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## Good Pension Scheme Governance *what does it mean and am I doing it?*

Paul O'Brien  
Presentation to IIPM  
21 February 2008

# Governance

- Governance
  - **develops** and **manages** consistent, cohesive **policies, processes** and decision-rights for a given area of responsibility
- For pension schemes:
  - Who: **the trustees** (and soon, Registered Administrators)
  - What: all legislative requirements, **as a minimum**
  - When: ongoing, an annual cycle
  - **Why: to avoid**



# Good governance implies

- Trustees knowing the **environment** in which they operate
  - Their role and what is expected of them
  - What a trustee's responsibilities are – legislative minimum and what the other stakeholders expect
  - What support is available to them
- Developing an action plan or **governance framework**
  - Identify potential areas of risk
  - So the trustees can monitor and assess
  - Demonstrate carrying out responsibilities

# Good governance requires you to

- **Focus** on what has to be done
  - Adding detail to the high level plan
  - Understand the steps involved, so progress can be monitored
- Develop specific **processes and controls**
  - Prioritise important activities
  - Allocate resources and responsibilities
  - Set timescales for delivery
  - Reporting and validation

# Pension scheme governance

## Recognise key stakeholders

- Beneficiaries – current members, retired, future
- Employer(s)
- Sponsor
- Trustees



## Regulators and inspectors

- Pensions Board
- Revenue (pensions)
- Revenue (income and corporate taxation)
- Pensions Ombudsman

## Contractors and advisors

- Investment manager(s)
- Scheme actuary
- Administration function
  - Internal aspects
  - External outsourcing
- Consultants
  - Benefits
  - Actuarial
  - Investment
  - Projects and governance
  - Communications
  - Administration and scheme management
- Legal advisors
- Accountants

# Environment in which trustees operate

- Role, responsibilities and what is expected of trustees
  - Trustee qualification and training requirements
  - Trust Law, the Pensions Act and EU IORPs Directive
  - Trustee handbooks, codes of practice
  - Scheme governance structures in place
  - Skills, qualifications and abilities of trustee group collectively
  - How the trustee group organises itself
  - Sources of support
    - Pensions Board
    - IAPF
    - Fellow trustees and other trustee boards
    - Contractors and advisors
    - Trustee Training/Trustee Forum



# Good pension scheme governance means

- The trustees managing and overseeing the proper
  - Investment of the scheme's assets
  - Payment of benefits by the fund
  - Record keeping and collection of contributions
  - Communication of information to members
  - Adherence with regulatory requirements

# Pensions Act outlines

- Core responsibilities – **financial** aspects
  - Ensure contributions due are received
  - Ensure contributions are remitted
  - To invest the funds
  - Apply resources in wind up
- Core responsibilities – **member related** aspects
  - Pay benefits
  - Preserve or transfer benefit entitlements
  - Disclose specified information to members
  - Ensure equal pension treatment
- Core responsibilities – **record keeping**
  - Keep records and accounts
  - Register scheme
  - Meet funding standard



# Developing a governance framework

- List key activities completed each year
- Note statutory timeframes and deadlines
- Identify items on longer cycles
- Explore areas where minimum requirements can be enhanced towards best practice
- Develop plan of action

## Adding focus, creating processes and controls

- Start with plan of action
- Focus on steps within each process and add detail
- Identify timescales
- Identify skills needed and those available internally
- Engage with other stakeholders and participants
- Assign ownership and deliverables
- Agree reporting requirements and timescales
  
- Monitor progress

# Examples of a governance plan in action

## Governance plan item

Investing the scheme assets

## Background environment

Know investment powers under Trust Deed  
Pensions Act and IORP requirements  
Statement of Investment Policy Principles  
Input from stakeholders  
Understand scheme's liabilities and risks

## Focus on detail

Investment strategy to be adopted  
Number and remit of managers  
Selection and assessment criteria  
Communication to stakeholders  
Develop trustee knowledge

# Examples of a governance plan in action

<b>Governance plan item</b>	Investing the scheme assets
<b>Background environment</b>	Know investment powers under Trust Deed Pensions Act and IORP requirements Statement of Investment Policy Principles Input from stakeholders Understand scheme's liabilities and risks
<b>Focus on detail</b>	Investment strategy to be adopted Number and remit of managers Selection and assessment criteria Communication to stakeholders Develop trustee knowledge
<b>Processes and controls</b>	Deciding on review group structures Agreeing performance benchmarks Setting manager reporting frequency and content Establish service level agreements Determine operational aspects Monitoring against benchmarks Reviewing manager structure Review SIPP

# Examples of a governance plan in action

<b>Governance plan item</b>	Paying the benefits
<b>Background environment</b>	<p>Understand provisions of Trust Deed and Rules</p> <p>Document any scheme practices – eg early retirement, commutation, IDR</p> <p>Understand where trustees have discretion and in what circumstances it can be exercised</p> <p>Review scheme communications</p>
<b>Focus on detail</b>	<p>Scheme processes - pensioner payroll, retirement and leavers, death benefits</p> <p>Communications material</p> <p>Administrative aspects, interaction between employer(s), advisors and contractors</p>

# Examples of a governance plan in action

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<b>Processes and controls</b>	<p>Agreeing decision making structure</p> <p>Forward planner for known benefit payments</p> <p>Pensioner register, insurance confirmations, expression of wishes forms</p> <p>Establish service level agreements</p> <p>Monitoring against benchmarks – an agenda item</p> <p>Periodic review of scheme practices, IDR, documentation and scheme communications</p>

# Examples of a governance plan in action

<b>Governance plan item</b>	Managing the record keeping
<b>Background environment</b>	Agree what records need to be kept – member related, financial and scheme information Know what is required by legislation Be aware of data protection legislation
<b>Focus on detail</b>	Agree detail of records to be kept – member related, financial and scheme information Who should hold the records What system requirements are needed Administrative aspects, interaction between employer(s), advisors and contractors



# Examples of a governance plan in action

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<b>Focus on detail</b>	Agree detail of records to be kept – member related, financial and scheme information Who should hold the records What system requirements are needed Administrative aspects, interaction between employer(s), advisors and contractors
<b>Processes and controls</b>	Establish service level agreements Develop scheme administration guides Agree reporting requirements – general, summary and error/exception reporting Monitoring against benchmarks Periodic review of records kept and cross checking – an internal audit Maintain trustee minutes



## To take away

- Know your role and what is expected of pension scheme trustees
- Develop a governance framework
- Add the detail and develop specific processes and controls
  - Allocate responsibilities
  - Set timescales for delivery
  - Reporting and validation requirements
- Monitor and re-evaluate over time

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## IAPF Pension Market Survey 2007

Paul O'Brien  
IAPF Council Member

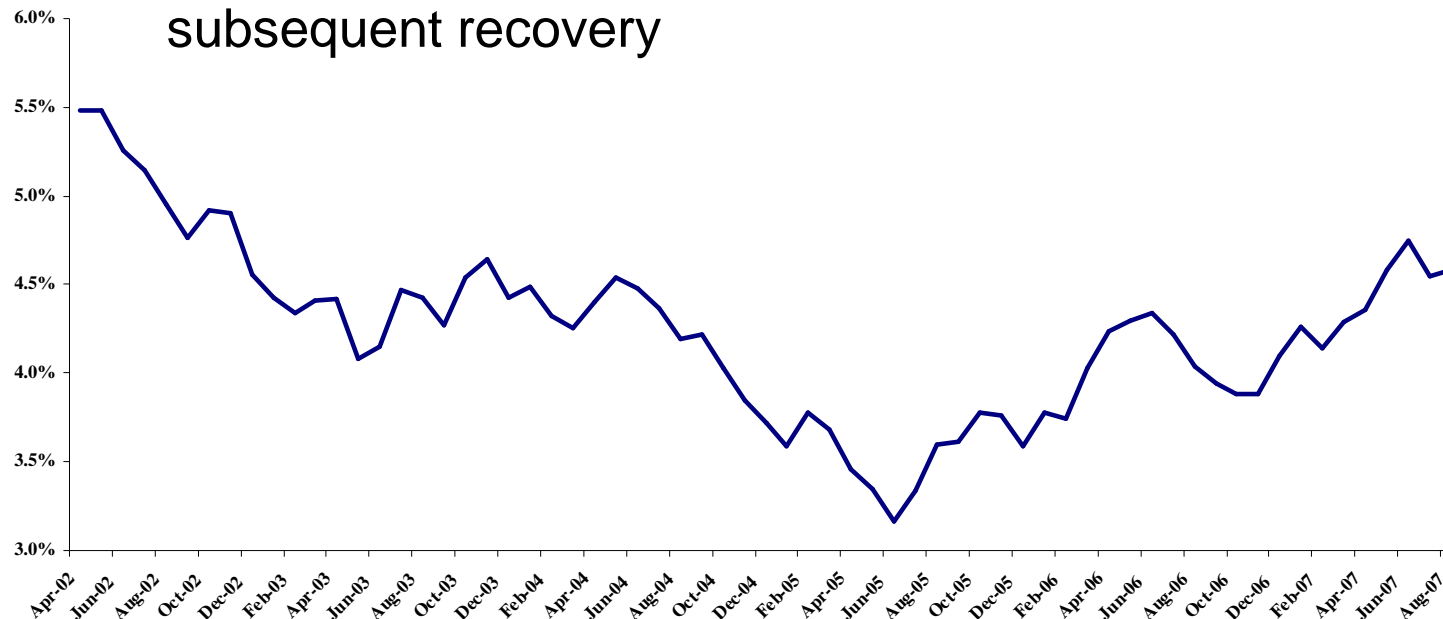
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# IAPF Pension Market Survey 2007

