

The evolving Irish Pensions Landscape

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The Irish Institute of Pensions Management



Founded in 1990, the primary objective of the Irish Institute of Pensions Management (IIPM) is to promote professional standards amongst those working in the field of pensions, with education being central to the achievement of this objective. Today, we pride ourselves on the high quality and relevance of our qualifications and services. In turn, employers recognise the value of the IIPM's qualifications and have benefited from the increased expertise of their staff.

There have been many changes in pensions over the past two decades as a result of domestic and international influences. Legislative changes, increased emphasis on governance and compliance, product developments and European Union influences mean that pension practitioners must work harder to keep informed.

The IIPM education programmes are relevant and rewarding for both students and employers. Students will have a clear path to follow as they progress through their pension careers.

Agenda

- Background
- Wading through the alphabet soup
- The next steps
- Implications for Irish pension savers
- Q&A

The State Pension Challenge

An Coimisiún Pinsean
The Pensions Commission

Demographic Changes

Thankfully, people are living for longer and are healthier than previous generations.

1 Older people are living longer and there will be more older people



The number of working age people is projected to increase by 9% from 2021 to 2051:

3,243,500

3,549,700

The number of people aged 65+ is projected to double from 2021 to 2051:

743,100

1,562,500

*Projected CSO figures



State Pensions are funded on a Pay-As-You-Go basis - current workers fund the State Pension payments of current pensioners.

2 The number of working age people supporting each older person is projected to reduce significantly



1991 - 5.0 working age people: 1 older person

2031 - 3.5 working age people: 1 older person

2051 - 2.3 working age people: 1 older person

3

Pension Related Costs will increase

Department of Finance project that expenditure related to State pensions is projected to significantly increase over time

Cost (% of GNI*):

3.8% (2019)

5.0% (2030)

7.9% (2050)

If there are no changes an annual deficit in the Social Insurance Fund of €2.3 billion is predicted in 2030, increasing to €13.4 billion in 2050.

*Based on 2021 KPMG analysis

Deficit €2.3 billion in 2030

Deficit €13.4 billion in 2050

The Pensions Landscape is undergoing unprecedented change

- IORP II
- Pensions Authority Consultation on Fees
- IDPRTG (Report of the Interdepartmental Pensions Reform & Taxation Group)
- Pensions Commission
- AE (Auto Enrolment)

IORP II

- IORP II Transposed April 2021
- Amended Pensions Act
- New obligations imposed on Trustees
- New powers for Pensions Authority
- Further Regulations required
- Consultation took place in September
- Codes of Practice to be formally implemented November 2021

IORP II

In Scope

- Defined Benefit Schemes
- Group Defined Contribution Schemes
- One Member Schemes (Exec Pensions)
- SSAPs
- AVCs (non PRSA)

Out of Scope

- PRSA
- Personal Pensions
- PRB
- ARF/AMRF/Annuity
- Exec Pension Term (Death in Service only)

DC Draft Codes of Practice

Pensions Authority Expectations of Trustees

- Six headings
 1. Governance
 2. Administration
 3. Internal Controls
 4. Investment
 5. DB Funding
 6. Fit and Proper
- Full compliance by end 2022
- An iterative process with milestones along the way
- Minimum for all schemes, may be additional for larger – “Proportionality”

Governance

Scheme Management

Documentation of Decisions

Data Management

Information

Conflicts of Interest

Outsourcing

Appointment

Remuneration

Member Engagement

Administration

Policies needed for:

Purpose

Scope

Roles and responsibilities

Data

Reporting

Monitoring

Review of Policy

Documented adherence

Employer role

Contracts needed for:

Member issues

Instructions

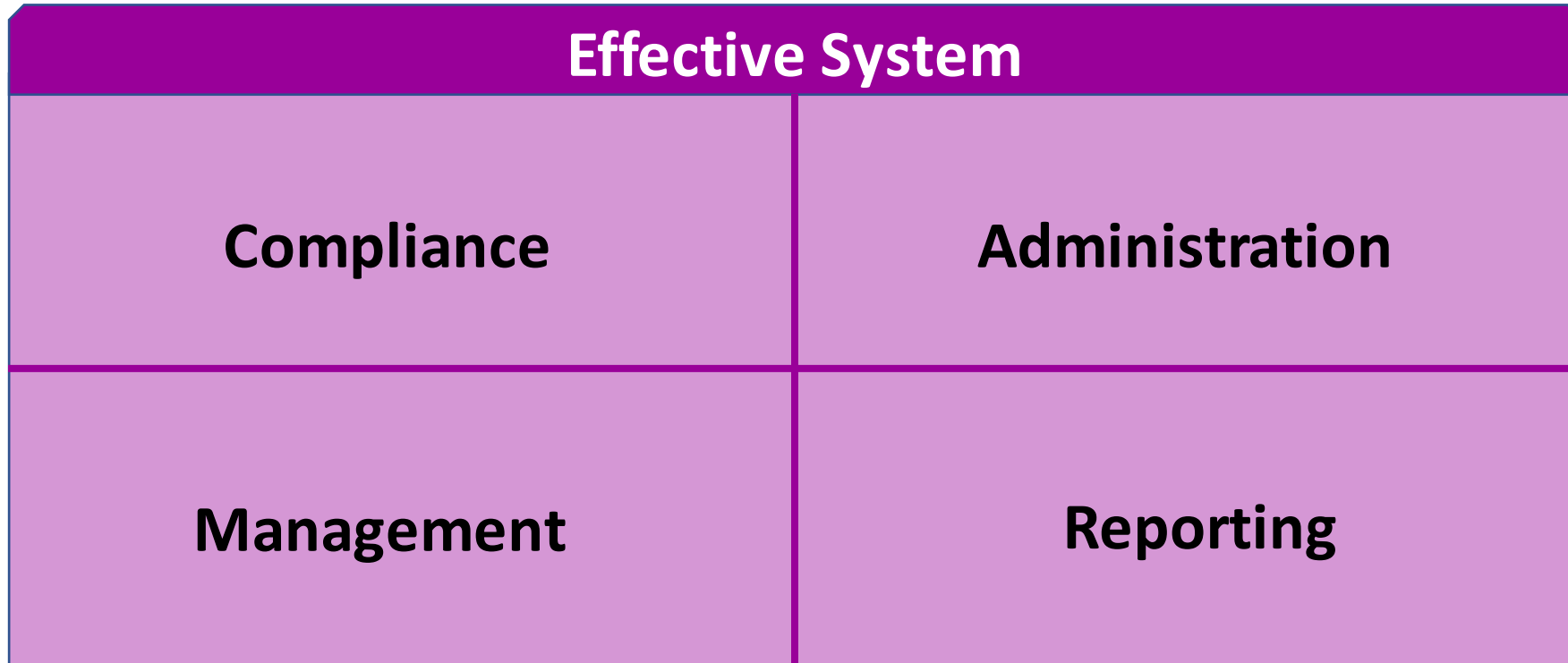
Interactions

Reporting to PA

Complaints, resolution

Information to members

Internal Controls



Investment

- ESG Considerations
- Credit Risk monitoring for DB
- Prohibition on borrowing & 50% rule (Exception for pre-existing holdings by One Member Arrangements)
- Statement of Investment Process
- Setting Objectives and Strategy
- Implementation
- Manager Selection
- Investment Contracts
- Oversight

Defined Benefit

- Access to relevant information
- Understanding of Solvency, Risks, Sustainability
- Solvency via scenario testing
- Adequacy of contributions
- Threats to contributions
- Sponsor risk

Fit and Proper Requirements

- **Applies to:**
 - Trustees
 - Directors of Trustee Companies
 - Key Function Holders
- **Fit:**
 - Qualifications
 - Training
 - Experience
 - Appropriate to role
 - Collective for Trustee Boards
 - Individual for KFHS
- **Proper:**
 - Good repute and integrity
 - Applies to every Trustee and every KFHS

