



An tÚdarás Pinsean The Pensions Authority

Codes of governance for defined contribution schemes

Introduction

These codes of governance set out standards of conduct and practice which the Authority expects from all DC trustees, including trustee directors of a corporate trustee. They are intended to assist trustees by providing practical guidance on how trustees can meet these requirements. The codes supplement the Authority's Trustee Handbook and trustees should read the DC codes of governance and 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

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.

Good governance is key to ensuring that appropriate decisions are made for each scheme member. There needs to be an alignment of interests between the people running the scheme and the members of the scheme so that decisions are taken in the interests of members. While the trustee may use third parties to administer the scheme and its investments, the legal responsibility to members always rests with the trustee.

Legal status of codes of governance

These codes of governance are not a statement of law but set out the standards trustees will be expected to adopt to demonstrate their commitment to serving the best interests of members and beneficiaries. In due course it is intended to require trustees to submit an annual compliance return to the Authority in which they will confirm that they are abiding by the codes. This would require legislation being agreed and enacted. In time, the Authority will engage with trustees periodically to inspect compliance levels with the codes. This will take the form of on-site scheme inspections, direct meetings with trustees and compliance audits. The Authority will consider schemes' consistency of compliance with the codes as a risk indicator when assessing compliance with pensions legislation and will take other material indicators into account.

Pension Scheme Governance

Pension scheme governance means the trustees managing and overseeing the proper:

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

The following DC codes are structured as a reference document to be used by trustees to inform their actions in these areas of scheme governance. Each code contains an example of tasks by which trustees can give effect to the code. The codes are not intended to prescribe the process for every possible scenario rather they are benchmarks against which trustees can consider whether or not they understand and are complying with their duties and obligations. 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 may already operate a governance system akin to that reflected in some or all of the codes.

The lay-out of the codes does not indicate their order of importance; rather they begin with a recommended governance framework which sets the platform for a sound administration and compliance regime.

Developing a governance framework

Trustees should establish a governance framework for their scheme to ensure that they develop and apply consistent policies, processes and controls in their management of the scheme. This will assist trustees in monitoring and assessing their activities and so demonstrate that they are carrying out their responsibilities.

To do this, trustees must know:

- their scheme;
- the environment in which they operate; and
- who their stakeholders are.

Know your scheme

Trustees should have a detailed 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 practice. There are a range of support services which trustees can avail of, including:

- the Pensions Authority;
- IAPF Trustee Forum;
- fellow trustees; and
- advisers.

Know your stakeholders

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

Key

- Scheme beneficiaries – active members, pensioners, deferred members;
- Sponsoring employers.

Regulatory

- The Pensions Authority;
- Revenue;
- Pensions Ombudsman;
- Central Bank.

Contractors and advisers

- Investment managers , if relevant;
- Registered Administrators (RAs);
- Administrators, general admin, scheme management, communications, benefit consultancy;
- Brokers.

A governance framework is the essential point of reference for trustees but it must be translated into a plan of action. A first step in devising a plan of action for scheme governance is to focus on what **has** to be done. This will enable the creation of a high level plan to which detail can be added later.

1. DC Code – Establish a governance plan of action

Trustees should establish a governance plan of action that will best organise them to fulfil their duties to their members.

As for any action plan, all identified actions will need to have processes and control procedures added. That will require focusing on steps within each process and adding detail. Timescales will need to be set and monitored. Ownership of tasks both internally and external should be assigned with deliverables. The use of service level agreements (SLAs) will be an important mechanism in tracking deliverables from third parties. Trustee meetings will be a good forum for reporting and monitoring progress.

DC Code:	Establish a governance plan of action
Source	Trust law
Action	<ul style="list-style-type: none"> • Identify statutory timeframes and deadlines. • Identify financial activities to be completed each year – e.g. collection and investment of contributions. • Identify key member related activities – benefit payments, communications. • Agree what records need to be kept – member related, financial, scheme information, scheme registration/amendments. • Document who is responsible for all elements of the scheme. • Monitoring against benchmarks. • Develop a risk management plan. • Establish service level agreements (SLAs). • Identify items on short, medium and longer cycles.
Monitoring	<ul style="list-style-type: none"> • Develop scheme administration guides. • Agree reporting requirements – general, summary and error/exception reporting. • Periodic review of records and cross checking. • Internal audits. • Maintain trustee minutes and action items.