- Background
- Methodology
- Findings
  - Defined benefit
  - Defined contribution
  - Opinions

# Survey background

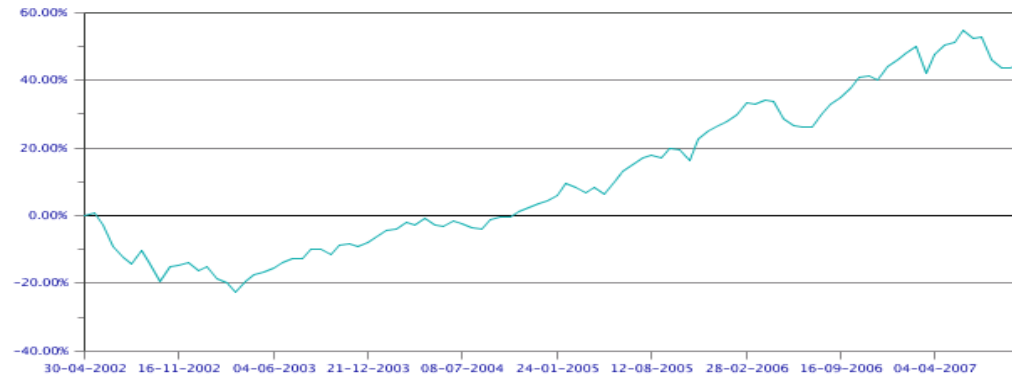
- Previous “Benefits Survey” – 2002
- Market development since then include
  - Mandatory access via PRSAs
  - DB liabilities affected by fall in bond yields and subsequent recovery



# Survey background

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- Market development since then include
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  - DB liabilities affected by fall in bond yields and subsequent recovery
  - DB schemes failing the Funding Standard
  - Rising markets – albeit with some volatility

Chart 1 Solvency trend



# Survey background

- Previous “Benefits Survey” – 2002
- Market development since then include
  - Mandatory access via PRSAs
  - DB liabilities affected by fall in bond yields and subsequent recovery
  - DB schemes failing the Funding Standard
  - Rising markets – albeit with some volatility
  - Increased pension publicity
    - National Pensions Awareness Campaigns
    - Pensions headlining at Partnership talks



# Survey objectives

- Identify the current benefit level of Irish occupational pensions schemes
- Identify opinions on topical pension issues

# Survey methodology

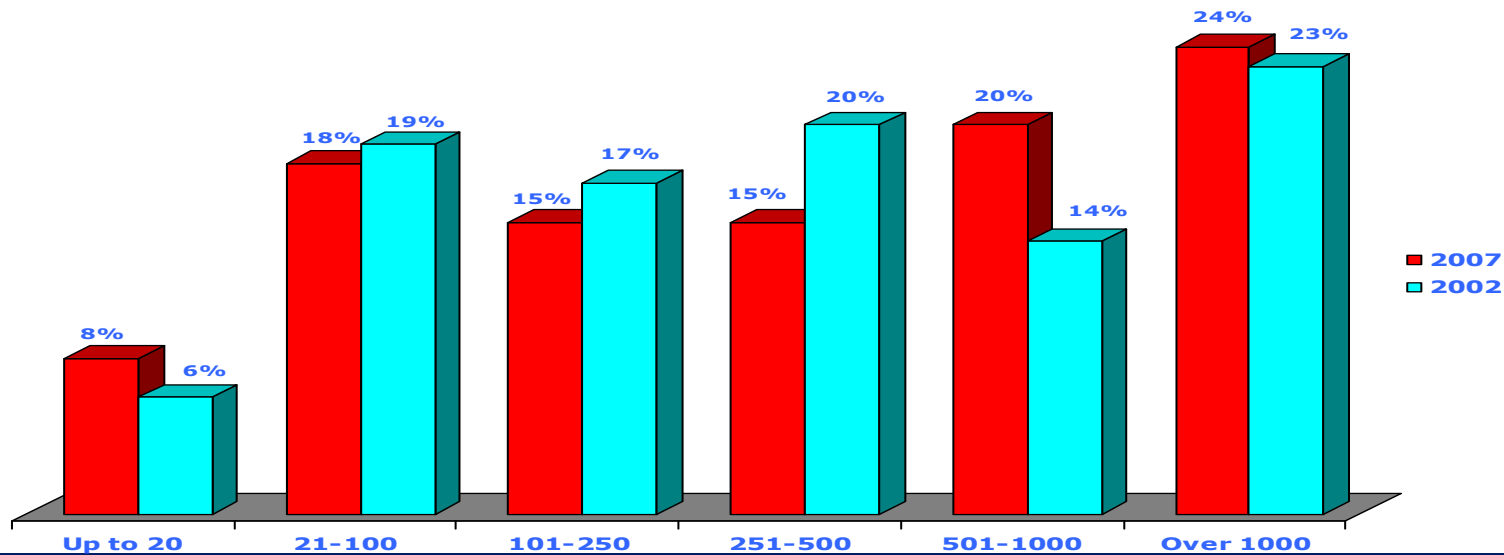
- IAPF Survey sub group established
- UCD Michael Smurfit School of Business engaged to carry out:
  - Postal survey
  - Follow up calls
  - Eight week response time
- Surveys were sent to:
  - 340 IAPF members; and
  - Approx. 160 non-member companies
- 132 respondents



