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Correspondence 3.9
Meeting – 17/11/2011

An Bord Pinsean
The Pensions Board

Briefing for Public Accounts Committee

17 November 2011

1. Strategy

On 20 September, the Pensions Board published its strategy for 2011 to 2015, a copy of which is attached. In accordance with the Code of Practice for the Governance of State Bodies this strategy was submitted to and approved by the Minister for Social Protection.

2. Budget

The Board is projecting a deficit of €300k for 2011. This compares to a budgeted deficit of €952k.

The main differences between the 2011 budget and the expected 2011 outcome are:

(a) PRSA fees exceeded expectations by €134K due to better than expected one off fees and annual asset fees.

(b) Professional fees - €300K less than budget due to the non-utilisation of budget provisions in the area of legislative drafting and the recruitment of additional staff reducing the need to outsource work.

(c) Staff costs - €140K less than budget due to staff attendance patterns.

3. Prosecutions

Up to 4 November 2011, the Pensions Board has taken 52 prosecutions. These prosecutions are all in respect of employers in the construction industry and have been in respect of

(a) alleged failure by employers to remit to the pensions scheme contributions which have been deducted from employees' wages.

(b) alleged failure to respond to requests for information by the Pensions Board under Section 18 of the Pensions Act

Those prosecuted included companies, sole traders and in some cases, company directors. In a number of cases, those prosecuted faced a number of charges.

Up to 4 November, the Pensions Board had secured convictions in 11 cases. These convictions resulted in fines totalling €41,550 being issued and in one of these cases a custodial sentence was imposed. 38 cases have either been adjourned or are awaiting a date for hearing. The remaining three cases were stuck out after receiving contributions in full prior to the court date.

On-the-spot fines

The Pensions Board issued fines notices to 76 trustees of 37 schemes for breeches of the Pensions Act in 2010. €88,000 was paid by trustees in fines to the Board and subsequently passed on to the Exchequer during 2010. There have been fines notices issued to six schemes so far in 2011.

The Construction Workers Pension Scheme (CWPS)

Since 2007 the Board has been notified of 465 cases alleging deduction and non-remittance of pension contributions to CWPS. The primary objective of the Board is to have any outstanding contributions returned to the scheme. In some of these cases the employers concerned have since either discharged the arrears due or entered into repayment schedules with the CWPS.

At end of 2010 some €4.5 million had been restored to the CWPS resulting from Board activity.

As at 7 November 2011 the Board has 192 CWPS cases under active investigation. 74 cases were closed during 2010.

4. Investment

Investment conditions in 2011 have been very difficult. The cost of securing benefits has increased as the yield on AAA bonds has fallen. At the same time, the return on a typical pension fund for the year to the end of September has -10%; the average return over the last 5 years was -4.2% p.a., and the average return over the last 10 years was 1.5%.

5. Defined benefit survey

The Pensions Board recently completed a survey of defined benefit schemes. Because not every scheme is included and schemes produce figures at different dates, this survey gives an approximate result only. Nonetheless, the results of this survey are useful:

Number of schemes covered:	916
Date of results	31 December 2010
Active members (i.e. current employees)	155,000

Deferred members (i.e. former employees)	104,000
Pensioners	67,000
Total liabilities:	€40.6bn
Active	€15.3bn
Deferred members	€ 5.2bn
Pensioners	€20.1bn
Total assets:	€34bn
Bonds and cash	€11.2bn
Equities/property	€20.7bn
Other assets	€ 2.1bn

Note that since the date of the survey, the position of pension schemes in most cases will have worsened because of market movements during summer 2011.

6. Sovereign annuities

In the Social Welfare and Pensions Act, 2010 the Pensions Act was amended to provide for sovereign annuities. Sovereign annuities are annuity contracts linked to EU Member State sovereign bonds which trustees may use to meet their obligations under pension schemes. The Pensions Board is responsible for certifying that annuity contracts are consistent with the Act, and guidelines for insurance companies were published by the Board on 26 October 2011.

7. Funding standard

On 28 October 2011, the Government approved a number of changes to defined benefit (DB) pension provision to help ensure its sustainability, enhance the security of member benefits and increase equity between members of DB schemes , as follows:

- The existing Funding Standard (amended to give credit for the purchase of sovereign annuities) will be restored for a three year period. Details will be announced by The Pensions Board.
- The Funding Standard will be reformed and strengthened by requiring DB pension schemes to hold a risk reserve as a protection against future volatility in the financial markets. Ultimately, schemes will need to be able

to meet the requirements of the new Funding Standard in 11 years (by approx. 2022).

- The way in which pension scheme accrued benefits are revalued will be changed to ensure equity between those who have left the scheme (deferred members) and existing employees (active members).
- The priority order in which funds are disbursed when a scheme winds up in deficit will be changed. Specifically, a threshold will be introduced which will change the 100% priority given to pensioners. This will allow for a better return to existing and former employees who have not yet retired.
- The Pensions Board will be given powers to wind up schemes in certain limited circumstances.

Guidance for schemes on the operation of sovereign annuities is also available on the Pension Board website. This will give insurance companies guidance on the operation of the sovereign annuities, and enable them to develop and issue such contracts. The availability of sovereign annuities will provide scheme trustees with further options when managing their schemes.

The Pensions Board is currently working on the technical implementation of the Government's announcement and expect to publish full updated guidelines for defined benefit schemes in deficit by the end of the year.

The revised guidelines will take account of the changes, and will also provide all the technical information needed by trustees and their advisers to prepare a recovery plan. The new deadlines will give the trustees adequate time to prepare funding plans in light of the new funding requirements, and that the first deadlines will be no earlier than 1 July 2012

For further information on this matter, please see the attached note from the Department of Social Protection.

Legislation will be introduced to implement these changes over the coming months. Until such time as the necessary legislation has been enacted to give effect to these proposed changes to defined benefit pension provision the current legislation remains in force.

