme actuary?	☐	☐
	■ any *employer* to whom your scheme relates?	☐	☐
4	If your scheme is *defined contribution*, have you arranged for the annual valuation of its assets and liabilities?	☐	☐
5	If your scheme rules provide for you to invest the resources of the scheme in accordance with the members' directions, are you providing those members with information to enable them to make informed decisions with regard to the giving of their directions?	☐	☐
6	If your scheme is *defined benefit*, have you submitted an *Actuarial Funding Certificate (AFC)* to The Pensions Board:		
	■ within 9 months of the effective date of the actuarial valuation?	☐	☐
	or		
	■ where the *AFC* is due because of a negative intervaluation statement in your annual report, within 12 months of the last day of the period to which the annual report relates?	☐	☐
7	Have you procedures in place within your scheme for paying or accepting *transfer payments* where a member has requested same?	☐	☐
	■ Are you providing *Statements of Benefits* to any members of your scheme who are transferring funds to a *Personal Retirement Savings Account (PRSA)*?	☐	☐
8	Have you a current *Statement of Investment Policy Principles (SIPP)* in place for your scheme? (Not required for *small schemes*.)	☐	☐
9	Do you comply with the provisions of the Act when calculating a pension increase involving a State pension offset?	☐	☐

(Re. Qs 2, 3, 4, 5, 6 and 9, please see Notes below.)

Notes: Trustee Checklist

1 **Re. Qs 2, 3, 4 and 5.** Detailed information about the *disclosure of information requirements* can be found in The Pensions Board Guidance Notes on **Disclosure of Information by Occupational Pension Schemes**. The Board also produces an information booklet **What Do You Know About Your Pension Scheme?** This contains an overview of the information which trustees and *employers* must provide in relation to *occupational pension schemes*. The Guidance Notes and information booklet are available free of charge from the Board's Information Unit.

2 **Re. Q. 6.** Trustees of a *defined benefit* scheme must ensure intervaluation reviews are carried out to determine whether the scheme continues to satisfy the funding standard and that corrective measures are undertaken if a negative assessment arises. Trustees must notify The Pensions Board if the actuary states in the annual report that the scheme would not satisfy the funding standard or where no statement is made. In such circumstances the trustees must have a full *Actuarial Funding Certificate (AFC)* prepared (and where relevant a funding proposal) which must be submitted to The Pensions Board within 12 months of the last day of the period to which the annual report relates.

3 **Re. Q. 9.** The Act provides that, where trustees increase a pension payable under a scheme, the calculation of the amount of which involves an offset in respect of a State pension, they shall not calculate the increase by reference to an updated State pension offset, the amount of which depends on the amount of a State pension at, or during a period up to, the date the increase to the scheme pension is calculated or made but must instead calculate the increase by:

- calculating the amount of the scheme pension notionally payable immediately before the increase if the amount of State pension offset had at all times been nil;
- calculating the percentage by which the scheme pension would be increased if the amount of State pension offset continued to be nil; and
- increasing the scheme pension actually in payment by that percentage.

If you find that there are matters outstanding in relation to fulfilling your obligations as specified in this checklist, you should bring these to the attention of your scheme's administrator without delay in order to ensure full compliance. This checklist is intended as a guidance tool only and is not intended to be an exhaustive list of trustee obligations. If you have any difficulties, you can contact The Pensions Board at **info@pensionsboard.ie**

OTHER ISSUES

- Internal Dispute Resolution Policy
- Financial Services and Pensions Ombudsman

IDRP

- Must have
- Not binding unless agreed

Trustees must decide

- Who will deal
- What format of complaint
- What information
- What time period
- What format of determination
- What complaints covered

FINANCIAL SERVICES AND PENSIONS OMBUDSMAN

- Complaints re loss from maladministration.
- Dispute of fact or law
- Against trustee, employer or administrator
- Appeal to High Court
- Power to investigate, disclosure, appearance
- Require Redress / enforce damages?

An tOmbudsman Seirbhísí Airgeadais agus Pinsean
Financial Services and Pensions Ombudsman

INCREASING REGULATORY ENVIRONMENT

- Pensions Authority – DC Governance Codes 2016 ✓
- Pension Reform Consultation 2016 ✓
- April 2018 - A Roadmap for pensions reform 2018 – 2023 ✓
- GDPR May 2018 ✓
- IORP II January 2019 – LATE – To be transposed 2020?

PENSIONS REGULATION AND COMPLIANCE

Q&A

Turn webcam & audio on (Bottom of your screen). Raise your hand. Chairperson will take note of your name and when ready will ask you by your name for your question. Please state who the question is for. Alternatively ask question via chat function directly to Ollie throughout the presentation

DISCLOSURE OF INFORMATION

MEMBER COMMUNICATION

COMMUNICATION WITH MEMBERS

- Scheme booklet
- Separate investment leaflet
- Performance updates
- Regular investment analysis / commentary
- Updates on market-specific events
- Investment presentations
- Face-to-face investment advice
- Web tools/E-learning
- Encourage Engagement

MEMBER COMMUNICATION

- Why ?
  - ➢ Low awareness
  - ➢ Lack of financial “literacy”
  - ➢ Pensions Authority DC Governance Code
- Pensions Act requirements
  - ➢ Scheme information disclosure
  - ➢ Personal Scheme information disclosure
  - ➢ Scheme investment information
- Good practice

MEMBER ENGAGEMENT

Use various methods of communication

- Targeted bespoke simple messages to member cohorts

Group presentations to employees

One to one meetings

SCHEME INFORMATION

Trust Deed & Rules + Amendments – must do!

