



An tÚdarás Pinsean  
The Pensions Authority

# **Pensions Insolvency Payment Scheme (PIPS)**

## **Guidance note for scheme applicants**

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## Introduction

1. This note outlines the operation of the Pensions Insolvency Payment Scheme (PIPS), which is a scheme established by the Minister for Finance (the Minister) in consultation with the Minister for Social Protection (the Minister). The PIPS is a cost-neutral scheme for the Exchequer, which aims to reduce the pensioner liabilities of defined benefit (DB) schemes, which wind-up in deficit with an insolvent employer.

## Policy background

2. Section 22 of the Social Welfare and Pensions Act, 2009, provides for the introduction of the PIPS by way of secondary legislation. It was originally intended that the scheme would operate on a pilot basis for three years from the date of its introduction and reviewed thereafter; however, the PIPS is still currently in operation. The PIPS can be reviewed at any time by the Government.
3. The PIPS is a cost-neutral Exchequer scheme offering special payments in cases where a DB pension scheme is winding up in deficit and the sponsoring employer becomes insolvent – the ‘double insolvency’ criterion. In the case of multi-employer schemes, all sponsoring employers must be insolvent for a scheme to qualify for the PIPS.
4. As a special measure to support pension schemes where the employer and pension fund are insolvent, the PIPS provides a cost-neutral way of mitigating DB pension shortfalls in cases of double insolvency. Within the constraint set by the legislation that it be cost-neutral, the PIPS is intended to support pensioners of insolvent companies where the pension scheme is winding-up so that more money is available for the pensions of those yet to retire. At present, when a DB scheme winds up and the sponsoring employer is insolvent; the trustees of the pension scheme usually buy annuities to pay for the pensions of retired scheme members.
5. Under the PIPS, trustees of a pension scheme in this position may pay the Government a lump sum, which will cover the cost of paying the pensions of retired members. On receipt of the capital sum into the Exchequer, the Government will take responsibility for the future payment of pensions to the beneficiaries covered by the scheme at the rate agreed by the Minister in approving the application. It should be noted that the PIPS expressly excludes post retirement increases. As an anti-abuse measure, the PIPS makes provision under the legislation for the exclusion of schemes that have contrived a double

insolvency or where in the view of the Minister it is in the public interest or in the interests of the Exchequer to exclude them.

## Application process

6. There are three separate stages to the application process:
  - (a) Scheme trustees must first apply to the Pensions Authority (the Authority) to become certified as an 'eligible pension scheme' as defined under the PIPS,
  - (b) If the Authority approves the certification, the trustees may apply to the Minister to become a participating pension scheme and qualify for the PIPS payments, and
  - (c) If the Minister approves the application and the trustees accept the offer and quote provided by the Minister, arrangements will be made for the payment of the relevant amount into the Exchequer and for the future payments to relevant pensioners.

## Stage 1: Application to the Pensions Authority

7. The legislation requires that pension scheme trustees receive appropriate certification by the Authority before applying to the Minister to join the PIPS. This is in accordance with the Authority's role as industry regulator, under which schemes are required to report to the Authority at regular intervals and to bring forward funding proposals to eliminate deficits.
8. Under the legislation, schemes must provide independent proof of company insolvency and evidence that the scheme is in deficit and has commenced winding up, so that the Authority can satisfy itself that the 'double insolvency' criterion is met before the application is considered by the Minister. The Minister will not consider an application until the Authority has certified that a scheme is eligible under the legislation and the terms and conditions of the PIPS.
9. In submitting an application, trustees are required to submit the following:
  - (a) a completed application form available [here](#) on the Authority's website, together with such other information as may assist the Authority in determining whether the scheme is an eligible pension scheme;



- (b) written confirmation by the trustees that the winding up of the pension scheme has commenced, specifying the date of the commencement of the winding up;
  - (c) a statement by the DB scheme actuary that, at the date of the commencement of the winding up, the scheme did not satisfy the funding standard, set out in section 44 of the Pensions Act 1990;
  - (d) a statement of affairs of the insolvent employer;
  - (e) the notice of the appointment of a liquidator or receiver to the insolvent employer; and
  - (f) a statutory declaration:
    - (i) by the employer concerned that that employer is insolvent for the purposes of the Protection of Employees (Employers' Insolvency) Act 1984 (No. 21 of 1984); and
    - (ii) by the trustees that all reasonable efforts have been made by the trustees to ensure that, in so far as possible, the information provided is in all material respects complete and accurate.
10. The applicant pension scheme may include some or all of its pensioners in its PIPS application, as in some cases certain annuities may be more cheaply bought on the open market, for example, impaired annuities.
11. The Authority will not consider incomplete or ineligible applications. The Authority may decide, at its own discretion, whether an application is incomplete or ineligible.
12. Where the Authority concludes that the applicant scheme meets the necessary requirements, it may then certify the scheme as an eligible pension scheme, clearing the way for an application to the Minister.
13. A decision of the Authority on the certification of eligible pension schemes is final and there is no recourse to an appeal.