An Bord Pinsean
The Pensions Board

The Pensions Board
Strategy 2011 – 2015

September 2011

Contents

Section 1: Introduction

This document sets out The Pensions Board's strategy for the period to end 2015. Following a statement of the organisation's mission (Section 2), the strategy articulates the Board's ambitions to be achieved by the end of the strategy timeframe (Section 3). This is followed by an outline of how the organisation intends to meet these objectives and how its effectiveness in this regard will be assessed (Section 4).

A considerable level of analysis and consultation including with Board staff has informed the preparation of this strategy. In particular, the strategy is based on an analysis of the external and regulatory environment in which the Board operates; the main results of this analysis and of its implications for the strategy are summarised in Appendix 1. Other inputs to the strategy have included an evaluation of the previous Pensions Board strategy (covering the period 2006 to 2010) and an analysis of internal organisational strengths and weaknesses covering staffing levels and skills and organisational culture. On the basis of this analysis, the Board is satisfied that it has the capacity as an organisation to deliver the ambitions and targets outlined in this strategy.

The focus of this strategy is the beneficiaries of Pensions Board activity, which are current and future pensioners.

Section 2: Mission

The Pensions Board's mission is to support a sustainable pensions system that will provide adequate and reliable pensions for retired and older people and that achieves wide coverage. We aim to achieve this by:

1. Safeguarding the interests of occupational pension scheme members and Personal Retirement Savings Account (PRSA) holders through effective regulation

2. Providing relevant information and guidance to the public and those involved with pensions

3. Developing policy proposals and supporting the Minister for and Department of Social Protection and other government departments through high quality policy advice and technical support.

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Section 3: Five year ambitions

In pursuit of this mission and having regard to the implications of the external and regulatory environment analysis (see appendix 1) and a number of critical success factors (see below), the Board will aim to achieve the following outcomes across the regulatory, information, policy advice and corporate functions over the period of this strategy.

Regulation

All schemes and PRSAs

- Misappropriation of assets or contributions will be extremely unusual
- The administration of occupational schemes and PRSAs will be subject to ongoing supervision and there will be very few significant issues uncovered.

Defined benefit schemes

- All ongoing DB schemes will be adequately funded or will be implementing an approved funding plan
- All schemes will have a clear understanding of the risks to which they are subject, and a sustainable strategy for dealing with them.

Defined contribution schemes and PRSAs

- All DC arrangements will have appropriate default investment strategies in place
- Trustees will be aware of and actively managing scheme costs.

Information and guidance

- The Pensions Board will be well known as an accessible, relevant and practical source of information for members of the public, scheme members and PRSA contributors. As a result, it will be the first port of call for those seeking pensions information.
- Scheme trustees, the pensions industry and employers will be able to rely on The Pensions Board for guidance on their responsibilities and what the Board expects of them.
- The Board will be an active participant in financial education initiatives, in both the formal education system and the workplace, in partnership with other relevant bodies.

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Policy advice

The Pensions Board will be a valued source of pension advice and knowledge for the Department of Social Protection and for the Government generally.

Board policy advice and technical support will have contributed to achieving the following objectives of the National Pensions Framework (NPF):

- a stable pensions policy environment
- implementation of auto-enrolment as a means of increasing pension coverage (subject to prevailing economic circumstances)
- simplification and rationalisation of pension structures and arrangements, including tax treatment
- additional regulatory powers to ensure appropriate trustee behaviour and scheme management including as regards investment
- sustainable and stable defined benefit provision
- a practical pension benefit tracing system.

In addition to these NPF commitments, the Board intends to review defined contribution (DC) pension provision and to develop relevant policy proposals for Government consideration.

Organisational effectiveness

The Pensions Board will be recognised as an efficient, relevant and effective agency whose important contribution to pensions is understood.

Critical success factors

A number of factors will influence the extent to which the Board as an organisation will be able to fulfil the ambitions set out above. Key amongst these are the following:

- Access to adequate resources especially as regards recruitment and retention of high-calibre staff at the Board's approved complement level
- Maintenance of the good working relationship currently enjoyed with key stakeholders, especially with the Department of Social Protection
- Stability in the pensions policy environment.

Section 4: Strategy implementation and assessment

In this section, the means by which we will work to meet these ambitions and assess our performance is outlined. Further detail on the performance assessment approach is included in Appendix 2.

Effective regulation

Our regulatory objective and responsibility is to promote and ensure as far as possible compliance with the Pensions Act and with good governance generally.

Supervision

The Board expects to learn of most instances of non-compliance through its own pro-active supervisory activity and through information provided by pension professionals. However, the Board will continue to respond to and investigate reports or complaints by members of the public.

For efficiency, the Board will focus on interaction with Registered Administrators and providers and with the trustees of larger schemes.

Risk

Like all regulators, the Board has finite resources, and must make best use of them. The allocation of resources will be dynamic and risk oriented on the basis of the following risk priorities:

1st priority misappropriation of pension assets or contributions

2nd priority failure to pay benefits due

3rd priority inadequate funding of defined benefits

4th priority inappropriate investment

5th priority failure to provide prescribed information to members

This order represents the seriousness of the risks, not the likelihood of their occurrence. These priorities will determine general Board regulatory activity, but we will ensure that no area is overlooked. Because regulation depends on Board access to reliable information, we will especially target failure to provide the Board with information required under the Pensions Act, including whistleblowing obligations.

Expectations

Although Irish supplementary pension provision is mostly voluntary, regulation must recognise that pensions represent very significant savings, and pension scheme members and PRSA contributors are entitled to the full protection of the Pensions Act. It is not the objective of the Board to 'catch out' anyone, but our goal is full compliance. Where trustees, administrators, professional advisers or PRSA providers become aware of material non-compliance, they will be expected to inform the Board immediately. The Board does not consider ignorance of responsibilities to be an adequate excuse for non-compliance: comprehensive information and guidance is provided, and the Board is committed to the continued development of this resource for the benefit of all regulated parties.

Regulated parties are entitled to expect from the Board consistent and fair treatment, clear and transparent procedures and an understanding of what is required of them in their interaction with the Board.

