

Information for trustees of defined benefit schemes

The Pensions Authority is introducing changes to the way it supervises defined benefit (DB) schemes. This will have implications for the trustees of such schemes.

Many of these changes will arise from the introduction of new European legislation into Irish law; the IORP II Directive. While the Irish legislation is not yet in place, the requirements of the Directive are already clear.

Key points

- The Pensions Authority is moving to a risk based and forward-looking approach to supervision for DB pension schemes.
- The majority of the 570 DB schemes currently in operation in Ireland have significant challenges.
- Trustees will be expected to change the way they approach their work.

Why are DB schemes so challenging?

The task of the trustees is to ensure that the scheme can pay the benefits promised to members.

But trustees have:

- no certainty of the future salaries of scheme members on which those benefits are based,
- no certainty of the support the scheme will receive from the employer and the length of time payments will continue to be made into the scheme,
- no certainty of the return which the scheme's investment will achieve, and
- no certainty of the ultimate number and profile of beneficiaries from the scheme.

What trustees need to do

Trustees of DB schemes will need to:

Be forward-looking	Trustees must be forward-looking in how they manage the scheme – guided by the objective of achieving good outcomes for members.
Demonstrate proactive	The Pensions Authority will require trustees to demonstrate they understand and are managing the relevant scheme so that



scheme management	members have a reasonable chance of receiving the benefits set out in the scheme rules.
Consider potential scenarios	Trustees will be expected to demonstrate that they (and their advisors) regularly consider the many potential scenarios and stresses that can impact on the benefits which a scheme member will receive. They must proactively assess weaknesses and shortcomings in their scheme and agree the steps they need to take to address these.
Know the requirements of IORP II and their legal obligations	Trustees must consider the requirements of IORP II and the related reforms and what steps they need to take to ensure they meet their legal obligations. The Directive can be found in the following link and further information on trustee considerations arising from the Directive can be found in the following link .
Examine a wider range of data	Trustees will be required to prepare and examine a much wider range of financial and actuarial data than they do presently. The focus will be on what might happen from a financial and actuarial perspective in the future; not just on what has happened to date.
Understand solvency, sustainability and risk	<p>This is a change from the current situation where the only measure which the Pensions Authority can use to assess the adequacy of a scheme is the Funding Standard. Experience has proven that reliance on a single measure like the Funding Standard is no longer sufficient.</p> <p>While the Funding Standard will continue to apply, in the future the Pensions Authority will view each scheme through the lenses of solvency, sustainability and risk.</p>

New Classification for DB schemes

The objective of a DB scheme is to pay the benefits as set out in the scheme rules. Therefore, the purpose and focus of the supervision of DB schemes is to ensure, as far as possible, that this objective is going to be met. Based on the above objective, we will classify DB schemes into three types:

	Category 1	Category 2	Category 3
Likelihood of meeting targets	Those that are likely to pay benefits as promised.	Those that are unlikely to be able to pay benefits unless there is change (see below).	Those that are unlikely to be able to pay benefits no matter what.



	Category 1	Category 2	Category 3
Pensions Authority priorities for relevant schemes	Monitor to ensure that they stay in category 1.	Secure necessary change which could be in governance, administration, funding or risk management.	Reduce benefits or wind-up.

The level of attention given by the Pensions Authority to a scheme will depend on which category they fall into. We are currently developing criteria for this categorisation and schemes will be notified of which category they have been assigned to.

How trustees can prepare

Trustees should read the IORP II Directive which will make clear what steps they need to take, for example:

- assess the knowledge and experience of your trustee board,
- look at your service agreements/contracts with your service providers,
- start identifying who might be your risk management function holder, and
- build knowledge and expertise in the following areas:
 - potential risk identification,
 - risk quantification and risk management, and
 - risk interdependencies and scenario planning.