– To Members

  Prospective members

  Spouses

  Other beneficiaries

  Authorised trades unions

– Within 4 weeks of request

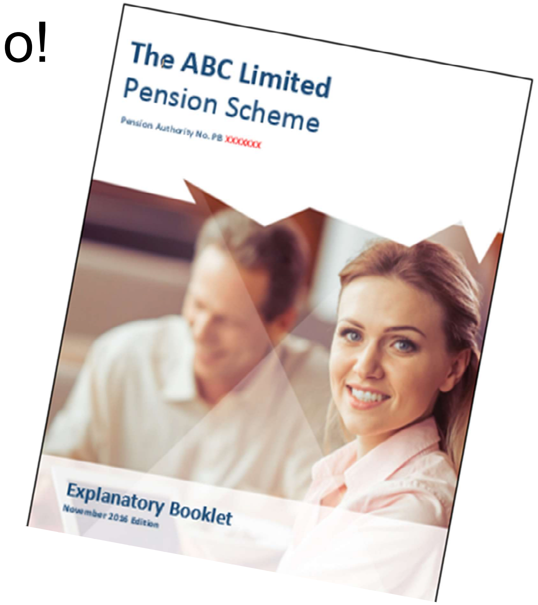
– Small charge may be made

SCHEME INFORMATION

Scheme Booklet / Announcement Letter - must do!

containing –

- Eligibility
- Contributions
- Benefits – retirement, death, leaving service
- General investment information
- Miscellaneous information



– To same group of relevant people

– Automatically to new members within 2 months;
To others within 4 weeks of request

SCHEME INFORMATION

Trustee Annual Report - must do!

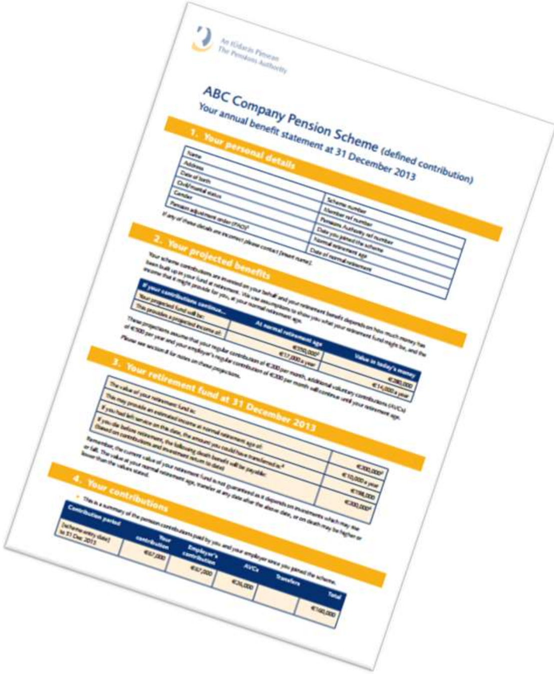
- Includes Statement of Investment Policy Principles (SIPP)
- To same group of relevant people
- To be prepared within 9 months of Scheme year end
- To be made available to members within 4 weeks of preparation deadline; to authorised trades unions by the preparation deadline

PERSONAL INFORMATION

Annual Benefit Statement - must do!

containing –

- Personal details
- Contributions paid
- Pension Expectation etc
- [DC/AVC] - Value of investments /
- Projected values (Statement of Reasonable Projection)
- Other general information


ABC Company Pension Scheme (defined contribution)
Your annual benefit statement at 31 December 2013
1. Your personal details
2. Your projected benefits
3. Your retirement fund at 31 December 2013
4. Your contributions

– To members only

– Within 6 months of Statement Date (usually Scheme Renewal Date)

PERSONAL INFORMATION

Monthly Statement – Employer must do!

Confirming that both employee and employer contributions in respect of previous month have been paid across

– To members; and to Registered Administrator

– Usually delivered on payslip

PERSONAL INFORMATION

Event driven –

- Leaving Service
- Retirement
- Death
- Pensions Adjustment Order
- Scheme Wind-up

INVESTMENT INFORMATION

"Safe Harbour" – trustee liability protection

- Rules must allow **member investment direction**
- Must apply to **all members**
- Must provide a **range of** (suitable) **funds**
- Must provide a **Default fund**
- Provide sufficient **information** so members may make an informed choice

IMPORTANCE OF COMMUNICATION

- Good governance
- Builds trust
- Helps understanding
- Member Engagement
- Appreciation of employer's contribution
- Reduces complaints etc.