Defined benefit

The Pensions Board is responsible for overseeing the ability of defined benefit schemes to meet their commitments. During the period covered by this strategy, the Board will focus particularly on these schemes because of their current funding problems. The funding standard will be reintroduced at the earliest practical date and fully applied. Subject to available resources, we aim to have ongoing contact with all defined benefit schemes. We recognise that compliance will be proportionately more demanding for smaller defined benefit schemes, but this is unavoidable, given the intrinsic complexity of providing these benefits.

Defined contribution

The administration of defined contribution schemes is more complex and liable to more error than defined benefit. The Board intends to supervise especially closely the compliance and competence of Registered Administrators of defined contribution schemes, where necessary using its powers to restrict or disqualify those who do not meet their obligations. An extensive programme of on-site inspections of administrators will be carried out over the period of the strategy. This will be organised in a way that maximises membership coverage through a focus on the larger providers.

The Board also intends to ensure that all defined contribution schemes provide and properly inform members of an appropriate default investment strategy.

Fines and prosecution

The aim of the Board is compliance, not sanctions. However, the Board's regulatory activity will continue to be based on the view that the imposition of sanctions is an important feature of the Board's powers and that without them standards of administration and governance would be lower, and as a result, members or contributors would in some cases not get the benefits or information to which they are entitled.

The introduction of fines as an alternative to prosecution for specified offences has been very effective in raising the standard of administration and of instilling a culture of compliance in pensions. The Board will continue to allocate resources to investigating these specific offences, especially as these are often an indicator of more serious problems.

The Pensions Act prescribes prosecution as an appropriate instrument for the Board and it will be used from time to time, in particular for offences higher in the Board's priorities, as defined above. The Board follows the Director of Public Prosecutions' guidelines in bringing all prosecutions and will be driven by its own Statement of Regulatory Intent.

Performance assessment

The assessment of the Board's strategy over the long-term will be dependent in the first instance on the progress on and the achievement of the objectives in the strategy. Another measure of assessment will be the informed perception of key stakeholders, particularly the Department of Social Protection. The assessment will include an external objective evaluation. The Board will also set annual activity targets to assess shorter-term performance, including but not limited to, measures of inspection activities, investigations, and compliance measures (see Appendix 2 for details).

Relevant information and guidance

To achieve our information objectives, we will work to sustain and enhance the Board's position as an independent, relevant and trustworthy source for pension information. We will use plain language and deliver information and guidance in a clear and concise manner.

The Board will work to provide information and guidance to the following:

- members of the public, both with and without pensions
- occupational pension scheme members and PRSA contributors
- scheme trustees and the pensions industry
- the media, who are a conduit to others.

We will implement this strategy as follows:

General enquiries and communication

- We will respond to telephone and written enquiries in an informative and speedy manner while promoting info@pensionsboard.ie as an efficient first point of contact for all information enquiries with the Board
- We will use www.pensionsboard.ie to deliver the Board's information and communications activity as it is the most efficient and cost effective use of resources
- We will enhance our website to provide information relevant to enquirers' personal circumstances. This will include a 'lifecycle' facility whereby visitors can identify with a profile (eg, employed or self-employed) or life event (eg, getting married) and access information relevant to their situation.

Trustee support and guidance

- The Board will promote and provide trustee training services to further enhance the understanding and education of pension scheme trustees in support of:
    - better pension security for scheme members
    - higher standards of administration and governance
    - compliance with the Pensions Act.
- We will provide 'good practice' guidelines and templates for trustees to make clear what is expected of them and to reduce uncertainty

- The Pensions Board will inform trustees and other stakeholders in a timely manner about any relevant new pension information, in particular changes to regulatory obligations.

Pensions awareness

- We will work to enhance pension awareness, understanding and take up, with a primary focus on pension engagement in the workplace and for young people starting work, primarily through delivery of the National Pensions Awareness Campaign on behalf of Government.

Education

- The Pensions Board will promote and actively participate in initiatives among relevant agencies to encourage financial literacy.

Performance assessment

The Board will measure volumes of enquiries and website visitors and monitor response times. We will analyse enquiries to ensure the relevance of our information services and guidance and will use surveys to measure awareness of pensions and of The Pensions Board. We will also seek external assessment of the value of the information service. Appendix 2 provides more details on the performance assessment approach.

High quality policy advice and technical support

To achieve our advice objectives, we must be a competent, credible and relevant source of information and advice to the Minister and Department of Social Protection. Our advice will be provided at the initiative of The Pensions Board, at the request of the Minister and the Department, and by providing direct technical support to the work of the Department and other agencies of Government.

We will implement this strategy as follows:

- We will participate in the implementation of the National Pensions Framework with the objective of implementing auto-enrolment (subject to economic conditions) and a defined benefit framework that will promote better pensions security and long-term stability

- The Board will actively work with the Department of Social Protection and other relevant departments and agencies to promote the simplification of pension structures and pension taxation

- The Pensions Board will work to secure further regulatory powers to ensure adequate governance of pension schemes
- The Board will continue to be the primary source of information and advice for Government about supplementary pensions, and will maintain its knowledge through ongoing contact and dialogue with pension stakeholders
- The Board will participate in European activities through its membership of the European Insurance and Occupational Pensions Authority in order to contribute to and anticipate developments that will affect Irish pensions

The effectiveness of our activity in this area will depend on its usefulness to the Department of Social Protection and other relevant Departments, and we will rely on their assessment of our performance and actively seek feedback.

Organisational issues

The Pensions Board is aware of its responsibility as a government agency to achieve and demonstrate value for money and efficiency in all its activities.

The Board will actively investigate and pursue opportunities for cost savings and efficiencies including the use of shared services and outsourcing. The Board will make maximum use of ICT to optimise efficiency and to focus regulatory activity on areas of greatest risk.

The Board will only be able to achieve its objectives if its staff is well trained and has up to date skills and knowledge. Relevant training and development, both formal and informal, will be necessary to maintain the calibre of our staff and will be an important part of our activities.

Appendix 1 - Analysis of External and Regulatory Environment

Introduction

This appendix outlines the external factors which are likely to impact on the role and work of the organisation over the period of this strategy. These include the economic situation and outlook; demographic prospects; wider EU and international policy developments; and the national policy context. In addition, an analysis of the regulatory context in which the Board operates and of the Executive's view and experience of regulated entities is included.