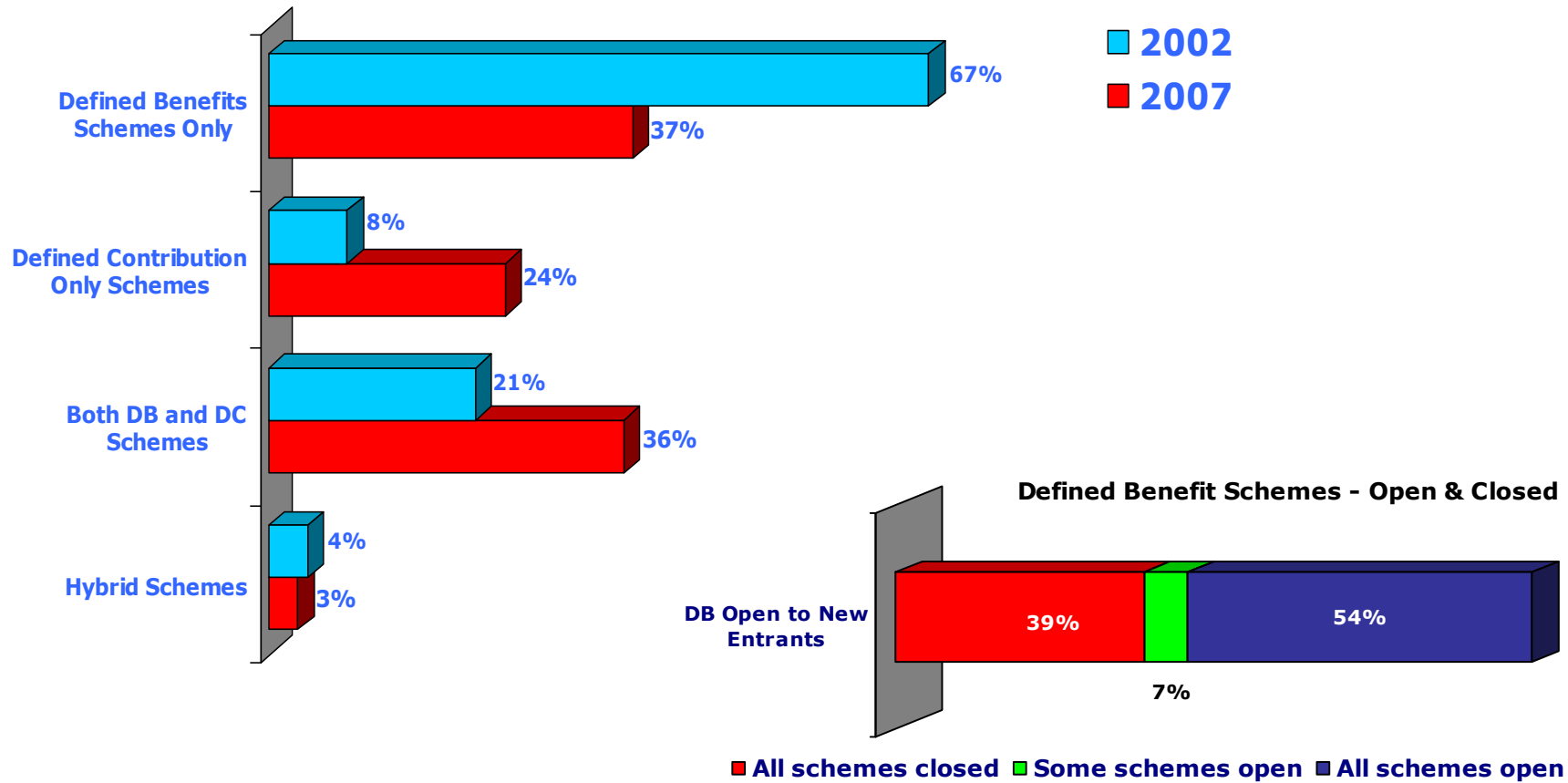
# Survey methodology

- The 132 respondents are not necessarily the same as those who completed the 2002 survey
- Intended to give a “flavour” of possible changes and trends

Approximately, how many people are employed in Ireland by your company/group?



# Respondents by Scheme Type



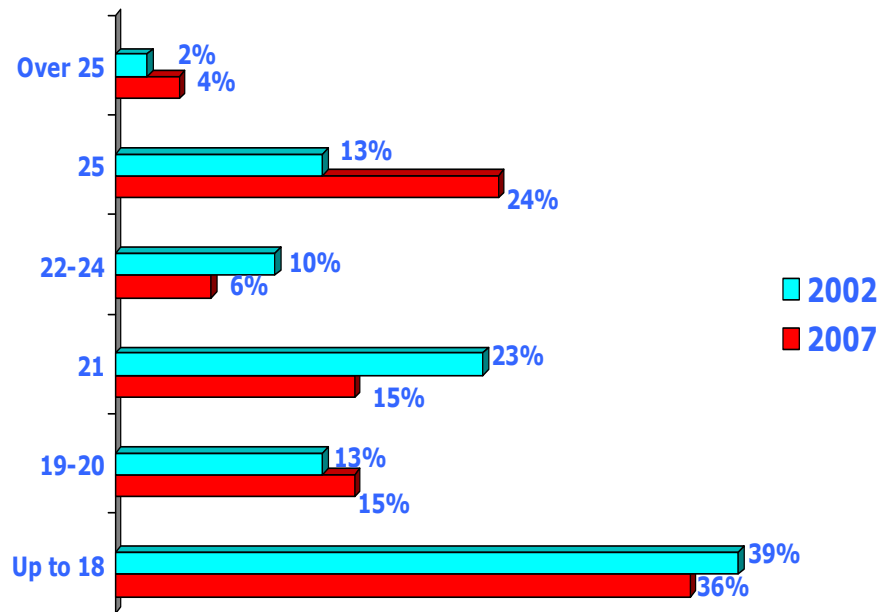
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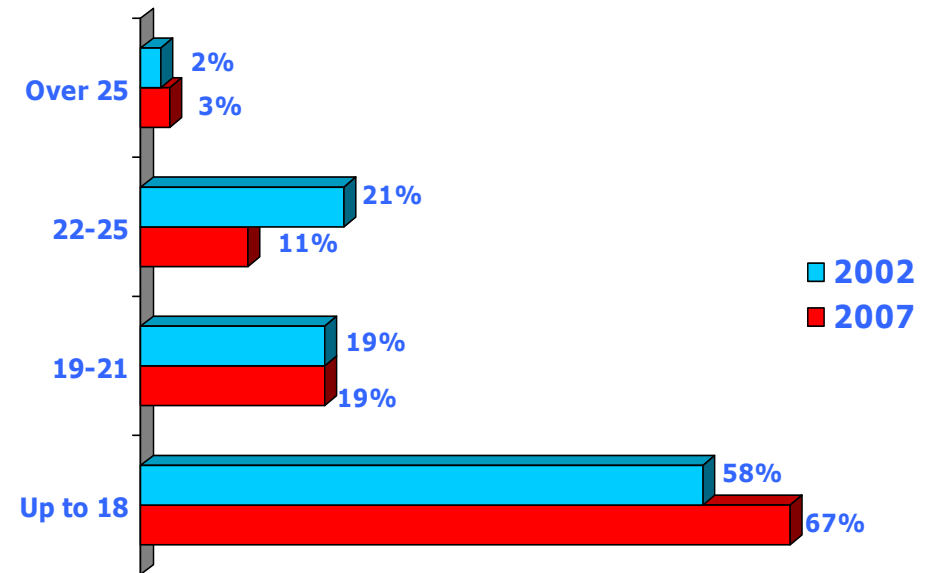
## IAPF Pension Market Survey 2007 Survey Findings