2. DC Code – Risk Management

Trustees should establish a risk management framework to identify, evaluate and manage the risks that are critical to the scheme and which are likely to have significant impact on the scheme's ability to provide reasonable member benefits.

The trustees should maintain a risk register to record all scheme risks and review and update this by undertaking an annual risk assessment which identifies the biggest risks, the likelihood of their occurrence, the impact of their occurrence and examine what the scheme should be doing to limit or mitigate the risk. Recording the risks will help to formalise risk management procedures and provide trustees with an ongoing agenda item for trustee meetings.

Where a risk is such that the future of the scheme would be threatened, trustees should decide what steps they should take to limit the impact. This may involve reducing the likelihood or the impact of the risk arising or deciding on the steps that will be taken if the risk comes to pass.

It is important that trustees address all risks in a sensible order of priority, starting with those which will have the greatest impact on their scheme and its members.

Having evaluated and recorded the likely risks relating to their scheme, trustees should then ensure that controls are suitably designed and implemented to enable them take appropriate action.

Establishing effective controls relating to risk management is an ongoing process and the controls as well as the risks need to be reviewed and tested.

There is a wide range of risk management templates available: the following is a high level example of the risk management process that the trustees could follow, in consultation with their advisers, and, where appropriate, the employer.

DC Code:	Develop a risk management plan
Source	Trust law
Action	<ul style="list-style-type: none">• Identify the greatest risks. These may vary from scheme to scheme but the greatest risks for a typical DC scheme and its members include:<ul style="list-style-type: none">- Fraud;- Investment;- Managing costs;- Administration;- Regulatory requirements; and- Communications.

	<ul style="list-style-type: none"> • Assess risk likelihood. <p>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.</p> <ul style="list-style-type: none"> • Assess Impact. <p>Trustees should make a broad estimate of the likely impact on the scheme and its members.</p> <ul style="list-style-type: none"> • Once risks are identified, record them in a risk register.
<p>Monitoring</p>	<ul style="list-style-type: none"> • 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. • Internal audit of risk management process. • Regularly review and update risk register.

3. DC Code – Conflicts of interest

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

The trustee's duty first and foremost is to act in the best interests of their members and beneficiaries. While conflicts of interest may emerge in their stewardship of the scheme, it is important that these are properly managed and monitored so that trustees can explain how they handle conflicts, with a focus on how these could influence decisions about how the scheme is run. Trustees therefore should have documented processes and procedures in place to manage their conflicts.

Conflicts can occur where there are trustees who are directors of either a corporate trustee or of their employer when they might have an interest that conflicts with the interests of the scheme. Conflicts can also arise where a trustee has a perception that they are representing the interests of a particular faction or group rather than the interests of the membership as a whole. Whatever is the trustee's background, their duty is always to serve all of the members' best interests.

DC Code:	Manage conflicts of interest
Source	Trust law
Action	Produce a conflicts of interest policy.
Monitoring	Record and monitor actual and potential conflicts of interest, both individual and commercial, in a register of interests.

4. DC Code – Trustee Meetings

Trustees should meet regularly to discuss the position of the scheme, make decisions about its future and keep formal minutes of their discussions.

The Pensions Authority expects trustees to be organised and to follow agreed procedures and processes. This means formal recorded meetings, proper agendas which deal with all important issues and records of decisions. As well as being important and useful in itself, this process is the best means for trustees to demonstrate that they have been reasonable in their actions.

How many trustee meetings are needed in a year will depend on the kind of scheme. Trustees of small insured schemes may only need to meet once or twice in a year. Trustees of larger schemes should meet at least quarterly. Schemes will tend to have their own regular annual calendar determined by the need to discuss and issue annual reports, members' benefits statements, consider auditor's reports, hear reports from investment managers and discuss issues where an exercise of their discretionary powers may be needed. These will constitute standard items for meeting agendas, with additional items included as and when they need to be discussed.

DC Code:	Trustee meetings
Source	Trust Deed and rules Trust law
Action	<ul style="list-style-type: none">• Check trust deed and rules as these may specify how meetings are to be conducted and how chairperson is appointed.• Check whether trustees are to act unanimously or majority decision.• Appoint a secretary to the trustee board who will circulate draft agenda and full supporting paperwork in advance of meetings.
Monitoring	<ul style="list-style-type: none">• Ensure a quorum is present at meetings for trustee decisions to be valid.• Keep detailed minutes of all trustee meetings (except for reasons for exercising discretion in a particular way) and record all decisions made.• Note all action points to be followed up by various parties/advisers and the timelines.