MEMBER COMMUNICATION

- Use multiple channels of communication
- Target specific member cohorts
- Use personal events and messages to highlight relevant pension issues

DISCLOSURE OF INFORMATION

MEMBER COMMUNICATION

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FUTURE OUTLOOK

CHALLENGES FOR PENSION FUNDING

- Improving mortality rates
- Low interest rates
- Investment volatility
- Funding standard / financial reporting requirements
- Low awareness
- Lack of financial acumen amongst workers

PROJECTIONS – COST OF SOCIAL WELFARE

- Cost of Social Welfare pensions projected to increase significantly
- Projected cost of first pillar pensions as a % of GNP
- 2/3 attributable to Social Welfare, 1/3 to Public Service

2006	2016	2026	2036	2046	2056
3.0%	3.7%	4.9%	6.5%	8.7%	10.1%

PROJECTIONS – WORKER/PENSIONER RATIO

	2006	2016	2026	2036	2046	2056
Nos. at work (000)	2,001	2,213	2,268	2,268	2,170	2,125
Aged over 65 (000)	464	620	844	1,105	1,403	1,532
No. at work per person aged over 65	4.3	3.6	2.7	2.1	1.5	1.4

PROJECTIONS – LIFE EXPECTANCY AT 65

	2006	2016	2026	2036	2046	2056
Men	16.0	17.6	19.2	20.6	21.3	22.0
Women	19.4	20.9	22.4	23.9	24.6	25.3

SOCIAL WELFARE & PENSIONS (NO 2) ACT

Changes to Wind-up priorities

1. Expenses, AVCs and DC portions
2. Pensioners (without increases)
    - 100% up to €12,000
    - 90% from €12k to €60k (min. of €12k)
    - 80% if €60k or more (min of €54k)
3. Actives & Deferreds (without increases)
    - 50% accrued pension
4. Pensioners (w/o increases) – pension balance
5. Actives & Deferreds (w/o increases) – balance
6. Post retirement increases

SOCIAL WELFARE & PENSIONS (NO 2) ACT

Insolvent Pension Scheme & Employer

1. Expenses, AVCs & DC portion
2. Pensioners (w/o increases)
   - 50% pension
3. Actives & Deferreds (w/o increases)
   - 50% accrued pension
4. Pensioners (w/o increases)
   - 100% pension up to €12,000
5. Pensioners (w/o increases) – pension balance
6. Actives & Deferreds (w/o increases) – balance
7. Post retirement increases

OTHER AREAS TO CONSIDER

- IORP II
- Auto-Enrolment
  - Aged 23-60 > €20,000
  - Contributions 1/1/.33 to 6/6/2
  - Employee chooses provider – Max 4 providers
  - CPA
- Master Trusts

FUTURE OUTLOOK

Q&A

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PENSIONS AUTHORITY DEFINED CONTRIBUTION CODES OF GOVERNANCE

THE PENSIONS AUTHORITY CODES OF GOVERNANCE DC SCHEMES

The Codes introduced in 2016 are intended to provide trustees with guidance on **minimum standards** across 11 key areas of best practice.

With the impending implementation of the EU Directive IORP II it is likely that the Status of the Codes of Governance will change from “aspirational” to being a legal requirement.

Trustees may be required to submit an annual compliance return confirming they are adhering to the codes of practice and will be subject to compliance audits by the Pension Authority.

STATUS OF CODES OF GOVERNANCE

The codes of governance are not a statement of law but set out the standards of behaviour that the Pensions Authority would expect trustees to adopt to demonstrate their commitment to serving the best interests of members, deferred members and other beneficiaries.

Pension scheme governance

Pension scheme governance means trustees managing and overseeing the proper:

- Compliance with regulatory requirements;
- Investment of the scheme's assets;
- Collection of contributions;
- Payment of benefits;
- Record keeping;
- Communication of information to members.

The Pension Authority expects Trustees to establish a Governance "Plan of Action"

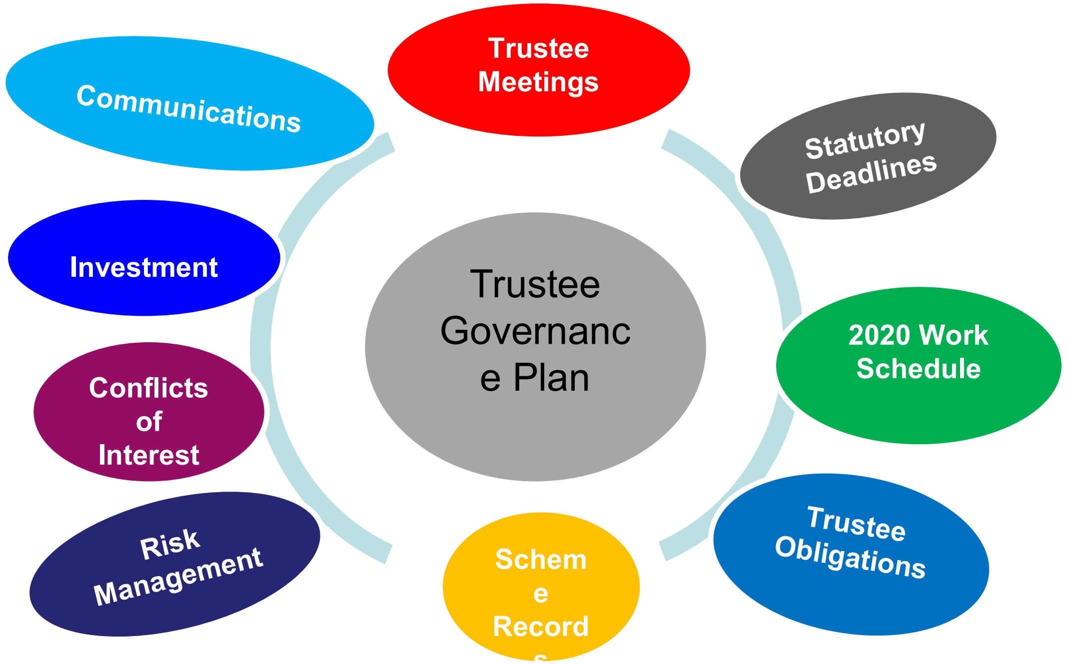
"To help Trustees to develop and apply consistent policies, processes and controls in the management of their scheme"

