An tÚdarás Pinsean
The Pensions Authority

Annual Report and Accounts 2019

Statement from the Pensions Regulator, Brendan Kennedy

The Pensions Authority Annual Report and Accounts 2019 set out in detail the activities of the organisation last year. The priority for 2019 has been to balance our supervisory, guidance and information activities while undertaking the substantial work needed to prepare for the transposition of the IORP II Directive into Irish law.

- Prosections

  Nine prosecutions were completed by the Authority in 2019. We always treat non-compliance very seriously, particularly where we suspect scheme assets or contributions are at risk, or where employers or trustees do not respond to statutory requests for information. However, overall, the greater challenge for Irish retirement savings is insufficient focus by trustees and their appointed advisers on member outcomes, resulting in too many instances of poor value for money, lack of risk management, and poor quality communications with members. There is no evidence of any significant improvement during 2019.

- Financing the Authority

  The financial statements of the Authority show a deficit of €54,415 for 2019, compared to total expenditure of almost €7.5 million. In November 2019, we received approval to increase the staffing of the organisation by 17 to a total of 93.5. This additional staffing will be needed to introduce forward looking risk-based supervision of occupational pension schemes, as mandated by the IORP II Directive, and recruitment has been underway since early 2020. The Authority also faces increased capital expenditure to meet the needs of this enhanced supervision and of our obligations to collect and provide pensions data to the European Insurance and Occupational Pensions Authority. The staffing and capital expenditure means that the cost of running the Authority will increase, and we are preparing a submission for the Minister for Employment Affairs and Social Protection about an increase in fees. Although a fee increase is never welcome, it must be recognised that the costs of running the Authority are a very small proportion of the over €100 billion total assets of Irish pensions. It should also be noted that the last fee increase was in 2002 and fees were reduced in 2010 and again in 2011.

- Impact of Covid 19

  Since the onset of the Covid-19 pandemic, Authority staff have been working from home and the Authority’s offices have been closed. The initial challenges created by the sudden change to working practices were overcome quickly as a result of the professionalism and flexibility of the staff of the Authority, and there was no disruption to the services provided to the public. We will follow Government guidelines about eventual reopening, and the safety and well-being of our staff and of the public will be our priority.

The Authority has been monitoring the effect of the pandemic on the pensions sector. With very few exceptions, the scheme administration and management systems have worked very well: most importantly, benefits have continued to be paid and contributions collected and invested without interruption. The need to work remotely has resulted in some practical challenges, such as changing manual paper processes to an electronic format and holding virtual trustee meetings. However, scheme trustees and their advisers appear to have coped very well. The Authority has stated that it will take into account the challenges of dealing with Covid-19 in assessing the compliance of pension schemes and PRSA providers.

- Market volatility

The sharp falls in markets from mid-March looked likely to result in significant losses for defined benefit and defined contribution pension schemes. The market recovery since has reduced these losses considerably, though many pension funds are below where they were at the beginning of 2020.

The first six months of 2020 clearly demonstrated the vulnerability of many Irish pension schemes to investment risk. It is not possible to make long-term pension provision without such risk, but the Authority's view remains that many pension schemes, both defined benefit and defined contribution have excessive risk and, more importantly, do not measure and manage their investment risk in a structured way. In years to come, scheme management of investment and other risks will be at the centre of the Authority's oversight of the work of pension scheme trustees.

- Transposition of the IORP II Directive

We expect the transposition of the IORP II Directive into Irish pensions law to be completed before the end of 2020. It is important to recognise the significance of this event: Irish occupational pensions are about to undergo the most significant changes in at least a generation. The purpose of these changes is to improve outcomes for members of Irish pension schemes. At present, there are well-run pension schemes, which achieve good member outcomes, and which will have little difficulty in adapting to the new obligations. However, there are too many schemes that are not run to the standard that members are entitled to expect. It should not be a matter of luck for a member how well run their scheme is. Furthermore, given the significant value of pensions savings that can be built up by retirement age, there is no justification for the standard of care for pensions savings being any less than it would be for any other type of savings.

The most significant changes that will result from the IORP II implementation will be:

- Trustees will be obliged to demonstrate their focus on members' interests. This means that they must satisfy themselves and the Authority that they have the expertise, commitment, professional support and structured approach needed to fulfil their responsibilities to their members. Perhaps more importantly, they must demonstrate that they are actively managing their scheme and anticipating issues that might affect their members. Any trustees whose sole or primary focus is on compliance will not be doing enough.

- The new regime will specify the obligations of trustees in detail. Although in the best schemes, these obligations are already being met, for many schemes, this is not so and much change will be needed. Realistically, this will not be practical for small schemes – they will have difficulty in finding trustees with the required qualifications and expertise, and the burden and cost of compliance will be too high. However, the Authority believes that all scheme members are entitled to the same level of protection, whether in large or small schemes. The number of small schemes in Ireland is very untypical by international standards and is a historical issue resulting from the fact that there were no barriers or costs to setting up a pension scheme. This has resulted in a lack of awareness of how significant a responsibility the role of trustee is and of how much work is required to discharge that responsibility to a proper standard.

  The Authority's view is that large schemes are better placed to protect the interests of pension savers. For defined contribution pensions, multi-employer occupational schemes (master trusts) and PRSAs are practical alternatives which provide the possibility of efficiencies of scale and allow the Authority to supervise more efficiently and safeguard the interests of pension savers.

- IORP II and the related reforms will present a significant challenge for many defined benefit schemes. As well as the additional governance obligations that will apply to all schemes, defined benefit trustees will be obliged to prepare and examine a much wider range of financial and actuarial data, and to demonstrate that they understand and are managing their scheme so that members have a reasonable chance of receiving the benefits set out in the scheme rules.

  A defined benefit scheme is a very complex entity and it is often not recognised how challenging a task it is to manage it. The trustees' task is to pay benefits promised to members despite having no certainty about the eventual amounts of those benefits, the length of time that they will be paid for, the investment returns that will be earned in the meantime and the extent of the support from the sponsoring employer. At present, schemes are obliged to comply with the funding standard rules, but these rules do not sufficiently reflect the uncertainty and complexity of these schemes, and there is no requirement for trustees to demonstrate that they have considered and assessed the full range of relevant issues. The new obligations that will result from IORP II will go a long way to ensuring that members are more likely to receive their benefits and that unachievable promises are identified in good time.

    - The Authority will be adopting a policy of forward looking risk based supervision with the objective where possible of prevention of threats to the interests of pension scheme members. As a result, the Authority's oversight will be much more interventionist.

    - We recognise that trustees and their advisers will need to understand their new obligations and the expectations of the Authority in considerable detail. Communication will be an important part of the Authority's work in coming years, especially in the immediate aftermath of the IORP II transposition.

- Transposition of IORP II into Irish pensions law is a very complex task and has taken longer than anyone expected. As a result, we have not been able to communicate the details of the forthcoming changes as soon as we would have wished. However, there can be no doubt that significant change is coming to Irish pensions, and the nature and direction of that change is clear. The Authority is well advanced in preparing for these changes.

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