# Eligibility - age

Defined benefit schemes

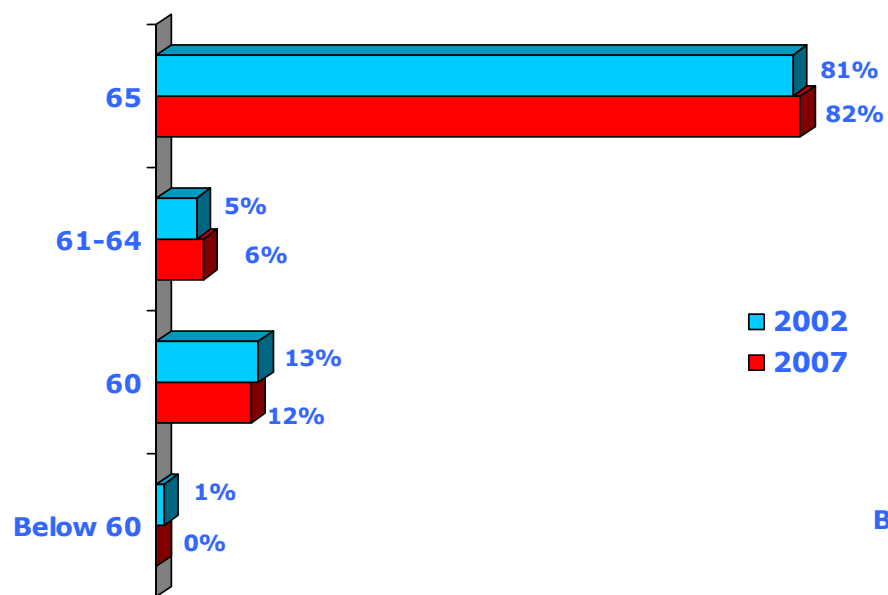


Defined contribution schemes

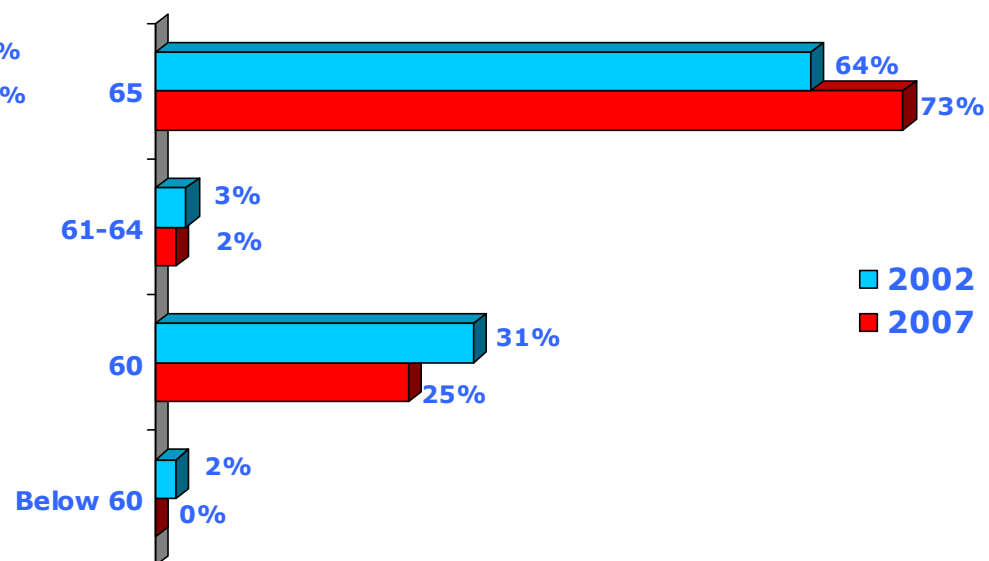


# Normal Retirement Age

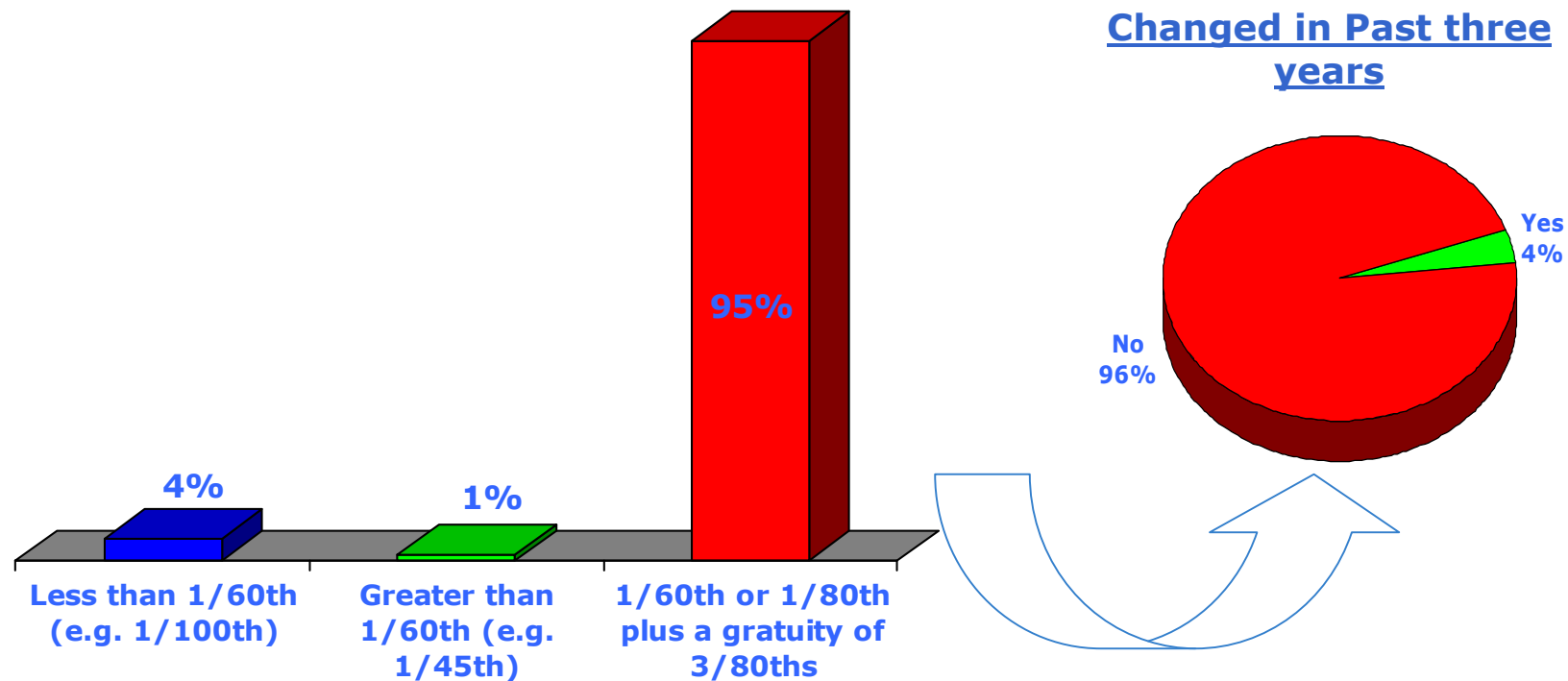
Defined benefit schemes



Defined contribution schemes

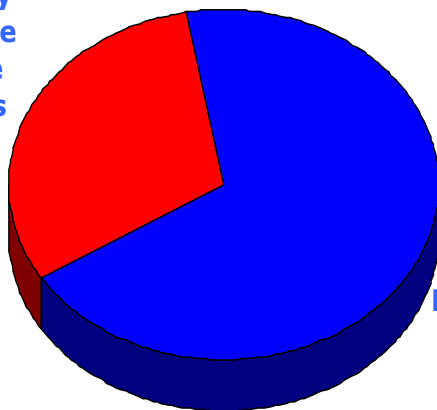


# Defined benefit schemes - benefit accrual



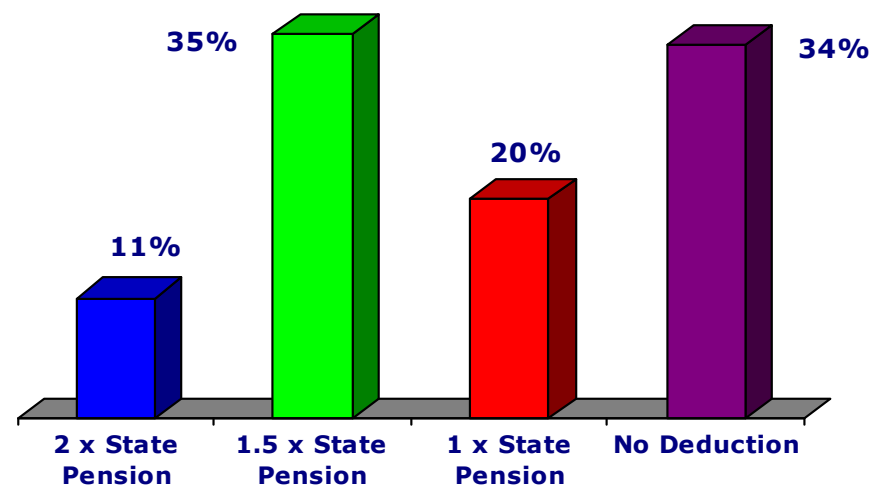
# Defined benefit schemes - pensionable pay