Code 1 - Establishing a Governance plan

Trustees should establish a governance plan of action that will best organise them to fulfil their duties to their members. This includes putting in place structures that will:-

- Ensure compliance with statutory deadlines
- Identify what records need to be kept
- Develop a risk management plan
- Identify Conflicts of Interest
- Establish a Service Level Agreement

Governance plan of action



Code 2 - Trustee meetings

The trustee board should meet as often as is necessary to fulfil its responsibilities effectively and prudently. Under the IORP II Directive the proposed requirement is that Trustees meet at least four times per calendar year and at least once in every six-month period.

The Authority expects trustees to be organised and to follow agreed procedures and processes. This means holding formal meetings with proper agendas which deal with all important issues and record decisions appropriately. The action items include:-

- Appointing a Chairperson
- Ensure a quorum is present for trustee decisions to be valid
- Check whether trustees must act unanimously or by majority vot
- Keep detailed minutes

Code 3 - Conflicts of interest

Trustees should be able to demonstrate that they effectively manage conflicts of interest.

The Code suggests that Trustees should prepare a conflicts of interest policy that includes the following:-

- Maintain a register of trustees' interests which could give rise to a conflict.

- Each trustee should sign an annual return confirming that their information contained in the register of interests is correct. The updated register should then be circulated to all trustees.

- Once a conflict has been identified, the trustees must consider how it should be dealt with before conducting any further business to which the conflict might be relevant.

The Pensions Authority guidance note identifies that conflicts of interest can arise where trustees are also directors of the sponsoring employer company, that some trustees may have a perception that they represent one faction of membership and that advisors may also be conflicted.

It is important that all potential conflicts are identified and included on the register of trustee interests together with any other potential conflicts of interest, this should be reviewed on a regular basis and included in the scheme risk management plan.

Code 4 – Collection and Remittance of Contributions

Code 4 sets out the following actions for trustees:-

- Prepare and maintain a payment schedule. Include details of absences, AVC payments and where no contributions are being made etc.

- Ensure the correct level of contributions have been recorded and are being paid.

- Ensure an adequate system is in place for the prompt recording, processing and reconciling of all transactions.

- Ensure relevant procedures are covered in the SLA with the administrator.

- Encourage periodic meetings between payroll administrators and scheme administrators to ensure alignment of their respective activities.

- Take steps to recover and remedy missed or late payments quickly and efficiently.

- Report any material payment failures to the Authority within a reasonable timeframe. The Authority considers that in general this should be no later than 3 months after the first incidence of non-remittance.

- Ensure members are also informed of any material payment failures.

Ongoing monitoring and reporting is required to ensure that contributions have been invested in-line with the member's instructions and that contributions have been invested with in the required deadlines.

Code 5 - Investing scheme assets

The Pensions Authority expects that when setting an investment strategy trustees should ensure that the investment options offered reflect the needs of the membership and that this should be reviewed on an ongoing basis.

Particular emphasis is placed on the need to ensure that the default investment strategy is suitable based on the requirements and demographic profile of the members.

The Pensions Authority have also identified member communication as a very important area..

Member choices are significantly influenced by how the choices are presented to them - which funds are available, and how these choices are explained and positioned. It is the responsibility of trustees to satisfy themselves that the communication is relevant and understandable

The Code of Governance sets out the following actions for trustees:-

- Ensure procedures are covered in the SLA with the investment manager. This would include requirements for manager reporting, frequency and content including reporting to trustee meetings.

- Develop and adopt an appropriate investment strategy ensuring that investment choices are regularly reviewed and are appropriate for members. Ensure all such reviews are fully documented.

- Produce a SIPP, if appropriate.

- Provide a SRP at least annually, if appropriate.

- Ensure the performance of all investment options are regularly assessed against the investment objectives.
- Provide a default investment strategy (DIS) that reflects the profile and needs of the scheme membership.
- Meet with the investment manager (if appointed) as required, but at least once a year.
- Agree performance benchmarks.
- Periodically review the performance of the investment managers and if necessary replace them.
- Review SIPP In line with legislation and whenever there has been a significant change in the investment policy.
- Review Default Investment Strategy regularly and monitor its ongoing suitability for the membership.