Economic and fiscal context

The economic context in which the Board operates has changed significantly since the previous strategy was published in 2006. Contrary to expectations at that time, the economy has experienced a severe recession with economic activity falling sharply over recent years and an associated rapid deterioration in the public finances. While official forecasts project a recovery in the economy with GDP growth of about 3 per cent between 2012 and 2014, a considerable degree of uncertainty attaches to this outlook.

Over the period of this 2011 – 2015 strategy, the Government is committed to a major adjustment in the public finances. As agreed under the terms of the *EU/IMF Programme of Financial Support for Ireland,* the intention is to reduce the general government deficit from 10 per cent of GDP in 2011 to less than 3 per cent by 2015. As detailed in the EU/IMF agreement, this will involve both reductions in public expenditure and increases in taxation. This adjustment process will have significant implications for pensions. A reduction in private pension tax reliefs is one of the Revenue measures included in the agreement. More recently, a temporary four year annual levy of 0.6 per cent on the assets of pension funds has been introduced to fund the measures included in the *Jobs Initiative*.

As regards pensions, the international crisis in financial markets resulted in very significant falls in asset values, particularly in 2008. While markets have recovered to some extent subsequently, the very difficult recessionary conditions have limited the capacity of employers and scheme members to address funding or other shortfalls. Pending an upturn in the economy, these pressures will persist during the period of this strategy.

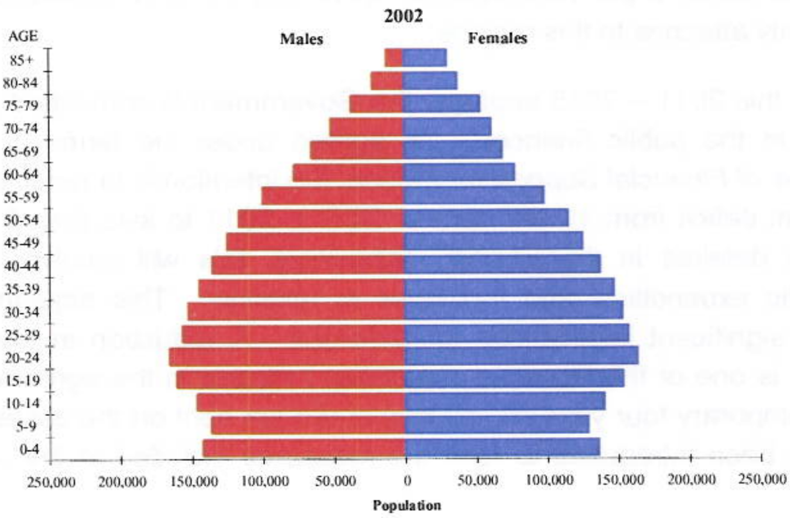
Demographic outlook

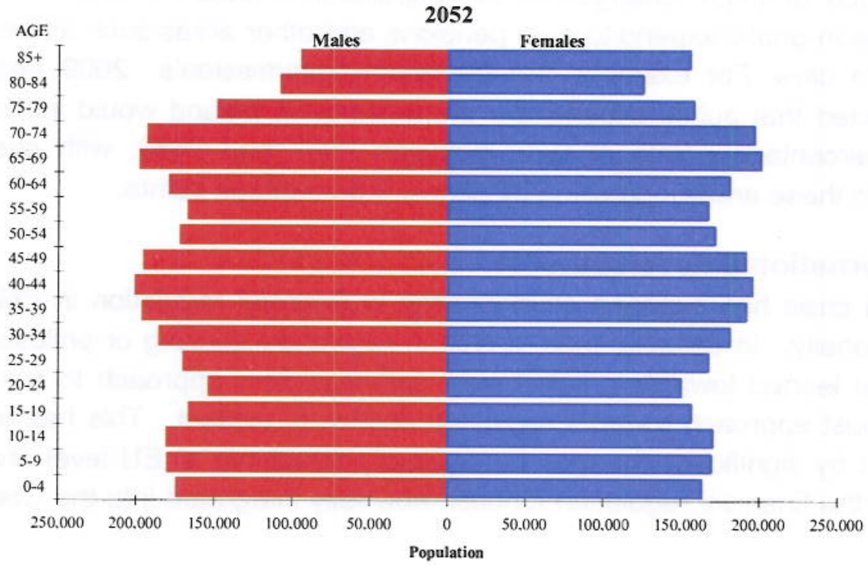
Looking further ahead, a number of expected demographic changes will present significant challenges to the Irish pensions system in the years ahead. For example:

- Over the next 10 years, the number of people over the age of 65 is expected to increase by approximately 50 per cent and by 2050 it is expected to have trebled
- Life expectancy for men and women born in 1996 is 73 and 78.5 years respectively. For men and women born in 2041 these figures are expected to increase to 86.5 and 88.3 respectively.

Chart 1 compares the distribution of the population by age in 2002 with the projected distribution in 2052, showing the significant increase at older ages (source: Pensions Green Paper).

Chart 1: Age distribution of the Irish population in 2002 and 2052





The task of financing increasing pension spending will fall to a diminishing share of the population as demographic projections indicate that there will be approximately two people of working age to every person aged 65 or over by the middle of the century, compared to almost six people today.

Table 1: Summary of Population Projection (000s)*

Age Group	2006	2011	2021	2031	2041	2051	2061
20-64	2,644	2,880	3,120	3,318	3,411	3,238	3,287
65+	472	538	750	1,019	1,337	1,733	1,816
Total	4,281	4,660	5,278	5,709	6,063	6,337	6,470
Pensioner Support Ratio	5.6	5.4	4.2	3.3	2.6	1.9	1.8
Total Support Ratio	1.6	1.6	1.4	1.4	1.3	1.0	1.0

*Source: Green Paper on Pensions, 2007

A consequence of these changes in the population structure will be a very significant rise in public expenditure on pensions and other areas such as health and long-term care. For example, the European Commission's 2009 Ageing Report projected that public expenditure on pensions in Ireland would increase by over 6 percentage points of GDP between 2007 and 2060, with overall expenditure in these areas increasing by almost 9 percentage points.