Basic Pay  
Plus some  
Variable  
Earnings  
31%

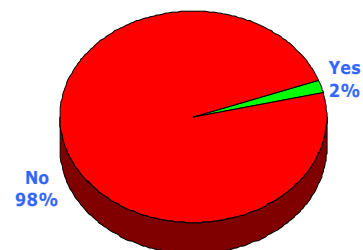


Basic Pay  
Only  
69%

## Multiple of State Pension Deducted

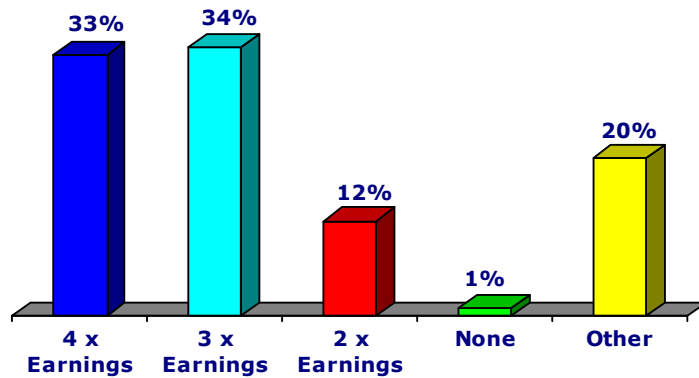


## Changed in Past Three Years

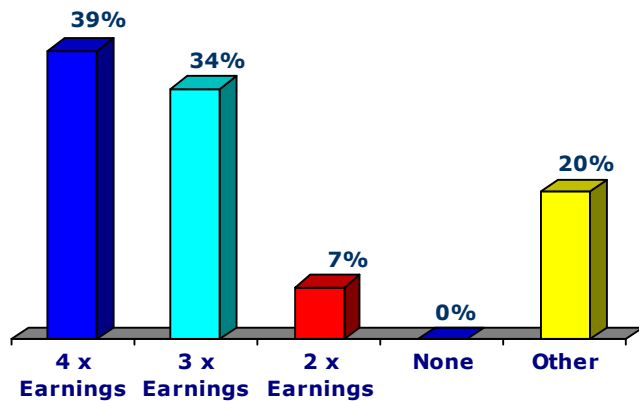


# Defined benefit schemes - life assurance benefits

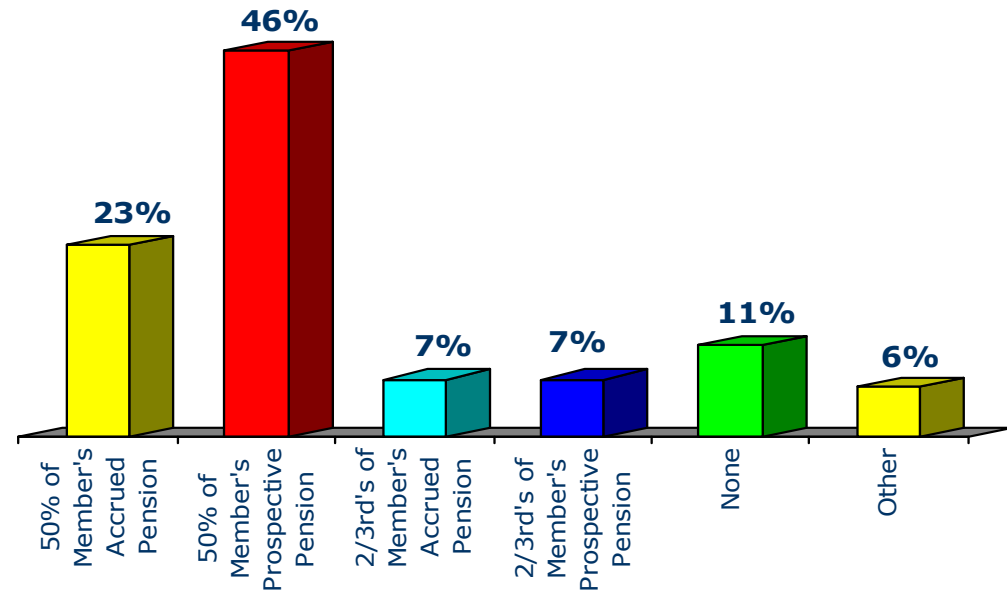
**Lump Sum Death Benefit- Single Person**