Code 6 - Paying benefits

The Code of Governance sets out the following actions for trustees:-

- Ensure procedures concerning payment of benefits are documented in SLA with administrator.
- Ensure appropriate taxation procedures are in place.
- Check if a PAO is in place for members benefits.
- Ensure satisfactory arrangements exist to notify members of their benefit entitlements on leaving service.
- Ensure proper financial records are kept up to date.
- Receive annual report from scheme administrator.
- Monitor benchmarks set in SLA.
- Periodically review scheme practices.

Code 7 - Record Keeping

Trustees should ensure that there are suitable procedures and controls in place in order to facilitate the creation and retention of accurate and complete membership and financial records by them or on their behalf.

In addition, trustees are required to comply with the disclosure requirements under the Pensions Act; they can only discharge these obligations if proper records are kept.

Agree details of records to be kept.

- Ensure that a Registered Administrator is in place.

- Agree who should hold the records.

- Agree process of interaction between employer, trustees, administrators and members for data transfer.

- Establish a register of members, deferred members, pensioners and other beneficiaries and consider carrying out occasional data verification exercises to ensure you have up to date details of all members.

- Keep records of members' choices regarding the level of their contributions and the funds in which they wish to invest and ensure that robust controls are in place for the processing of DC contributions to ensure that contributions are allocated correctly and that investment transactions are actioned promptly and recorded accurately.

Establish a robust process for keeping track of deferred members e.g. put procedures in place for capturing updated contact details.

This could include:

- Reminding members to inform trustees of their new contact details if they change;
- Using alternative methods to contact members such as mobile phone and email;
- Where members cannot be found, consider using other options such as social media, the electoral register and current or former scheme members who may have kept in contact with the relevant member to locate the member;

and

- Where members cannot be found and all other avenues have been exhausted, consider using the Host Mailing Service of the Department of Social Protection

Code 8 - Data Protection

In order to provide the benefits under their scheme, trustees will be required to obtain, store and process personal data (including sensitive personal data) and will be the persons responsible for the control and use of that personal data i.e. the data controller. As data controllers, trustees must ensure that they:

- Obtain and process personal data fairly;
- Keep it only for one or more specified, explicit and lawful purpose;
- Use and disclose it only in ways compatible with these purposes;
- Keep it safe and secure;

- Keep it accurate, complete and up-to-date
- Ensure that it is adequate, relevant and not excessive;
- Retain it for no longer than is necessary for the purpose or purposes; and
- Give a copy of his/her personal data to an individual, on request.

Trustees should also ensure that any agents processing personal data on behalf of the trustees (a data processor) are aware of and comply with the obligations outlined above.

Code 9 - Risk Management

The Pensions Authority expects trustees to have a risk management system in place for their scheme which includes strategies, processes and a risk register to record all scheme risks.

The risk register should be reviewed and updated at least annually by undertaking a risk assessment which identifies the main risks, the likelihood of their occurrence, the impact of their occurrence and examines how the scheme should limit or mitigate the risk.

Trustees should ensure that they record how they intend to manage any potential risk and recording the risks should assist trustees to formalise their risk management procedures. Trustees should use various sources such as audit reports, administration reports and any complaints received in order to assist in identifying risks present in their scheme.

- **Identify the greatest risks.**
  These may vary from scheme to scheme but the greatest risks for a typical DC scheme and its members include:
  - Fraud;
  - Investment;
  - Managing costs;
  - Administration;
  - Regulatory requirements; and
  - Communications.

- **Assess risk likelihood**.
  Although it is rarely possible to put a meaningful numerical value on any risk, trustees should at least be able to assess likelihood as high, medium or low.

- **Assess Impact.**
  Trustees should make a broad estimate of the likely impact on the scheme and its members in the event that the risk materialises.

- Once risks are identified, record them in a risk register.

Document current controls and planned controls to limit/mitigate risks.

- Identify ownership of risks and controls.
- Continue to review exposure to new and emerging risks.
- Consider if an internal audit of risk management processes should be carried out.
- Consider whether Risk Management should be a standing agenda item for discussion at trustee meetings.
- Review and update the risk register on an annual basis.

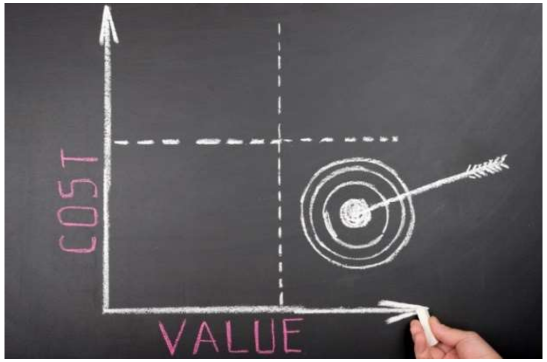
Code 10 - Member Communications

- Consider the profile of the scheme membership and develop a communication plan to meet the members needs
- Remind members about the importance of reviewing investment choices
- Remind members about the adequacy of their retirement savings
- Plain language – no jargon

- Consider the use of technology in meeting the objectives of communication
- Consider access to independent financial advice for members
- Get member feedback regarding the quality of member communications

Code 11- Value for Money

- Ascertain which charges apply to the scheme, the rates applicable and their impact on members benefits
- ensure that all costs and charges that are borne by the members are clearly disclosed to them
- Evaluate the total benefits against the total cost of membership particularly in relation to what members value most
- Discuss VFM at Trustee meetings
- Raise issues and concerns with service providers
- Take action where VFM is not being achieved



PENSIONS AUTHORITY DEFINED CONTRIBUTION CODES OF GOVERNANCE

Q&A

Turn webcam & audio on (Bottom of your screen). Raise your hand. Chairperson will take note of your name and when ready will ask you by your name for your question. Please state who the question is for. Alternatively ask question via chat function directly to Ollie throughout the presentation

IORP II – PENSIONS AUTHORITY GUIDELINES

IORP II Considerations for Trustees – The Pensions Authority

Background

The IORP II Directive was required to be transposed into Irish law, and the laws of all EU Member States, by 13 January 2019.