## Administrative arrangements

14. The aim is to administer the scheme in a straightforward way which minimises start-up costs, has low risk of error, facilitates orderly wind-up of the scheme and which reflects the nature of the PIPS. Currently, the existing payment administrator of participating schemes or an alternative payment administrator nominated by the trustees will be retained. Where a payment agent is not already in place – for example where payments had been handled through the (now insolvent) company’s payroll – the trustees will be asked to nominate a payment agent for the purposes of the PIPS. This arrangement will be kept under review and new arrangements may be introduced if appropriate.
15. The cost of administering the PIPS will be charged to participating schemes so that the scheme remains cost-neutral for the Exchequer, as required under the legislation. The Minister will request trustees to state the administration costs for the pensioner payments into the future as agreed with their chosen payment administrator. The National Treasury Management Agency (NTMA) will convert this to net present value and factor it into the PIPS quote, along with a small charge to reflect the Minister’s fixed costs, given to the trustees by the Minister.

## Stage 2: Application to the Minister

16. Once certified as eligible, the trustees may then apply to the Minister by submitting the information below:
  - (a) a completed application in such form as shall be determined and made available by the Minister;
  - (b) the certification by the Authority that the DB scheme concerned is an eligible pension scheme;
  - (c) a statement, in writing that the trustees agree to comply with and be bound by the terms of the PIPS, should the eligible pension scheme be certified as a participating pension scheme by the Minister in accordance with the PIPS;
  - (d) a statement from the eligible pension scheme’s actuary of the value of the scheme’s assets, on the basis of the assets’ realisable market value on the date the assets were valued;



- (e) a completed payment administrator nomination in such form as shall be determined and made available by the Minister;
  - (f) such information as will enable the Minister to assess the cost of making payments under the PIPS in respect of the eligible pension scheme should it become a participating pension scheme;
  - (g) such other information as may assist the Minister in deciding whether the eligible pension scheme should become a participating pension scheme; and
  - (h) a statutory declaration by the trustees that all reasonable efforts have been made by them to ensure that in so far as possible the information provided for the purposes of the application is in all material respects complete and accurate.
17. The PIPS provides that the Minister may exclude schemes, businesses and employers that, in the Minister's opinion, have contrived the qualifying conditions for the PIPS or have wilfully contributed to the pension scheme deficit or employer insolvency.
18. Once all the information is provided, the Minister will request the NTMA to calculate the actuarially assessed cost in net present value terms of providing pension payments to the pensioners of the scheme, taking account of the cost of administration. The pricing will be done on a cost-neutral basis for the Exchequer in that it will reflect the net present value of the future stream on the PIPS payments for the lives of the pensioners concerned.
19. Clearly, important factors will be the choice of interest rate and the mortality assumptions. The interest rate is the yield-to-maturity on Irish Government bonds closest to ten years in duration. The mortality assumptions are based on the applicable professional guidance issued by the Society of Actuaries in Ireland in relation to retirement benefit scheme transfer values and reflect the standard industry practice. In accordance with standard practice in Ireland, these mortality tables will be applied without any adjustment to take account of local or other factors.
20. The Minister will provide this quotation in writing to the trustees of the applicant scheme and the quote will remain valid for two weeks.
21. The quotation will:



- (a) specify the amount of pension to be paid to the individual pensioners or relevant survivors or dependents on receipt of the payment by the trustees;
  - (b) state the associated administrative cost which will be charged by the Minister;
  - (c) guarantee that this pension will be paid to those pensioners or relevant survivors or dependents for their lifetime; and
  - (d) request the trustees to indicate acceptance or rejection of the offer in writing within 14 days.
22. Following receipt of the Minister's offer, it will be a matter for the trustees to decide whether to accept the quotation by the stated date. The Minister and the Department of Finance will not negotiate on the stated offer. If, consequent on receiving a PIPS quote, the trustees find that there are residual funds to distribute and that higher payments can be afforded, it will be open to them to seek a revised quote from the Minister and a new 14 day period will apply. The NTMA may also revise its quote during the 14 day period, in which case a fresh 14 day period will apply from the date of the new quote. The Minister reserves the right to determine that any new proposal or information submitted by the trustees, amounts to the submission of a new application.

### **Stage 3: Payment into the PIPS**

23. Before the Minister can make a payment under the PIPS, the trustees must pay the quoted price to the Minister by electronic funds transfer. The Minister will not accept payment in the form of bonds, equities or other assets. The Minister has reviewed the pension regulations to ensure that there is no legal impediment to the trustees joining the PIPS. Failure by a pension fund to adhere to the conditions laid down by the Minister will invalidate the offer.
24. Once this payment has been made, the Minister will activate the necessary administrative arrangements through the payment administrator and the trustees will be deemed to have discharged their liabilities in respect of the relevant pensioners covered in their PIPS application.
25. The Minister will have to enter into a contract with the payment administrator setting out the arrangements for making the PIPS payments as well as the payment of the administrator's costs by the Minister on an ongoing basis.



Payment will be made from the Central Fund under the authority of the Social Welfare and Pensions Act 2009, rather than voted expenditure, and as such are guaranteed.

## **Review**

26. The PIPS is subject to review at any time by the Government. The Government may decide to discontinue the scheme or to continue with it, modified or otherwise.