**Lump Sum Death Benefit - Married Person**

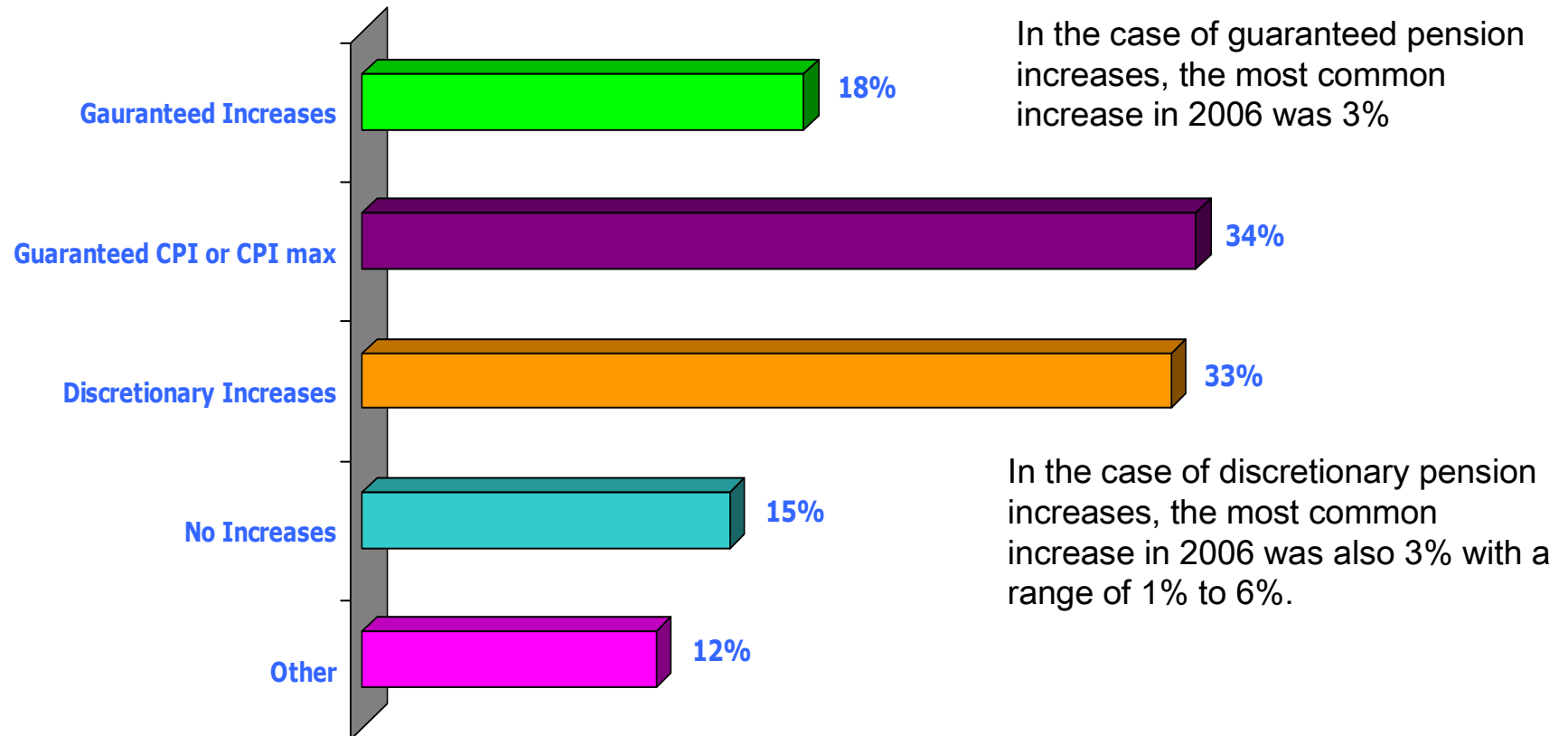


**Spouses Pension on Death in Service**



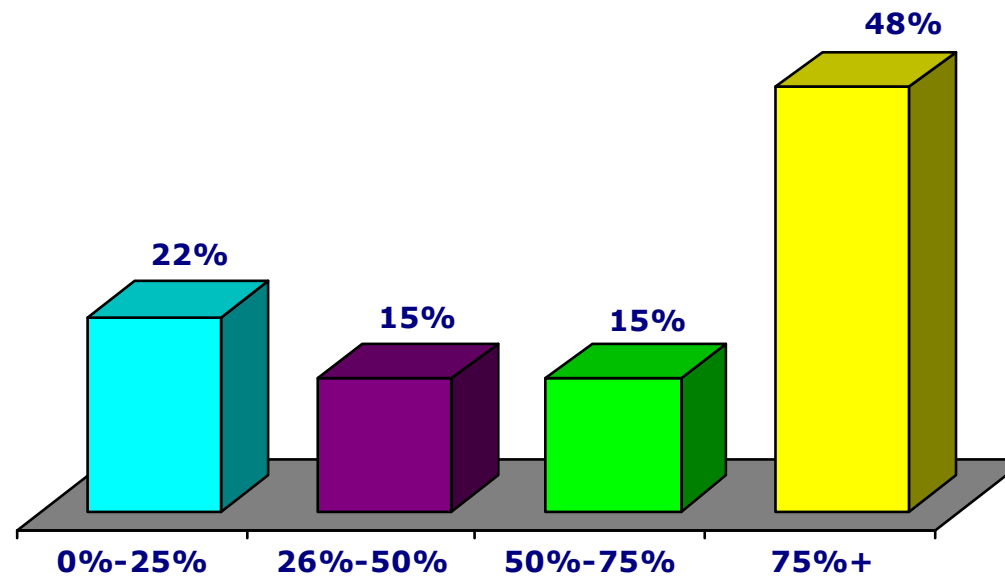


# Defined benefit schemes - pension increases



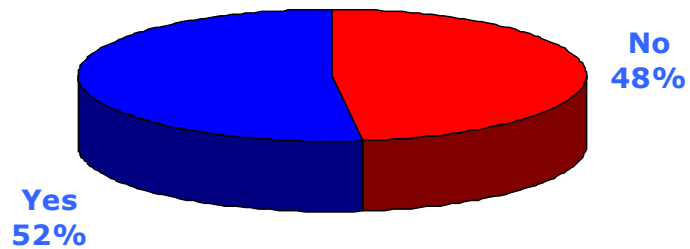
# Defined contribution schemes - take up of optional membership

Take up of Optional Membership

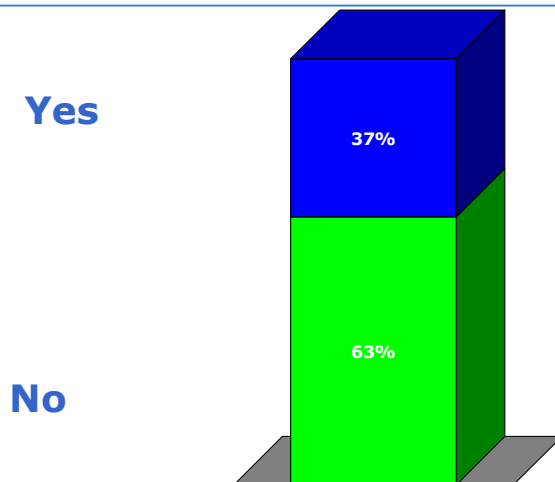


# Defined contribution schemes - investment choices

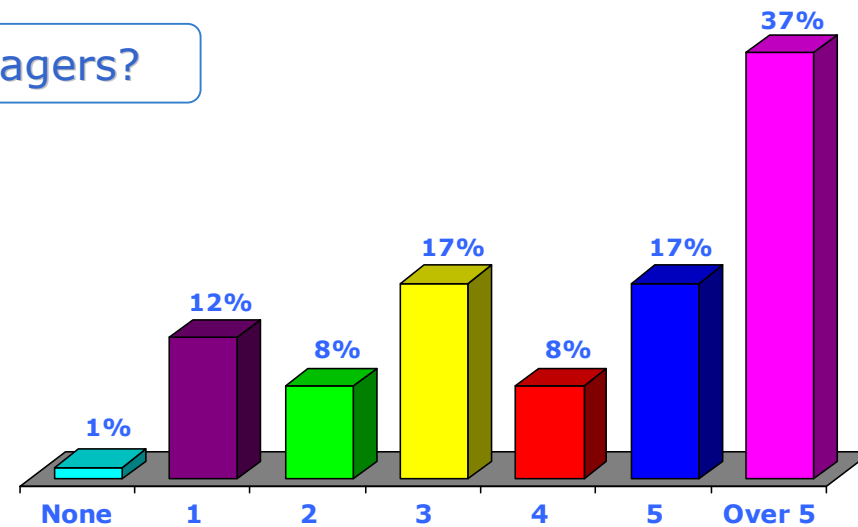
Are members required to actively make an investment choice?



A choice between different fund managers?