Ireland is in breach of these regulations.

It had been intended that Ireland would have transposed the IORP II regulations into Irish law by the end of the first quarter 2020 but this has not happened.

The Directive provides for EU wide pension scheme standards including:

An effective system of governance, covering areas such as;

- fit and proper standards for trustees;
- the appointment of Key Function Holders (KFHs) for risk management, actuarial and internal audit;
- written policies on risk management, internal audit, and, where relevant, actuarial and outsourced activities.
- standards relating to internal controls, administrative and accounting procedures, contingency plans and remuneration.
- Communications with, and information to be provided to active members prospective members, deferred members, those nearing retirement and pensioners.

The Directive also covers the general principles of prudential supervision with an emphasis on a forward looking and risk-based approach, with greater interventionist powers available to the regulator, including a reach to outsourced service providers.

Governance

While many of the scheme's activities, such as administration and investment management, may be outsourced, the trustees remain responsible for those activities and their governance systems must ensure proper oversight.

The Pensions Authority will oversee the extent and quality of a scheme's governance.

Particular areas of focus will include:

- the composition of the trustee board including the procedures and processes it adopts in fulfilling its role and objectives;
- the policies in place relating to the range of scheme activities, including internal controls, and the management of risks; and
- the practical application of the agreed policies, procedures and operating principles.

The Authority expects that all significant activities should have documented policies and procedures, the rationale for the various decisions should be recorded and all material should be retained and available for inspection and audit by the Authority.

Role of the trustee board

The trustee board is responsible for the effective, prudent and ethical oversight of the management of the scheme. Within its governance responsibility, amongst other things, is a requirement to set and oversee:

- an overall transparent operational structure for the scheme;
- an appropriate investment and funding structure;
- an adequate and effective internal control framework, that includes well functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework;
- a remuneration framework that is aligned with the objectives and risk strategies of the scheme;
- effective communication and reporting processes for members and beneficiaries.

The trustee board should consider the production of a Board Manual, which would fully document its roles and responsibilities, its policies and procedures, and a schedule of review dates – a record should be kept of each such review.

The trustees should have:

- the necessary knowledge, skills, experience, expertise, competencies, fitness, probity and integrity to carry out their duties;
- a full understanding of their individual and collective responsibilities;
- a full understanding of the nature of the scheme's activities and management; and
- an understanding of the scheme's financial position, risks and technical provisions.

Composition of the trustee board The trustee board should be of sufficient size and expertise to oversee adequately the operations of the scheme.

While a sponsoring employer may be responsible for the appointment of trustees, the trustee board should satisfy itself that the trustees, including any potential new trustee prior to his or her appointment, collectively meet the fit and proper standards and should document how it has satisfied itself in this regard.

Trustee boards should consider reviewing their membership at least once every three years. This review, which should be documented, should take into consideration:

- the ability of individual trustees to devote the necessary time and attention to the role;

- possible conflicts of interest of its members, and whether they can be managed;

IORP II - Fit and proper requirements

The Directive requires that trustees and Key Function Holders (KFH) meet fit and proper criteria.

Key Functions
The trustee board must ensure that there is a risk management function, an internal audit function, and for defined benefit schemes, an actuarial function.

The trustee board must ensure that the holders of each of these key functions (a Key Function Holder or KFH) have the resources and authority to enable them to undertake their duties effectively in an objective, fair and independent manner.

In addition, the trustee board must ensure that they receive timely, accurate and sufficiently detailed information from KFHs and to document its key information requirements from each KFH for consideration at each meeting of the trustee board.

IORP II - Fit and proper requirements

The Directive requires that trustees and Key Function Holders (KFH) meet fit and proper criteria.

"Fitness" means that the trustees as a group, and each person appointed as a KFH, has the necessary qualifications, skills and experience to perform the duties of that position.

The Pensions Authority expects trustees to have conducted and documented its own due diligence, including obtaining evidence of professional qualifications, CPD and previous experience, before a person is appointed as a trustee or KFH.

IORP II - Fit and proper requirements

“Proper” means that each trustee and KFH must be honest, diligent and independent-minded.

Much of an assessment of a person’s character, in terms of them meeting the “Proper” requirement, can only be undertaken in the case of exceptions, i.e. it is only when evidence is available to suggest that a person might not comply with the standard required, that a scheme must investigate thoroughly.