Impact of IORP II

	Before IORP II	After IORP II
Investment	No restrictions	50% on regulated markets No borrowing
Trusteeship	Trustee Training – Booklet Method	Professional Qualifications Minimum Experience More robust CPD?
Governance	Less formalised	Significantly Increased
Annual Benefit Statement	Active Members Only	All members – including deferred Enhanced version Transparent charging

Key Dates

Date	Event
W/c 10 th May 2021	PA publishes “overview of the key themes of transposition including how the Authority will oversee IORP II compliance and the effect of derogations and transitional periods”.
W/c 19 th July 2021	PA publishes draft code of practice setting out “what the Authority expects from regulated entities to meet their obligations under IORP II including specific information in relation to defined benefit schemes”.
W/c 15 th November 2021	PA publishes final code of practice.
W/c 13 th December 2021	PA publishes minimum guidance standards for master trusts.
31 st December 2021	All existing schemes (other than one-member schemes) must have two trustees (or a corporate trustee with at least two directors). Trustees of existing schemes must publish a remuneration policy for the scheme. Derogations for small trust RACs expire.
31 st January 2022	Deadline for schemes to publish first Part VIB compliance statement.
31 st December 2022	Deadline for schemes to publish first pension benefit statement.
22 nd April 2026	Derogation for existing one-member schemes expires.

IORP II

No impact on:

- Approval of new schemes
- Max funding potential
- Tax relief
- Benefit limits

Short Term:

- Professional Trustees
- Derogations covering a large number of schemes
- Business as usual in many respects

Medium to Long term:

- High level of change expected

Interdepartmental Pensions Reform & Taxation Group

- Possible changes affecting One Member Schemes
- Access from age 55
- Funding Rules to be looked at
- Removal of forced annuity purchase
- In scheme drawdown
- Removal of 15 year rule & COBC for PRSA Transfer
- Redesign of PRSA product (potentially to replace Execs & SSAPs)
- Removal of the AMRF requirement

Pensions Authority Consultation on Fees

Background

- “The IORP II Directive requires the Authority to adopt a forward-looking risk based approach to supervision. This will involve more direct engagement with trustees involving dialogue and scrutiny about how well they are exercising their responsibilities to their members. An increase in staff numbers is required to implement this approach, in addition to significant IT development”
- “If fee levels remain unchanged, fee income in 2022 would represent only about 60% of projected expenditure, a difference much greater than the Authority’s reserves”

Pensions Authority Consultation on Fees

Proposed Changes

- “ The primary fee would be an asset-based levy charged on an equal basis to occupational schemes and PRSAs.
- The introduction of a substantial per scheme fee after an interval to allow and encourage scheme consolidation.
- The fee structure and rates would remain unchanged for single member schemes subject to the temporary IORP II derogation.”

The Programme for Government

- State Pension to remain integral to the entire system
- Incorporate options for those without full PRSI payments
- Pension consideration for carers
- PRSI increases across the board
- Examine the concept of a Universal Basic Income
- Potential to defer the contributory state pension

The Pensions Commission: The Terms of Reference

‘To develop options for Government on issues such as the State Pension qualifying age, contribution rates, calculation methods, eligibility conditions and payment rates’

Pensions Commission

- 11 Members with diverse backgrounds
- 18 meetings between November 2020 – July 2021
- Over 200 submissions
- Virtual Stakeholder Forum
- Four Working Papers produced