5. DC Code – Collection and remittance of contributions

Trustees should ensure that the contributions payable by the employer and members of the scheme are remitted in good time.

Under a DC scheme contributions payable by the employer, and if contributory, the member is defined in the scheme rules (or separate notification to each member). Employers must remit all employer contributions to the trustees within 21 days from the end of each month. Member contributions deducted from their salary or wages must be remitted by employers to trustees, or another person on their behalf, within 21 days from the end of the month in which the deduction was made.

In order to ensure that contributions are remitted in good time, trustees should prepare, maintain and revise if necessary a scheme payment schedule showing:

- Contributions payable to the scheme by or on behalf of the employer and the members; and
- Due date (s) on or before which payment of contributions are to be made.

Trustees should take appropriate steps to monitor contribution flows and urgently address situations where contributions which have not been paid in accordance with the payment schedule in full on or before the due date. Deduction and non-remittance of contributions should always be taken seriously and in certain circumstances could involve making a report to the Pensions Authority.

DC Code:	Collect and remit contributions.
Source	Pensions Act obligations. Trust deed and rules Pensions Authority FAQs on Remittance of Contributions
Action	<ul style="list-style-type: none"> • Prepare and maintain a payment schedule. • Ensure adequate system in place for the prompt recording and processing of all transactions. • Ensure process is covered in SLA.
Monitoring	<ul style="list-style-type: none"> • A check that contributions have been invested in line with members' instructions. • A regular check that all contributions have been invested within 10 days of receipt. • Reports from administrators to trustee meetings.

6. DC Code – Calculating and paying benefits

Trustees must provide for the payment of the correct benefits to eligible members and other beneficiaries at the time they are due to be paid.

The task of paying the benefits will often be delegated by the trustees to the scheme's administrator, the written terms of whose appointment and functions should be specified in a SLA. The SLA should document the procedures agreed between the trustees and administrator to ensure that benefits are properly calculated and paid. The administrator's report concerning the payment of benefits under the scheme should be a standard agenda item for discussion at trustee meetings.

DC code:	Calculating and paying benefits
Source	Pensions Act obligations Trust deed and rules
Action	<ul style="list-style-type: none">• Ensure procedures concerning calculation and payment of benefits are documented in SLA.• Produce a schedule for known benefit payments.
Monitoring	<ul style="list-style-type: none">• Report from administrator at trustee meetings.• Monitor benchmarks set in SLA.• Periodically review scheme practices.

7. DC Code – Keeping records

Trustees should ensure that the records for their scheme are accurate, complete and up-to-date.

Inadequate or incomplete records can have damaging consequences on the retirement savings of the members. Whilst trustees may delegate the day to day function of record keeping to their administrators, they should discuss record keeping regularly with them and keep the process under review. This could be a standing item on the agenda for trustee meetings.

The types of records that need to be kept relating to the membership are:

- Date of joining the scheme;
- Details of all contributions received including additional voluntary contributions;
- Any payments to and from the scheme; and
- Details of transfers of members' benefits to and from the scheme.

Other records that are common to all schemes consist of:

- Member's name and address;
- Gender;
- Date of birth;
- Marital /civil status;
- Membership status – active/ deferred/ retired;
- Annual salary details;
- Expected retirement date.

DC code:	Keeping membership records
Source	Pensions Act obligations Data protection legislation
Action	<ul style="list-style-type: none">• Agree details of records to be kept.• Agree who should hold the records.• Agree process of interaction between employer, trustees and administrators.• Establish a register of members, pensioners, deferred members and other beneficiaries.

Monitoring

- Reports from administrators at trustees meetings.
- Agree SLAs on way the administrators hold and review records.
- Periodically review records kept and cross-checking.
- Implement improvement plans resulting from reviews.

8. DC Code – Reporting scheme information

Trustees should ensure that the Pensions Authority's register of schemes on the Authority's Interactive Scheme Information System (ISIS) at all times contains accurate and up to date information on their scheme.

Following on from their duty to keep accurate and up to date scheme records, trustees should also ensure that the scheme information required to be submitted to the Pensions Authority is of the same standard. This information comprises data such as scheme registration details, and annual scheme information (ASI) which is required to be submitted by the scheme's RA in a format prescribed in the legislation. Changes to scheme information must be notified to the Authority using its online system ISIS.