Other Areas covered in the Pensions Authority Guidance Note

- **Meetings** – refer to DC Codes of Governance
- **Committees of the Trustee Board -** refer to DC Codes of Governance
- **Governance and Scheme Management**
  - Scheme Administration – The Trustee board should have in place an administration policy which documents the administration activities, their delegation and monitoring. At a minimum, the policy should address the following matters:
    - each of the main administration activities the approach to determining how they should be carried out,
    - the procedures for appointing administrators, where relevant,
    - the information to be provided by the administrator to the trustees, and
    - the procedures for assessing and reviewing the performance of the administration.

Risk management

The risk management policy should set out the methods adopted to identify the most significant risks to which the scheme is exposed and how the risk appetite of the scheme will be agreed for both individual and scheme risks.

The processes governing the periodic Own Risk Assessment should also be documented.

The risk management policy should be reviewed at least every three years following a comprehensive Own Risk Assessment.

Comprehensive risk management should include the development of contingency plans in areas where the scheme is likely to be especially vulnerable.

DC Codes of Governance set out the requirement for a Risk Register

Internal Control

The scheme's internal control procedures should at a minimum provide for documented evidence of the following:

- Procedures providing for segregation of financial activities to reduce the likelihood of deliberate fraud. This would include t … l duties such as:
  - custody of assets
  - authorisation and approval of transactions
  - reconciling or reporting of transactions
  - data security.
  - financial record keeping procedures;
  - physical control over financial records;
  - clear lines of authority and reporting;
  - independent checks, including periodic reviews of all financial reports and

Outsourced Activities

The trustees should be able to demonstrate that they;

- have developed a policy for the extent to which scheme activities should be carried out in-house or outsourced to third parties;
- have developed an appropriate specification for the activities to be outsourced and the obligations of the service provider
- have gone through an appropriate process for the selection of the service provider;
- are monitoring the activities of the service provider on an ongoing basis to ensure its proper functioning;
- have a written agreement in force which is legally enforceable and defines the rights and obligations of the scheme and service provider;
- notify the outsourced activity to the Authority in a timely manner, or in advance where the activities relate to key functions or the management of

Supervision

The Pensions Authority will be adopting a forward looking and risk based approach to supervision, which focuses on the risks of non-compliance and poor member outcomes. A key trigger for this approach will be an assessment of the overall governance culture within the scheme.

Remuneration

The trustee board must have a documented remuneration policy governing the remuneration of trustees, KFHs, critical service providers and any other people or organisations of significant importance to the scheme. The policy must be designed to ensure that the scheme’s remuneration practices do not create conflicts of interest and do not promote excessive risk taking

IORP II – PENSIONS AUTHORITY GUIDELINES

Q&A

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ESSENTIALS OF ACTUARIAL PRACTICE
DB Only

FUNDING PENSIONS

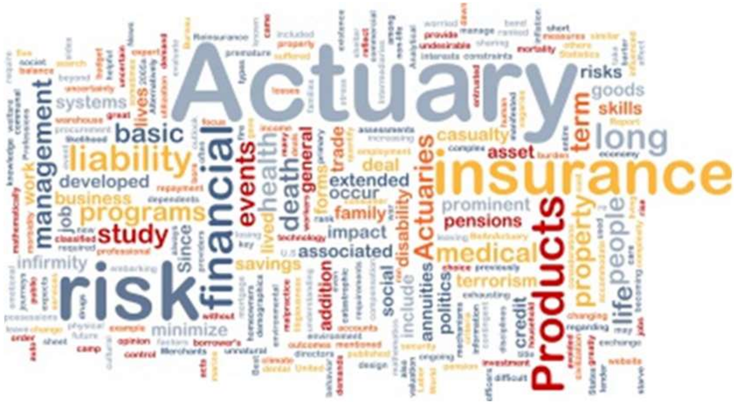
- Principle of saving
- Pensions funded over working lifetime of employees
- Why fund?
  - Security For Members
  - Smoothing Cost
  - Tax Advantages

TYPES OF SCHEME

- **Defined Contribution (DC):**
  - Benefits depend on value of contributions paid by and for member
- **Defined Benefit (DB):**
  - Rules specify the benefits payable
  - e.g.: Pensionable salary at retirement x years of service / 60
  - Typically employer pays balance of cost
- **Hybrid schemes:**
  - **Mixture of DB & DC, or certain aspects of them**

ROLE OF THE ACTUARY

- **Defined Contribution:**
  - No statutory role
  - Advice on contribution formula
  - Funding checks



ROLE OF THE ACTUARY

- **Defined Benefit:**
  - Statutory Requirement
  - Actuarial Valuation To Determine Contribution Rate – Usually Every Three Years
  - Statutory Funding Certificate – Normally Every Three Years
  - Transfer Values – when members leave the scheme

ACTUARIAL VALUATION

Society of Actuaries in Ireland

- **Future service cost:**
  - Annual cost of providing benefits for future years of service
- **Past service surplus / deficit:**
  - Value of assets less present value of liabilities for past years of service
- **Recommended contribution rate:**
  - Future service cost plus adjustment for past service surplus / deficit

CALCULATION OF LIABILITIES

- For each active member

$$\left[\frac{\text{Past Service}}{60}\right] \times \left[\text{Pensionable Salary}\right] \times \left[\text{Cost of Pension at age 65}\right] \times \left[\frac{\text{Salary Inflation}}{\text{Investment Return}}\right] \times \left[\text{Probability of Survival}\right]$$