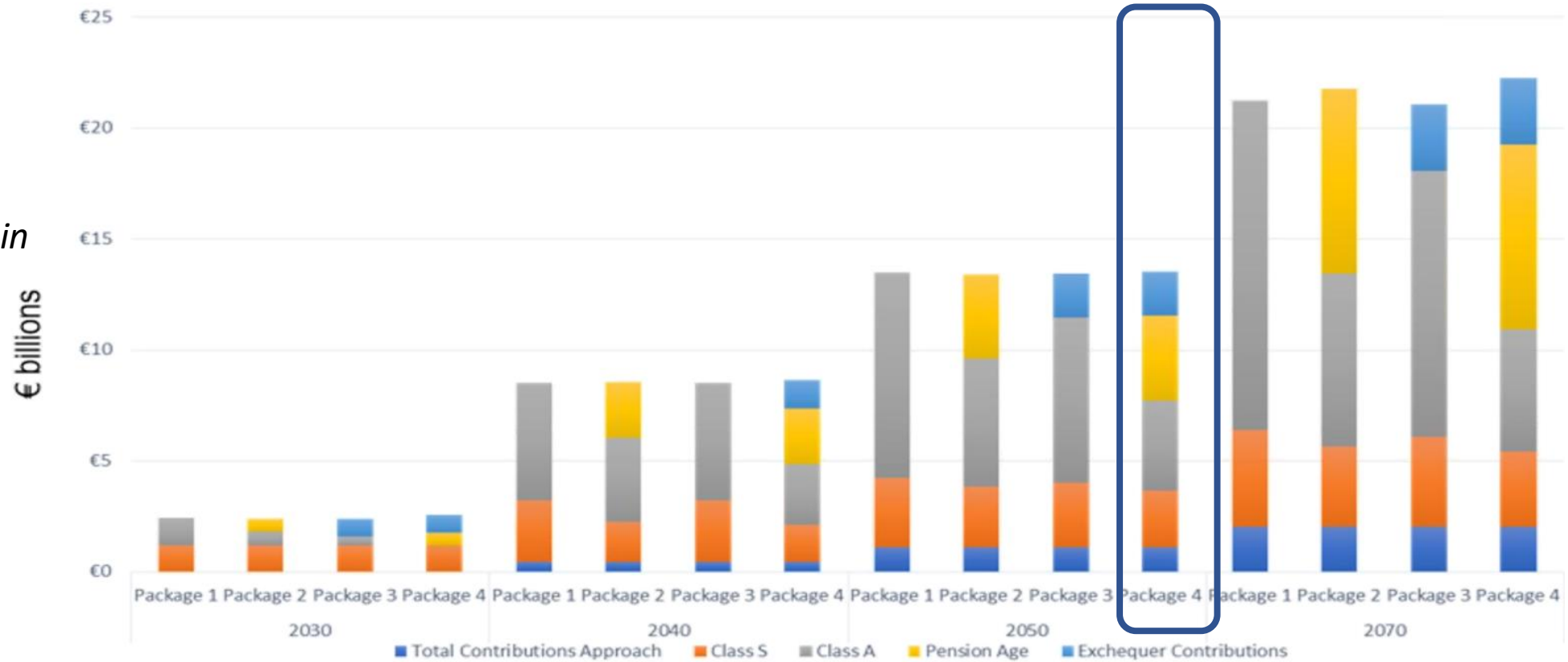
Conclusions

- ‘Social Solidarity’ – Everybody contributes

- Gradual increase in PRSI
- PRSI for Self-Employed
- Wider PRSI base
- Gradual increase in retirement age
- Continuation of Exchequer funding

How do we pay for all this?

'in each case the policy levers are adjusted to meet the projected annual shortfalls in 2030, 2040, and 2050'