EU and international developments

The financial crisis has exposed shortcomings in financial regulation in Ireland and internationally. In consequence, a shift in regulatory thinking or philosophy from one that leaned towards a light-touch, self-regulatory approach to a more intrusive, robust approach towards regulated entities is evident. This has been accompanied by significant changes in regulatory structures at EU level and in Ireland (with the financial regulation function now fully integrated into the Central Bank).

As part of the EU response to the financial crisis, the EU has established three European micro-prudential supervisory authorities as well as the European Systemic Risk Board at macro-prudential level. The European Insurance and Occupational Pensions Authority (EIOPA) has replaced the previous Committee on European Insurance and Occupational Pension Supervisors (CEIOPS). Compared with its predecessor, EIOPA enjoys enhanced powers and greater authority in a number of areas including the development of binding technical standards.

More generally, pensions issues are receiving increased policy attention at EU level. The European Commission published its *EU Green Paper on Pensions* in 2010. The Green Paper adopted an integrated approach across economic, social and financial market policies and was aimed at launching "a European debate through extensive and early consultation on the key challenges facing pension systems and how the EU can support Member State efforts to deliver adequate and sustainable pensions".

The Green Paper highlighted the challenges facing pensions systems in Europe, including population ageing and the associated projected rise in age-related expenditure. It noted that these challenges had been significantly aggravated by the economic crisis which led to a worsening of fiscal positions in Member States and deterioration in the solvency positions of many pension schemes. On the basis that the overarching objectives of pensions reforms should be to ensure the adequacy and sustainability of pensions systems, the Commission identified a wide range of issues and questions for discussion including the removal of obstacles to pensions mobility, gaps in EU regulation, improving the solvency regime for pension funds, and the governance of pensions policy at EU level. Following the recently concluded consultation process, the Commission will publish a White Paper on pensions later in 2011 and has begun work on a revision of the IORP (Institutions for Occupational Retirement Provision) Directive. The indications from the Commission are that this review will incorporate significant development of EU oversight of pensions, including solvency standards.

Pensions issues also feature on the Europe 2020 Agenda, the EU's agreed growth strategy for the next decade. One of the seven associated flagship initiatives, the European platform against poverty and social exclusion, commits to the production of a White Paper on pensions in 2011 as previously mentioned.

Government policy

The National Pensions Framework

The National Pensions Framework (NPF) was published in March 2010 and sets out plans for reform of the pensions system. The aim of the NPF is to deliver security, equity, choice and clarity for the individual, the employer and the State. It also aims to increase pension coverage, particularly among low to middle-income groups and to ensure that State support for pensions is equitable and sustainable.

The Framework sets out an overview of proposed changes to State and private pensions provision, which it is intended will be implemented over the period of the strategy. The most significant aspects relevant to The Pensions Board are:

- The Government would seek to maintain the State pension at 35% of average earnings
- A series of increases in the retirement age for State pension purposes to 68 by 2028; subsequently this reform was included as a commitment in the Memorandum of Understanding agreed with the EU authorities and the IMF and the relevant legislation was recently enacted
- Changes in tax reliefs on pension contributions

- Changes in occupational pension provision including a review of the regulatory powers of The Pensions Board, proposals for a new form of defined benefit scheme design and an extension of options available to defined contribution scheme members at retirement (implemented as part of the 2011 Budget and Finance Act)
- Introduction of an auto-enrolment scheme, tentatively scheduled for 2014.

All aspects of the Framework are subject to economic circumstances. The proposals on changes to tax relief were in effect superseded by the National Recovery Plan 2011-2014, which provides for a sharper reduction in the value of tax reliefs on pension contributions (currently included as an agreed revenue raising measure as part of Ireland's agreement with the EU and IMF).

An implementation group, chaired by the Department of Social Protection was established in May 2010. In addition, it includes representatives from the Department of Finance, the Department of the Taoiseach, the Department of Jobs, Enterprise and Innovation, The Pensions Board and the Office of the Revenue Commissioners. Four sub-groups dealing with particular aspects of the NPF have also been set up. During the implementation phase, which is expected to take three to five years to complete, there will be consultations on the detailed reform arrangements.

Other policies

The Programme for National Recovery (referred to above) and the terms of the EU/IMF Programme of Financial Support for Ireland target a reduction in the public sector pay bill through reductions in staff numbers and for the full implementation of the Public Service (Croke Park) Agreement to create a more efficient and effective public service. This latter agreement recognises that the Public Service will need to be re-organised and public bodies and individual public servants will have to increase their flexibility and mobility to work together across sectoral, organisational and professional boundaries. As a State agency, The Pensions Board is covered by the State Agency Action Plan and is in discussion with the Department of Social Protection on an action plan to secure service improvements and efficiencies.

Pensions and Regulatory Environment

As part of the development of The Pensions Board strategy for 2011-2015, it is useful to set out The Pensions Board Executive's analysis of the pensions environment and its view and experience of those people and entities it regulates.

Overview of regulatory environment

As of end-2010, the Board was responsible for overseeing approximately

- 1,000 DB schemes
- 100,000 DC schemes
- 190 pension administrators
- 13 PRSA providers

The most significant compliance issue is non-remittance of contributions by some construction industry employers. For the rest of the pensions industry, the Board generally encounters low levels of non-compliance. However, the ratio of the numbers of regulated entities to the resources of the Board mean that there are limits to the extent to which the Board can monitor this compliance, and so we must be cautious about drawing conclusions. The new data system, currently going live, will increase the Board's ability to track non-compliance.

More generally the Executive has concerns about compliance with the discretionary aspects of trustee responsibilities, especially in the areas of investment strategy, risk management and (for DC schemes) default investment strategy. In most cases, the trustees are acting in good faith but nonetheless, despite the good faith, such behaviour can have a significant effect on the benefits of members or their ability to access them. A more detailed analysis of the issues across the sectors and entities regulated by the Board and of the Executive's concerns follows.