Scheme information is a very important issue as incorrect information submissions to the Authority raises questions about the competence of the trustees and their appointed RA. Trustees and their RAs need to be aware that submitting incorrect or late information raises concerns for the Authority. These concerns are about the quality of record keeping and subsequently about the accuracy of annual reports and benefit statements being produced.

DC Code:	Reporting scheme information
Source	Pensions Act obligations
Action	<ul style="list-style-type: none">• Draw up checklist of the information required by legislation and cross-check against information held for the scheme.• Agree between and trustees and RAs who is responsible for compiling and reporting relevant information.• Ensure there are adequate business and IT systems in place to facilitate accurate and timely data reporting to the Authority.• Document agreed procedures in a SLA.
Monitoring	<ul style="list-style-type: none">• Reports from administrators at trustee meetings.• Monitor through SLA.

9. DC Code – Investment

Trustees should ensure the proper investment of scheme assets and that the investment choice is appropriate to the members.

Trustees should implement and oversee a default investment strategy.

Subject to the legal provisions and any restrictions imposed by their scheme rules, trustees have very wide powers to invest scheme assets. This power must be exercised at all times in the best interests of the members and beneficiaries. Trustees should always think about risk when they consider investment.

In setting the investment strategy for the scheme, trustees should ensure that the investment options offered reflects the needs of the membership and that these are reviewed on an ongoing basis for their appropriateness. Trustees are required to prepare a statement of investment policy principles (SIPP) for schemes with more than 100 members. The SIPP will set out the trustee’s investment strategy for their scheme, including details of the asset classes or fund types chosen to deliver the strategy, a performance objective for both the strategy and underlying funds and some indication of how they will monitor and review the principles governing how decisions about investments must be made.

Trustees will also need to ensure that a default investment strategy (DIS) is provided which is suitable for the needs of the membership. The selection and oversight of a scheme’s default investment strategy are amongst the most important investment responsibilities of trustees, given that the majority of members are likely to opt for the default option. Further information on these responsibilities can be found in the [Investment Authority’s Investment guidelines](http://www.pensionsauthority.ie) at www.pensionsauthority.ie together with a commentary on the main types of default strategies available in Ireland.

For DC schemes, the communication to members about their investment choices is very important. 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. This is an area where trustees are very well placed to make decisions; they will know whether the materials are likely to be understood by their members. If they believe that they will not be understood, it is the responsibility of the trustees to ensure that the communication is improved.

DC Code:	Investing the scheme assets
Source	Pensions Act and Investment Regulations Trust deed and rules

	Pensions Authority Investment Guidelines
Action	<ul style="list-style-type: none"> • Determine and understand members' capacity for liabilities and risk. • Establish service level agreements (SLAs). • Develop and adopt appropriate investment strategy ensuring that investment choices are appropriate for members and produce a SIPP, if appropriate. • Provide a default investment strategy (DIS) that reflects the profile and needs of the scheme membership.
Monitoring	<ul style="list-style-type: none"> • Agree performance benchmarks. • Periodically review the performance of the investment managers and if necessary replace them. • Set requirements for manager reporting, frequency and content including reporting to trustee meetings. • Review SIPP. • Review DIS against its objectives.

10. DC Code – Member Communications

Trustees should ensure that communications are appropriate for members and that they are understood.

Trustees should ensure that scheme information is accurate, clear, simply expressed, and helps members to make informed decisions about their investments, benefit options and contribution levels. The more effective the communication, the more likely it is to attract members' attention and encourage them to engage with their own pensions savings. Member's outcomes are more likely to fare better when members take more responsibility for their contribution levels, how they invest their funds and how they decide on their benefit options.

Under the disclosure regulations trustees are required to provide a large amount of information to be given, some automatically, others on request. This applies to information about the scheme generally such as the scheme's annual report and accounts, the scheme's governing documents and audited accounts. Trustees must also provide information to members when specific events occur such as:

- When a member joins or leaves the scheme or the employer;
- When a member is divorcing or judicially separating from their spouse;
- When a member dies;
- Before and when benefits become due;
- Transfers without the member's consent;
- Any proposal to materially alter the scheme;
- If the scheme winds up.

