Codes of governance for defined contribution schemes

Introduction

One of the Authority’s functions under the Pensions Act is to issue guidelines or guidance notes on the duties and responsibilities of trustees of schemes and Trust RACs and codes of practice on specific aspects of their responsibilities. Over the course of 2016, the Authority proposes to issue several codes of governance to help trustees meet the standards of practice that we believe form the basis of good governance and administration in occupational defined contribution (DC) trust-based pension schemes.

These DC codes will supplement the Authority’s Trustee Handbook and trustees should read the codes and the Trustee Handbook in conjunction with each other. The Authority also provides a free online e-learning programme for trustees. The Trustee Handbook and e-learning programme are accessible on www.pensionsauthority.ie

Good governance is key to delivering good member outcomes and the codes are intended to inform and assist trustees in meeting this objective. How trustees apply the codes should be proportionate to the size, nature and complexity of their scheme but trustees should always remember their duty of care to act in members’ best interests.

Status of codes of governance

These codes of governance are not a statement of law but set out the standards of behaviour that the 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; and
- Communication of information to members.

The DC codes will be structured as a reference document to be used by trustees to inform their actions in these areas of scheme governance. Each code will provide some practical guidance on how trustees can give effect to the code. The codes are not intended to prescribe the process for every possible scenario but are likely to indicate behaviours, activities and control processes that are most likely to deliver good member outcomes. Whilst the codes are written in a way that suggests it may be the first time they would be utilised by trustees, it is acknowledged that many trustees already operate a governance system akin to that reflected in some or all of the codes.

Developing a governance framework

A governance framework is the essential point of reference for trustees but it must be translated into a plan of action. To do this, trustees must know:

- Their scheme;
- The financial, legal and regulatory environment in which they operate; and
- Who their stakeholders are.

Know your scheme

Trustees should have a good working knowledge of relevant scheme documents so that they are able to use these effectively when carrying out their duties. This means understanding these documents in enough detail to know where to refer to a particular provision in the event an issue arises and a decision needs to be taken. Relevant documents include the trust deed(s) and rules of the scheme, any amending documents, the scheme’s statement of investment policy principles (SIPP) where applicable, members’ explanatory booklets and any documents relating to the administration of the scheme such as third party contracts and service level agreements (SLAs). Trustees should also understand the nature and risk profile of the investments offered by the scheme as well as the benefit structure.

Know your environment

Trustees need to know the environment in which they operate and what is expected of them. They need to know the law relating to pensions and trusts to enable them properly discharge their functions as trustee. They need to undertake trustee training as prescribed in the Pensions Act and be familiar with the Trustee Handbook and codes of governance. There are a range of support services which trustees can avail of, including:

- The Pensions Authority;
- Fellow trustees; and
• Advisers.

**Know your stakeholders**

Trustees should be aware of their stakeholders, who fall into various categories:

**Key**

• Scheme beneficiaries – active members, spouses/dependants, deferred members; and  
• Sponsoring employers.

**Regulatory**

• The Pensions Authority;  
• Revenue;  
• Pensions Ombudsman; and  
• Central Bank.

**Contractors and advisers**

• Investment managers, if relevant;  
• Registered Administrators (RAs);  
• Administrators, scheme management, communications, benefit consultancy; and  
• Brokers.