Defined benefit schemes

DB schemes have significant deficits. Based on an analysis of the latest actuarial funding certificates (AFCs) submitted to the Board, some 59 per cent of schemes did not meet the standard as of the date of the certificate. Many schemes are likely to require significant restructuring.

In addition to these deficits, the Executive is of the view that, irrespective of their current deficits, DB schemes are highly vulnerable to further losses.

Work on the DB aspects of the Framework has been accelerated and is ongoing at the time of writing. It is intended to announce revised funding plan deadlines immediately thereafter.

There is a wide range of experience and knowledge on the part of trustees of DB schemes. Nonetheless, almost all of them are very conscious of their responsibilities and take their role very seriously. The Executive's concerns about DB trustees are set out below.

Irrespective of the composition of the scheme board, there does not seem to be enough awareness by some trustees that the interests of the employer and of scheme members are often not the same. This is especially true in the current difficult circumstances, and with regard to scheme funding decisions. It is frequently true that employers prefer to minimise contributions and to fund deficits over as long a period as is permissible. The Executive recognises that trustees are in a difficult position in these circumstances, but the result is that the primary dynamic is to oppose strengthening of liability bases, to minimise contributions and spread liabilities over long periods. As a result, it cannot be assumed that scheme trustees will of their own volition achieve adequate funding or sustainable contributions without regulatory intervention.

By international standards, Irish defined benefit schemes have invested a very high proportion of scheme assets in equities and higher risk assets. The result has been a considerable amount of investment risk for which schemes had no provision, and this has been the biggest single contributor to scheme deficits. There is no agreement about what has caused this problem, and of course there may be more than one reason. Among the suggestions have been:

- Inadequate trustee understanding of risk/return trade-offs and of liability matching
- Convergence in investment asset allocation strategies on the part of investment managers
- Employer pressure for higher returns
- The effect of prescribed actuarial bases which allow schemes to assume that equities will provide predicable higher long term returns.

It is worth noting that Board statistics show little correlation between the liability profile of schemes and their broad asset allocation.

The Pensions Board has been told that schemes are reducing their equity exposure to bring their liabilities and investment strategies into line. This is undoubtedly true for particular schemes, but equally, the Board has seen many other schemes where there is no such reduction taking place. The statistics available to the Board, both internal and external, show that in aggregate, there has been very little derisking. At a minimum, to the extent that it is taking place, it is extremely slow.

The conclusion is that it is not practical to rely on schemes to develop adequate risk management and investment strategies without Board guidance or intervention.

It is very common for trustee boards to include employer representatives. Many boards include employee representatives and, less often, there are representatives of other members. The Executive is concerned that in some cases, trustees nominated by or on behalf of a specific group tend to see their role as primarily one of representing that group. The result can be a failure to take account of the interests of all members of the scheme and inadequate decision making.

Defined contribution schemes

There are about 100,000 defined contribution schemes, including frozen and AVC schemes.

DC schemes have suffered the same level of investment losses as DB schemes, but there is much less awareness of this matter because there is nothing that corresponds to the regular actuarial assessment of DB schemes. However the general view would be that members do not understand the investment choices presented to them and are underestimating the benefits their savings will provide (data indicates that the average pension pot is less than €100,000).

For most DC schemes, the employer acts as the single trustee. This is standard practice among insurance companies, who set up and administer the great majority of smaller schemes: the smaller the scheme, the more likely it is that the employer is the only trustee.

The Pensions Board has encountered situations where employers were not even aware that they were trustees. In those cases where the employers are aware, there appears to be little understanding of the duties of trustees and it is unlikely that there has ever been a trustee meeting.

The major responsibilities of a DC trustee are:

1. making sure that the contributions are passed to the investment manager (almost always an insurance company)
2. ensuring that proper records are kept, benefits are paid correctly and when due, and appropriate documentation is provided to members
3. providing an appropriate investment choice and default investment for scheme members
4. ensuring that costs are kept reasonably low.

It should be noted that these responsibilities are not all set out in the Pensions Act, but may be partially defined under trust law – this is particularly true of no. 4.

The great majority of employers pass contributions over promptly, though The Pensions Board does not take this for granted. Proper records depend on the insurance company; appropriate investment will only take place if the insurance company chooses to do so, and the Board has serious concerns about the investment choices and how they are communicated. The view of the Executive is that few if any trustees concern themselves with DC scheme costs.

The registration and regulation of administrators was proposed by The Pensions Board in response to this situation.

Registered administrators and PRSA providers

There are some 190 registered administrators and 13 PRSA providers. Of the registered administrators, the largest 25 account for the great majority of the occupational pensions schemes in Ireland.

In many organisations, pensions administration and compliance has not traditionally been a high priority. Although there were exceptions, the result in many cases was poor quality administration, inadequate records and manual procedures supplementing or overriding IT inadequacies.

There has been a considerable improvement in standards in recent years, because of changes in attitude to compliance, higher service standards and, to some extent at least, the introduction of Pensions Act fines and the regulation of pension administrators. In general, administration firms are now proactive about identifying problems and bringing them to the attention of The Pensions Board.

The Pensions Board does not yet have enough experience of on-site investigation of registered administrators to provide a detailed assessment of administration standards. There are still administration issues, especially with regard to manual records, but in general standards are improving, and it is the Executive's view that there is a commitment to continued improvement.

Summary and implications for strategy

The key points from the above review of relevance to the preparation of a strategy for The Pensions Board are as follows:

- Pensions have been significantly affected by the economic crisis and the economic environment remains challenging for pensions. In particular, the difficulties in the public finances and the required fiscal adjustment over the period to 2015 may have significant implications for the taxation treatment of pensions

- Demographic pressures will put increasing pressures on the pensions system in the decades ahead; in particular public pensions expenditure is projected to rise sharply in the absence of policy changes

- There is increasing EU-level interest in pensions policy and changes in the EU legislative and solvency frameworks for pensions are likely over the period of the strategy

- In response to the financial crisis, significant changes are underway in financial regulation. Light-touch financial regulation is in retreat and new regulatory structures with enhanced powers, including pensions, have been established at EU-level

- The National Pensions Framework articulates the pensions policy framework in which the Board will be operating. However, the implementation of some elements of the NPF will be affected by the need to restore a sustainable budget position and by the commitments and policy constraints arising from the EU/IMF Programme of Financial Support

- As a State agency, The Pensions Board will need to remain focused on improving its effectiveness and efficiency over the period of the next strategy

- Owing to the large number of regulated pension entities, there are significant challenges for the Board in ensuring compliance. The acute funding problems in the DB sector are such that this area will require significant attention over the next few years

- In DC pensions, the main concerns are in the areas of administration, investment choice and the level of scheme costs.