The production of 'user friendly' disclosure material and meeting legal requirements should not be deemed to be mutually exclusive and trustees should bear in mind that very often communication is what is received, not what is given. Therefore, trustees should consider what is the most effective approach for communicating with members. A useful approach would be to join forces with the employer/HR manager as very often employees look to these sources for information. Whilst the actual production of scheme/personal information may be a task delegated to the schemes' administrators, trustees should convey their communications objectives to the administrators concerned, be actively involved in the communications process and approve all disclosure materials before they authorise their use all of which could potentially be covered in the SLA.

In developing their communications programme, trustees need to ensure that:

- The language used is jargon free and reflects the financial literacy of the membership;

- The information given is clear, engaging, comprehensible and covers the members' needs from joining date to retirement;
- Adequacy levels of contributions are clearly flagged up so members can take remedial action if need be;
- Members understand their own investment strategy and are aware of the default investment strategy adopted by the scheme;
- Costs and charges incurred by members are transparent and clearly disclosed to them (see code on communicating costs and charges);
- Benefit options are presented simply and clearly to support members in choosing the route best suited to their personal circumstances.

DC code:	Member communications
Source	<p>Pensions Act and Disclosure regulations</p> <p>Statutory deadlines</p> <p>Trust Deed and Rules</p> <p>Pensions Authority Model Disclosure documents</p>
Action	<ul style="list-style-type: none"> • Consider the profile of the membership and develop a communications plan with objectives on how to meet their needs. • Review the communications plan annually against the membership profile. • Develop an investment communications plan for members that is relevant and understandable. • Regularly remind members of the importance of reviewing their investment choices. • Use plain language as far as possible and avoid using jargon and technical terminology. • Use most appropriate channels of communication – employer intranet, set up a scheme website, email.
Monitoring	<ul style="list-style-type: none"> • Test the effectiveness of the communications by surveying a sample of the members. • Respond appropriately to feedback. • Establish a 'sign-off' process on all scheme documents to ensure these communications are fit for purpose.

11. DC Code – Communicating costs

Trustees should ensure that all costs and charges borne by members are clearly disclosed to them.

Costs and charges can have a significant effect on members' retirement funds.

Trustees should regularly communicate to members the costs and charges deducted from their funds throughout their membership of the scheme. The information given should be presented in a simple and straightforward manner that encourages member engagement.

DC Code:	Communicating costs
Source	Trust law Pensions Authority Pension Charges Checklist
Action	<ul style="list-style-type: none">• Ascertain which charges apply to your scheme.• Ascertain rates of applicable charges and their impact on members' benefits.• Develop a communications action plan on pension charges.
Monitoring	<ul style="list-style-type: none">• Costs and related member communications should be reviewed regularly and discussed at trustee meetings.

12. DC Code - Value for money

Trustees should ensure that charges borne by members are reasonable, competitive and provide value for money (VFM).

Trustees have a duty to act in the best interests of their members and that includes their duty to achieve good value for their members. Trustees therefore need to be demanding consumers on behalf of their members. Where they have concerns about value for money issues such as poor quality administration or poor investment returns they need to challenge their providers by raising these issues directly with them and take the necessary steps to resolve these issues. Costs are an item that trustees can directly control and ignoring this issue cannot be acting in the best interests of members.

The costs and charges borne by some DC schemes are clearly higher than they could be; this is especially applicable to smaller schemes which appear to be comparatively expensive with high costs eating into the savings of members. Members' retirement funds will suffer if employer/trustees provide a pension scheme with high charges that does not provide value for money. A scheme provides VFM where the costs and charges deducted from members' contributions provide good value in relation to the benefits and services provided when compared to other available options.

There is no common definition of what constitutes VFM as employers, trustees and members may place differing emphasis on the components within a scheme. Trustees will need to exercise their judgment in this respect and try and ascertain what scheme members' value most in relation to the overall value of the scheme.

DC Code:	<ul style="list-style-type: none">• Ensure members receive value for money
Source	<ul style="list-style-type: none">• Trust law
Action	<ul style="list-style-type: none">• Determine criteria for assessing VFM.• Compare VFM criteria with other similar schemes.• Evaluate the total benefits of membership against the total costs in relation to what members value most.
Monitoring	<ul style="list-style-type: none">• Monitor VFM on an ongoing basis and include it as an item on the scheme's risk register.• Raise any issues and concerns directly with service providers.• Discuss and review VFM at trustee meetings – this should be a standing agenda item.• Consider taking action where scheme is not providing VFM.