Recommendations

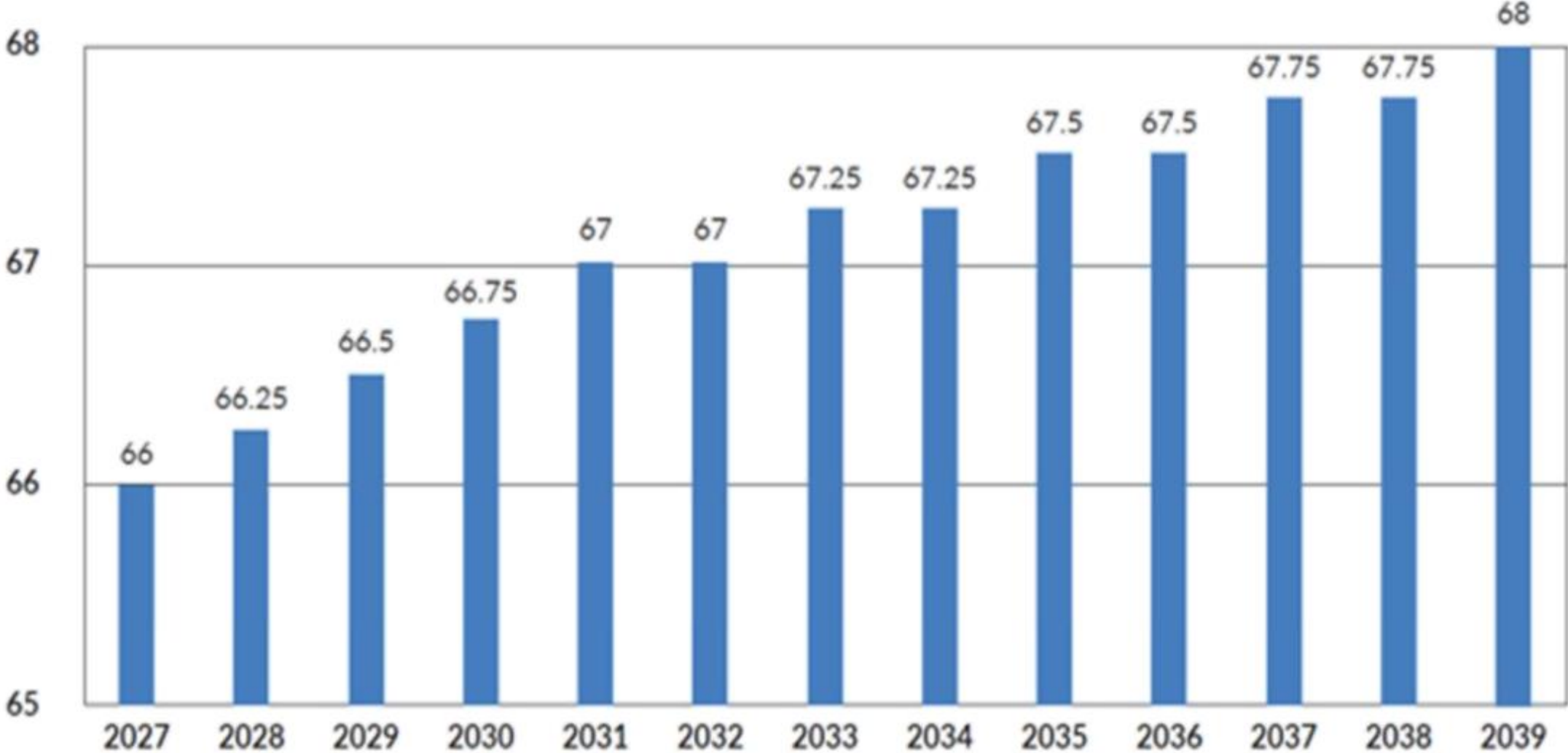
Funding

Payment Rates

Calculation Methods

Retirement Age

Proposed state pension ages: 2027-2039



Next Steps for the Pensions Commission

- Government are 'committed' to action
- Report was published and presented on 7th October
- To be considered by:
 - Joint Oireachtas Committee
 - Commission on Taxation & Welfare
 - Cabinet Committee on Economic Recovery & Investment

Auto-enrolment



So to recap....

- IORP II
- Pensions Authority Consultation on Fees
- IDPRTG (Report of the Interdepartmental Pensions Reform & Taxation Group)
- Pensions Commission
- AE (Auto Enrolment)

Conclusions

- A large amount of change: The potential for ‘unintended consequences’?
- Proportionality and duplication are concerns
- Principles vs Reality

What does it mean for pension savers?

- Better governance, information, and protection is no bad thing
- Simplicity is to be welcomed
- The balance between simplicity and consumer choice
- The customer is not homogeneous
- Can't afford lose sight of the end goal: Better pensions adequacy in Ireland

Next Steps

- Codes of Practice: 15th November
- A number of deadlines over the next 12 months
- More from Regulators and Government to come
- Get prepared, and get educated!

Questions?



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