Appendix 2 - Strategy Monitoring and Assessment

Introduction

This appendix elaborates on the approach that will be used to monitor and assess progress with the implementation of the strategy. It also lists the various indicators that will inform the process. It should be borne in mind that the approach to monitoring and performance assessment is an evolving one. The approach presented here will be developed and refined over the period of the strategy, including through additions, deletions and modifications of the indicators, to ensure that the assessment is robust and fit for purpose.

Overview of approach

The arrangements for strategy monitoring and assessment will include the following elements:

- An annual monitoring exercise based on a set of monitoring indicators (see Table 1 below) and other qualitative inputs/analysis
- A mid-term assessment of performance will be undertaken by the Board in late 2013. This will be informed by a set of key performance indicators (see Table 2) and additional qualitative analysis including an update of the external and regulatory environment analysis included in the strategy (Appendix 1)
- A final assessment by the Board in the second half of 2015 on a similar basis to the mid-term exercise. The outcome of this review will serve as an input to the Board strategy for the following period.

Annual monitoring

The annual monitoring exercise will focus on the implementation level of the strategy (ie, Section 4 of the strategy document). It will be informed by a number of activity indicators (see Table 1 below) for which annual targets will be set (the 2011 targets are shown below). For the regulation area, the targets will be set by the Chief Executive and discussed with the Board on the basis of an ongoing analysis and re-assessment of the appropriate mix of activities and supervisory tools given prevailing circumstances. In the case of information and guidance, it is not proposed to set activity targets given that activity levels are essentially demand driven.

Table 1: Annual monitoring indicators

Function and proposed indicators	2010 baseline/ outturn	2011 target
Regulation		
1. No. of level 1 and level 2 meetings with DB and public sector schemes*	4	12
2. No. of level 1 and level 2 meetings with registered administrators/providers (incl. PRSA providers) and DC schemes	15	6**
3. No. of on-site inspections of registered administrations and PRSA providers	5	14**
4. No. of Construction Workers' Pension Scheme (CWPS) on-site investigations	1	4
5. No. of prosecutions initiated (CWPS and non-CWPS)	10	20
6. No. of on-the-spot fine investigations launched	143	150
7. Proportion of schemes where no Registered Administrator appointed	26%	20%
8. No. of cases reported of non-remitted contributions to CWPS	83	100
Information and guidance		
9. No. of enquiries handled	7,000	No target
10. No. of unique website visitors	120,000	No target
Other		
11. Board membership attendance rate	82%	94%***

*At level 1 meetings, a broad range of compliance issues is discussed (e.g., funding, investment, scheme administration, disclosure) whereas level 2 meetings focus on a specific issue of concern.

**The 2011 targets for these two activities should be read in conjunction with each other and reflect a shift in emphasis from meetings with the regulated entities concerned on the Board's premises to more focused, forensic and resource intensive on-site inspections of those entities.

*** Target based on attendance rate at meetings held to date and on assumption of 100 per cent attendance at remaining scheduled 2011 meetings.

Mid-term and final assessment

The emphasis of the mid-term and final assessment processes will be on the extent of progress in attaining the five-year ambitions set out in the strategy. As these ambitions or objectives relate to outcomes that the Board can influence, if not completely control, it is important that progress at this level be assessed. While a number of 'key performance indicators' will inform this process (see Table 2 below), these indicators will form but one element of the assessment process and will be backed up by supporting qualitative analysis, to include both an interpretation of the indicators and analysis of relevant factors not lending themselves to quantitative analysis. As indicated above, this would include an update of the external environmental analysis underpinning the strategy.

The indicators are presented in the table below under the regulation, information and guidance policy advice and organisational effectiveness headings in line with the presentation of the five year ambitions at Section 3. Notwithstanding the internationally recognised difficulties in the development of outcome indicators in the area of regulation, it is hoped to expand the suite of indicators over the period of the strategy.[1]

[1] For example, the Australian Regulatory Prudential Authority (APRA) notes in its most recent (2007) *Statement of Intent* that "the development of meaningful performance indicators of the broader impact of prudential supervision is only at an embryonic stage, within APRA and globally".

Table 2: Key performance indicators

Board function and proposed indicators	Baseline position (2010)	2015 Target	Notes
Regulation*			See note below regarding DC regulation
1. Proportion of ongoing DB schemes meeting funding standard or following approved funding plan	42%	100%	
Information and guidance			
2. % of stakeholders satisfied/very satisfied with quality of Board information and guidance material	To be established through survey of email alerts database (3000+)	Target to be set once first survey undertaken	
3. % of respondents satisfied/very satisfied with Board response to enquiries	To be established through survey of recent enquiries	Target to be set once first survey undertaken	
Policy advice			
4. Effectiveness of the policy advice function will be assessed via feedback from the Department of Social Protection and other relevant departments	Qualitative	Qualitative	To be assessed on the basis of interviews with key officials in Departments of Social Protection and Finance undertaken by Chair with assistance of 1 or 2 other Board members
Corporate/Organisational Effectiveness			
5. Variance of annual Board expenditure vis-á-vis budget estimate	-8% Budget 2010 €6.1m Exp 2010 €5.6m	<= Expenditure Budget	Annual target. The Board's Finance and Audit Committee has an ongoing role in monitoring budget

*The strategy identifies default investment strategies and scheme costs as key issues for regulation of DC schemes. It is intended to consult with the insurance industry as regards the use of default investment strategies; depending on the outcome it may be possible to develop an appropriate indicator in due course. The Board has been asked by the Department of Social Protection to assist in collecting data on pension charges and it may be possible to develop an indicator relating to DC scheme costs at a later stage.