- For each deferred member

$$\left[\text{Deferred Pension}\right] \times \left[\text{Cost of Pension at age 65}\right] \times \left[\frac{\text{Revaluation}}{\text{Investment Return}}\right] \times \left[\text{Probability of Survival}\right]$$

- For each pensioner

$$\left[\text{Current Pension}\right] \times \left[\text{Cost of Pension at current age}\right]$$

ACTUARIAL VALUATION - EXAMPLE

Liabilities	**€m**	**Assets**	**€m**
Actives	12.3	Investments	11.6
Pensioners	1.6	Future contributions	9.9
Deferreds	7.4		
Creditors	0.2		
Total	**21.5**	**Total**	**21.5**

ACTUARIAL VALUATION

- **Also includes investigation of:**
  - Statutory minimum funding position
  - Funding position in the event of the scheme winding up
- **Other purposes:**
  - Accounting figures (FRS17 / FAS87, IAS19)
  - Changes in benefits
  - Merger/acquisition
  - Wind-up

ACTUARIAL VALUATION

- **Based on assumptions about the future:**
  - Financial assumptions
  - Demographic assumptions
  - Discretionary benefits

FINANCIAL ASSUMPTIONS

- Investment return
- Price inflation
- Salary increases
- Pension increases
- State pension increases

Typical Assumptions

Investment return:

- Price inflation + 3 to 4% p.a.
- Lower rate may be used for pensioners

Salary inflation:

- Price inflation + 1 to 2% p.a.

DEMOGRAPHIC ASSUMPTIONS

- Mortality – before retirement
- Rates of withdrawal
- Mortality – after retirement
  - allowance for future improvements
- Proportions married

VALUATION METHODOLOGY

- **Long term assumptions:**
  - Financial assumptions used to value liabilities are based on long term trends
  - Value of assets smoothed for consistency with long term assumptions

- **Market-based:**
  - Assets valued at market value
  - Market-based financial assumptions used to value liabilities
  - This method is the method now most often used

FUNDING OBJECTIVES

- Minimise costs
- Maximise security
- Minimise variability in contribution rates

STATUTORY MINIMUM FUNDING STANDARD

Based on notional wind-up of scheme

- Cost of purchasing annuities for pensioners
- Cost of transfer values for active and deferred members

  ****

- In 2009 the standard was changed so that the cost of providing increases was stripped out and re-positioned as a lower priority
- In 2013 it was again changed so that smaller pensions became a higher priority, as well as other priority changes

FUNDING PROPOSAL

- Required if the scheme does not satisfy the funding standard
- Designed to ensure that the scheme could reasonably be expected to meet the funding standard by the date of the next actuarial funding certificate
- Signed by the trustees and the employer and certified by the actuary
- Normal – 3 years
- Extension – up to 10 years
- Annual actuarial statements

CALCULATION OF TRANSFER VALUES

- **Defined Benefit:**
  - Accrued pension x Annuity factor x Discount factor, i.e.

$$\frac{\text{Past Service}}{60} \times \text{Pensionable Salary} \times \text{Cost of Pension at age 65} \times \frac{\text{Salary Inflation}}{\text{Investment Return}} \times \text{Prob of Survival}$$

  - Society of Actuaries sets standard basis

- **Defined Contribution:**
  - Value of individual account

PENSIONS ACT SECTION 50/50 (A)

- Allows application to Pensions Authority for Benefit Reductions
- Can apply to:
  - Post Retirement Pension Increases for existing and future Pensioners
  - Benefits accrued to date for active and deferred members
- Application to be made by Trustees
- Each Application to be considered by the Pensions Authority on its merits
- Once implemented the Pensions Authority will closely monitor progress of the scheme

PENSIONS ACT SECTION 50/50 (A)

- Prior to Application the Pensions Authority require Trustees to:
  - Conduct full plan review
  - Consider all options for meeting plan deficit
  - Consult with Employer re changes
  - Determine what binding commitments or other security is available from employer
  - Satisfy themselves that S. 50 application is only realistic option to maintain plan and is preferable to wind-up

PENSIONS ACT SECTION 50/50 (A)

Prior to Application the Pensions Authority require Trustees to:

- Obtain Legal & Actuarial Advice
- Consider scope for future contribution increases if necessary
- Review Investment strategy and amend to de-risk as appropriate
- Conduct full member program
    - Full information on changes
    - How each member category is affected
    - Why it is necessary
    - Reasons for different treatment of member categories
- Member observations within 30 days
- Must be considered by Trustees
- Member consent is not required

PENSIONS ACT SECTION 50/50 (A)

- Trustees must satisfy the Pensions Authority that the application is robust and sustainable

- Detailed application form to be completed by Trustees

ESSENTIALS OF ACTUARIAL PRACTICE
DB Only

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THANK YOU SPEAKERS AND DELEGATES

- Fill in evaluation form – link emailed after event
- CPD & Cert by email at end of Part II
- Presentation will be emailed to you
- Recording of course available to you on request
- If you are not on IAPF database contact info@iapf.ie in order to receive information on upcoming events / recourses

Pension Scheme Trustee Training

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