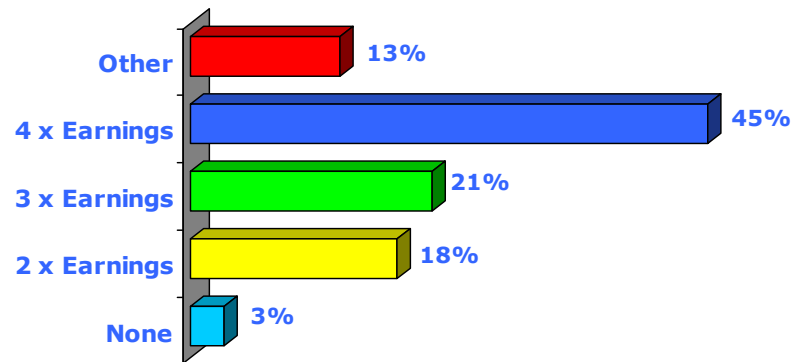


Number of investment choices

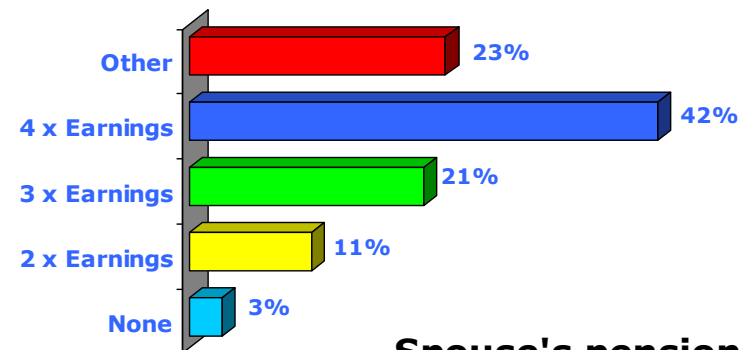


# Defined contribution schemes - life assurance

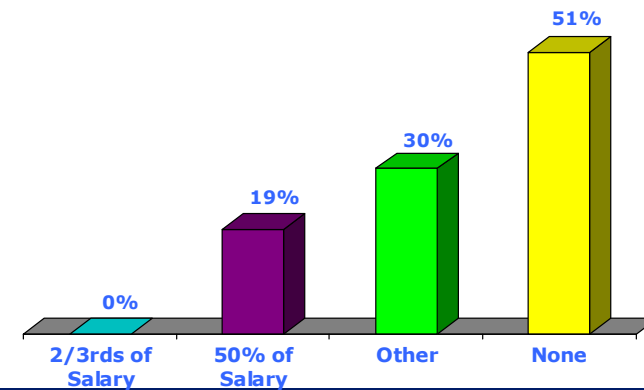
## Lump sum death benefit single person



## Lump sum death benefit married member

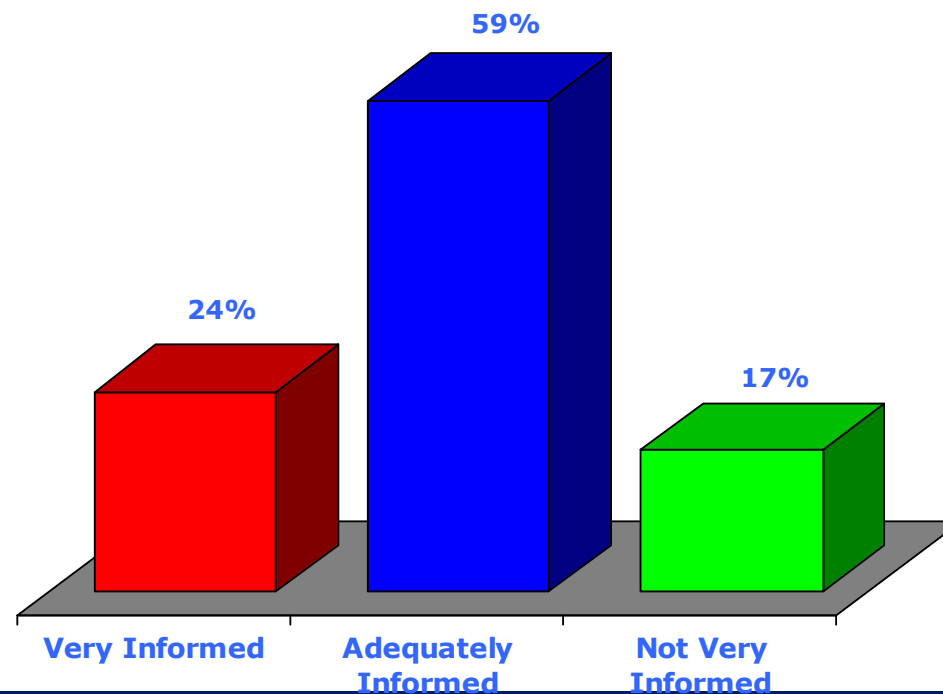


## Spouse's pension



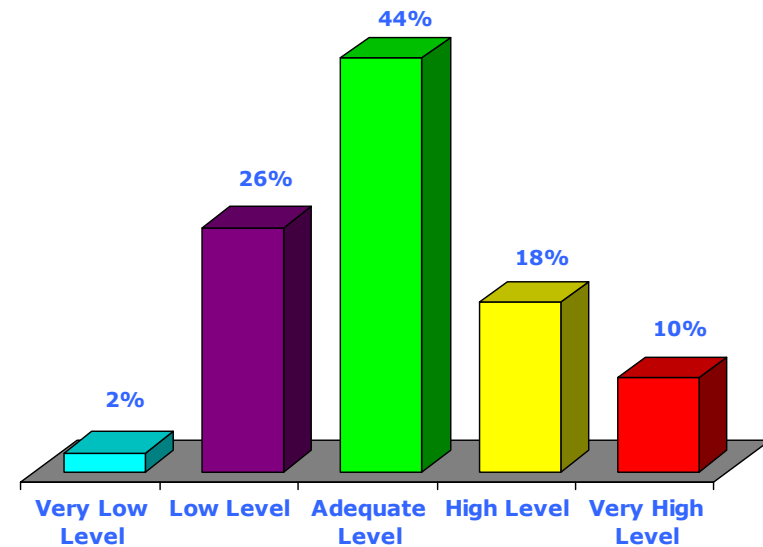
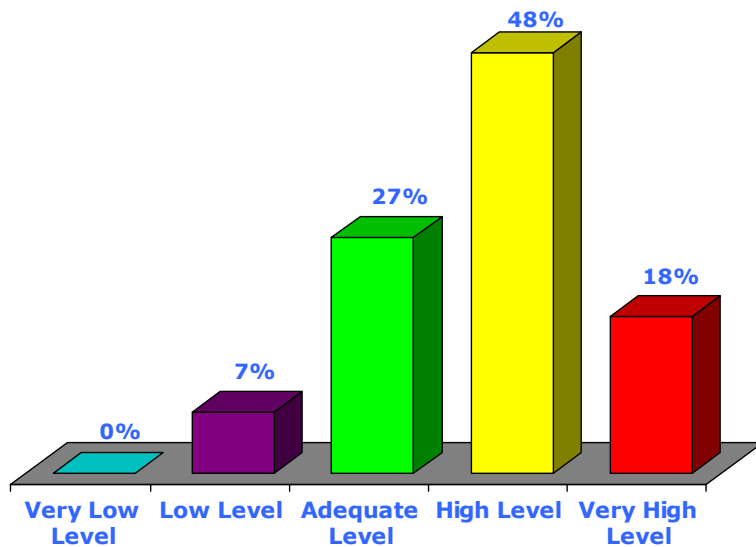
# Defined contribution schemes - communication, education

How well informed are **employees** on the probable level of benefits which they are likely to enjoy from the scheme?



# Defined contribution schemes - communication, education

Rate the level of communications in place to assist members in understanding the pension scheme.

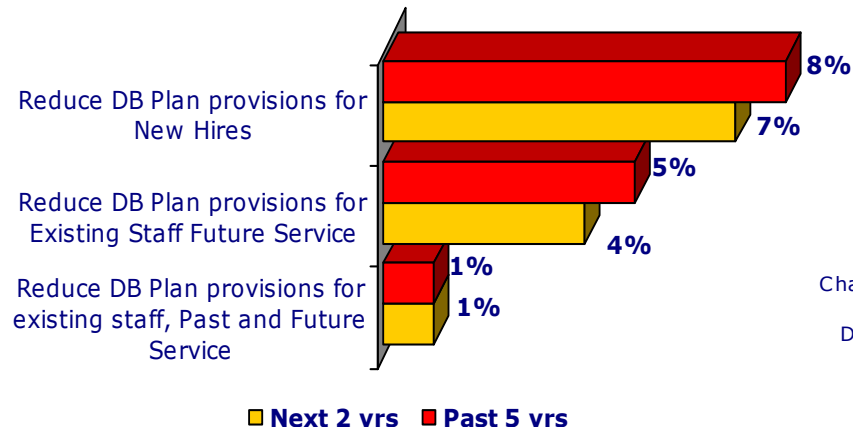


Rate the level at which you consider members are engaging with the scheme?