An Roinn Coimirce Sóisialai
Department of Social Protection
www.welfare.ie

Note for Information on Changes to Defined Benefit Pension Provision

Overview

The Government has approved a number of changes to defined benefit (DB) pension provision to help ensure its sustainability, enhance the security of member benefits and increase equity between members of DB schemes, as follows:

- The existing Funding Standard (amended to give credit for the purchase of sovereign annuities) will be restored for a three year period. Details will be announced by The Pensions Board.
- The Funding Standard will be reformed and strengthened by requiring DB pension schemes to hold a risk reserve as a protection against future volatility in the financial markets. Ultimately, schemes will need to be able to meet the requirements of the new Funding Standard in 11 years (by approx. 2022).
- The way in which pension scheme accrued benefits are revalued will be changed to ensure equity between those who have left the scheme (deferred members) and existing employees (active members).
- The priority order in which funds are disbursed when a scheme winds up in deficit will be changed. Specifically, a threshold will be introduced which will change the 100% priority given to pensioners. This will allow for a better return to existing and former employees who have not yet retired.
- The Pensions Board will be given powers to wind up schemes in certain limited circumstances.

Guidance for schemes on the operation of sovereign annuities is available on the Pension Board website. This will give insurance companies guidance on the operation of the sovereign annuities, and enable them to develop and issue such contracts. The availability of sovereign annuities will provide scheme trustees with further options when managing their schemes.

Legislation will be introduced to implement these changes over the coming months.

ENDS

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Detailed Information

A. Funding Standard

The existing Funding Standard will be restored initially which will give underfunded schemes 3 years in which to restore their funding levels to the current standard. The Pension Board will announce the details shortly.

After this 3 year period, the revised Funding Standard will apply to schemes. When the Funding Standard is amended, all funded defined benefit pension schemes will be required to hold additional assets in excess of those currently required by the Funding Standard as a risk reserve, to provide an additional level of protection for the benefits of scheme members against future volatility in financial markets. Schemes will have an approximate maximum period of 11 years (until 2022) to meet the new Funding Standard.

It is estimated that the provision of risk reserves will add a further 10% to the scheme funding requirements. However, schemes can consider a number of measures to adjust their asset base to satisfy the risk reserve requirements, as follows:

- Schemes that move away from investing in equities towards bonds would be credited under the Funding Standard; and

- The purchase of sovereign annuities will ease the funding liabilities on schemes and therefore reduce the level of risk reserves required;

Also, where an employer is willing to provide a guarantee (which can be enforced), the possibility of accepting this as alternative is being considered.

B. Revaluation of Scheme Benefits

Defined benefit pension schemes apply a revaluation rate (annual increase) to deferred members (people who have left the scheme and are no longer contributing) at a rate which can give rise to the benefits of deferred members being revalued at a more favourable rate than that applied to the active scheme members (those who are still contributing to the scheme). The Pensions Act will be amended to change the revaluation rate to provide for greater equity in the accrual of pension rights between active and deferred scheme members.

C. Power to wind-up a scheme

The Pensions Board will be given powers to require the trustees of a scheme to wind up the scheme in certain limited circumstances, such as where a scheme is underfunded and the trustees and employer are not in a position to adopt a funding proposal, and where it is clear that the position will continue to deteriorate.

D. Change to Pension Scheme Wind-up Priority

The Pensions Act sets out the order in which the assets of a pension scheme must be applied in the event of a scheme wind-up. The statutory order of priority is of no consequence where a scheme winds up with sufficient assets to meet all of its liabilities. In a wind–up situation, all pensioner benefits except provision for post retirement increases are given the highest priority after wind-up expenses and additional voluntary contributions made by individuals. Any remaining assets are then divided according to the accrued liabilities amongst active and deferred scheme members.

If a scheme is under-funded, the assets remaining after the distribution of assets in respect of payment to pensioners may not be sufficient to meet the liabilities of the active and deferred members. In some cases, they may receive much less than the promised benefit after the commitments to existing pensioners have been satisfied. These provisions can give rise to significant inequities in the distribution of assets where an underfunded scheme is being wound-up.

The Pensions Act will be amended to provide for a more equitable outcome for all scheme members who have contributed to the pension fund. This amendment to the Pensions Act will be subject to detailed drafting considerations:

- Continue to prioritise existing pensioners and ensure that they receive their benefits, but only up to a level of €30,000 (two and half times the State pension) or 75% of expected benefits whichever is the lower.

- Assets in the scheme would then be distributed among active and deferred members to the same limits.

- Pensioners would then get priority in the distribution of the remaining assets before any further assets are distributed to active and deferred scheme members

The approach that will be adopted will ensure that in the unusual event of a scheme winding up in deficit, the current balance will be tilted so that active and deferred members will receive a greater proportion of their expected benefit than they would otherwise , while ensuring that pensioners are still protected.

E. Sovereign Annuities

A sovereign annuity is new type of annuity product where payments under the policy will be directly linked to the proceeds of Euro denominated bonds issued by any EU Member States. Legislation was introduced to allow scheme trustees to use such annuities to meet their obligations to scheme pensioners. The Pensions Board will certify sovereign annuity products. The certification process will ensure that the annuity products for pensioners are allowable for pension purposes under the Pensions Act. The guidelines for providers have been published on the Pensions Board website.

This initiative widens the options available to the trustees of defined benefit (DB) schemes. If they choose to buy sovereign annuities and continue to pay the pensions from the fund, it will have the effect of reducing their pensioner liabilities under the funding standard. However, where sovereign annuities are purchased in the pensioner's name (rather than the scheme name) payments will be made directly to the pensioner by the insurance company, and there will be no further link to the scheme. Any potential risk is passed from the scheme to the pensioners.

Where scheme trustees buy sovereign annuities, the payment of those annuities will be linked directly to the bonds underpinning the annuity. In the case of sovereign annuities linked to Irish bonds, these bonds are guaranteed by the Irish Government. Because sovereign annuities are likely to be less expensive than other pension products, the purchase of these annuities would make additional assets available to secure the benefits of active and deferred scheme members.

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