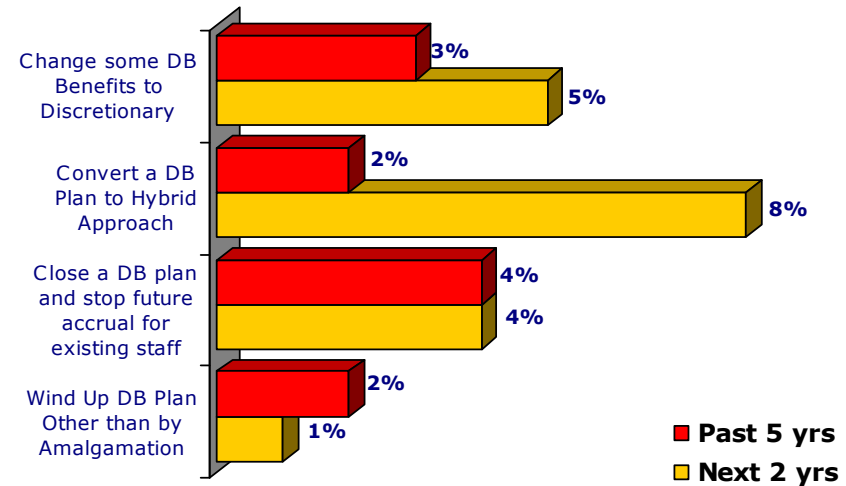
# Survey output

## – Attitudes and Opinions - DB

### Changes Made or under Consideration to Benefits

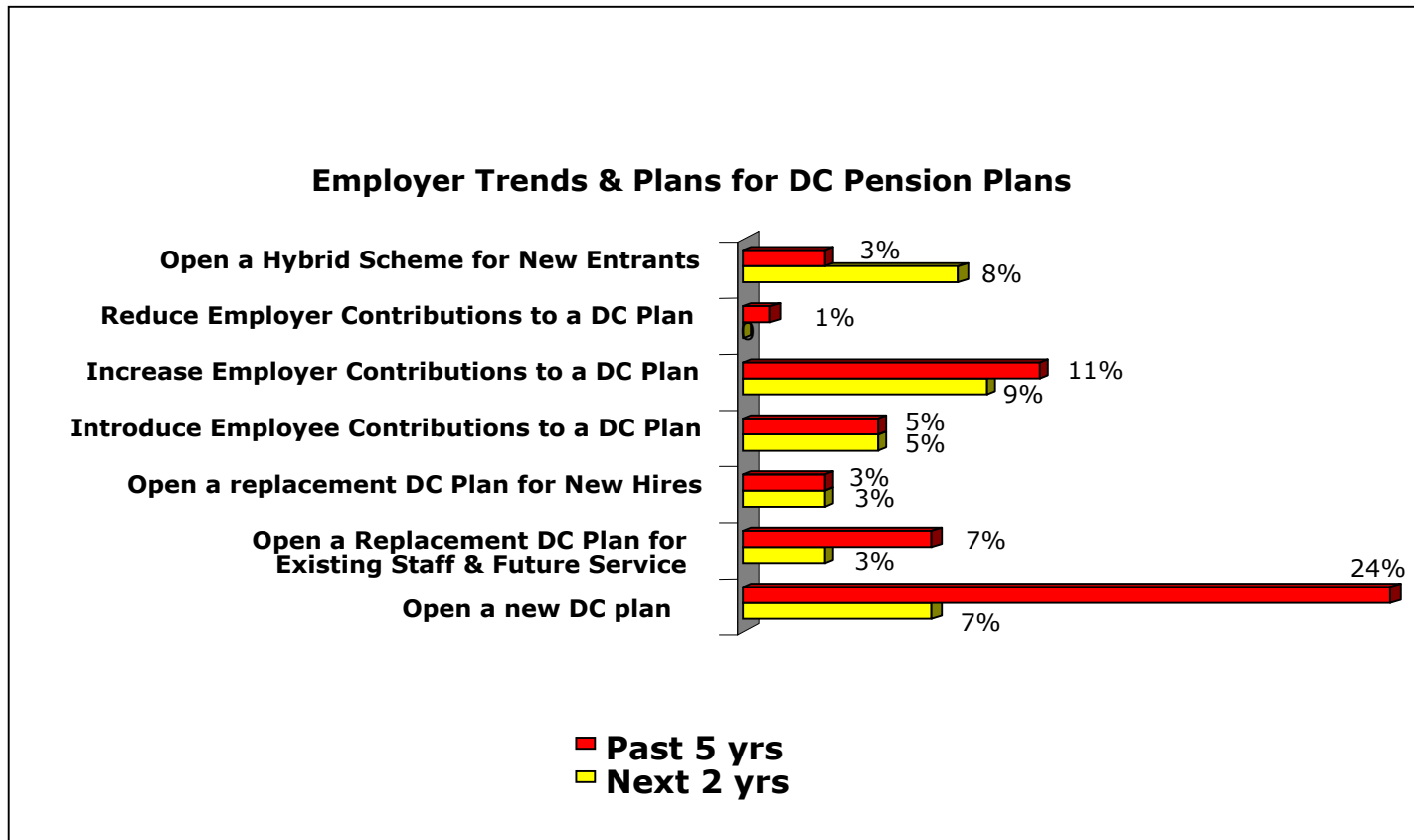


### How Benefits have Changed or may Change



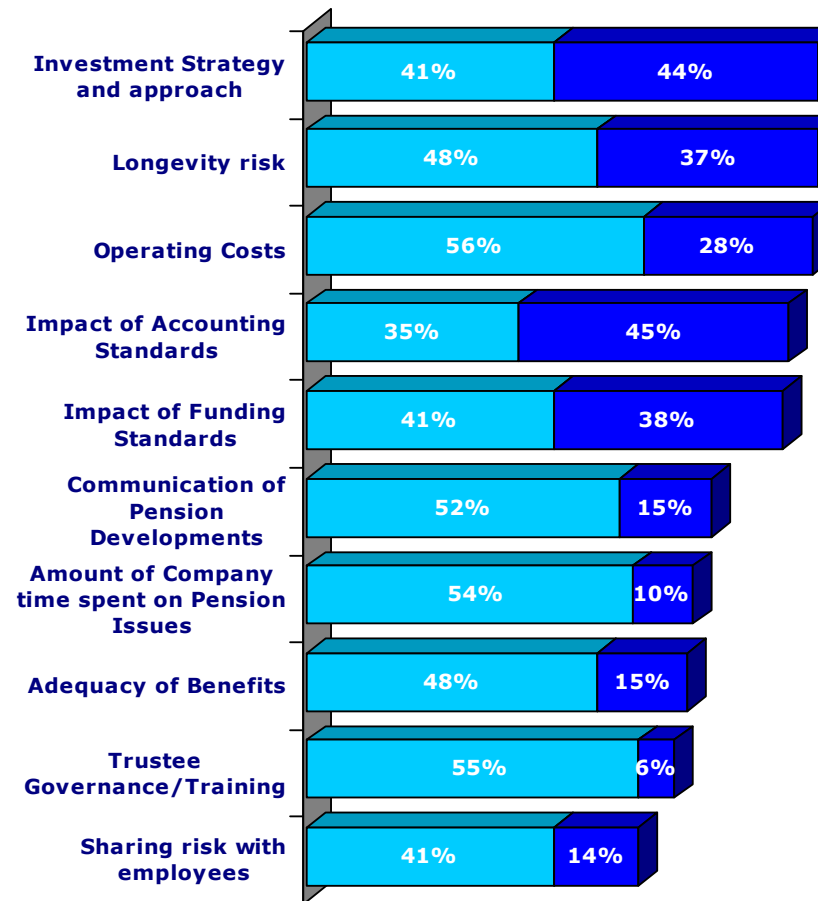
# Survey output

## – Attitudes and Opinions - DC





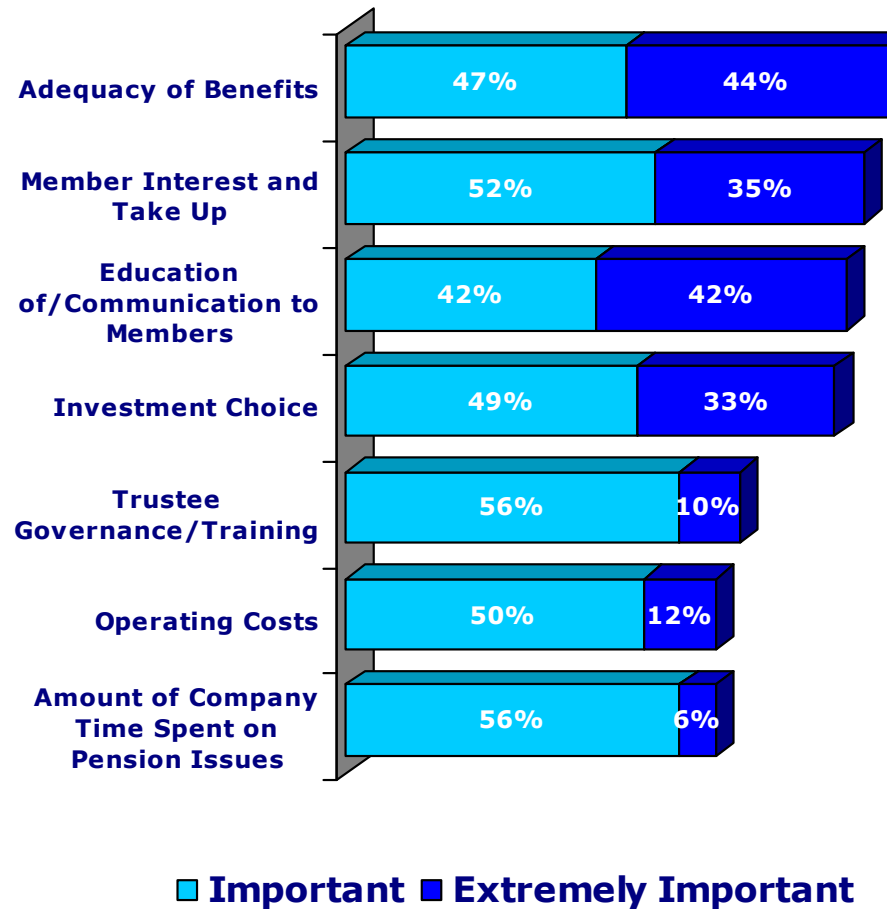
# Survey output – Challenges for DB



■ Important ■ Extremely Important

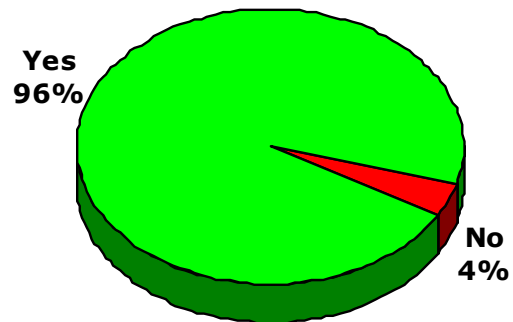
# Survey output

## – Challenges for DC



# Survey output – some final thoughts

**Should ARF's be made available to Occupational DC scheme members?**



**Should there be a facility for DC members to stagger their retirement date/take benefits at different stages?**

