Society of Actuaries in Ireland

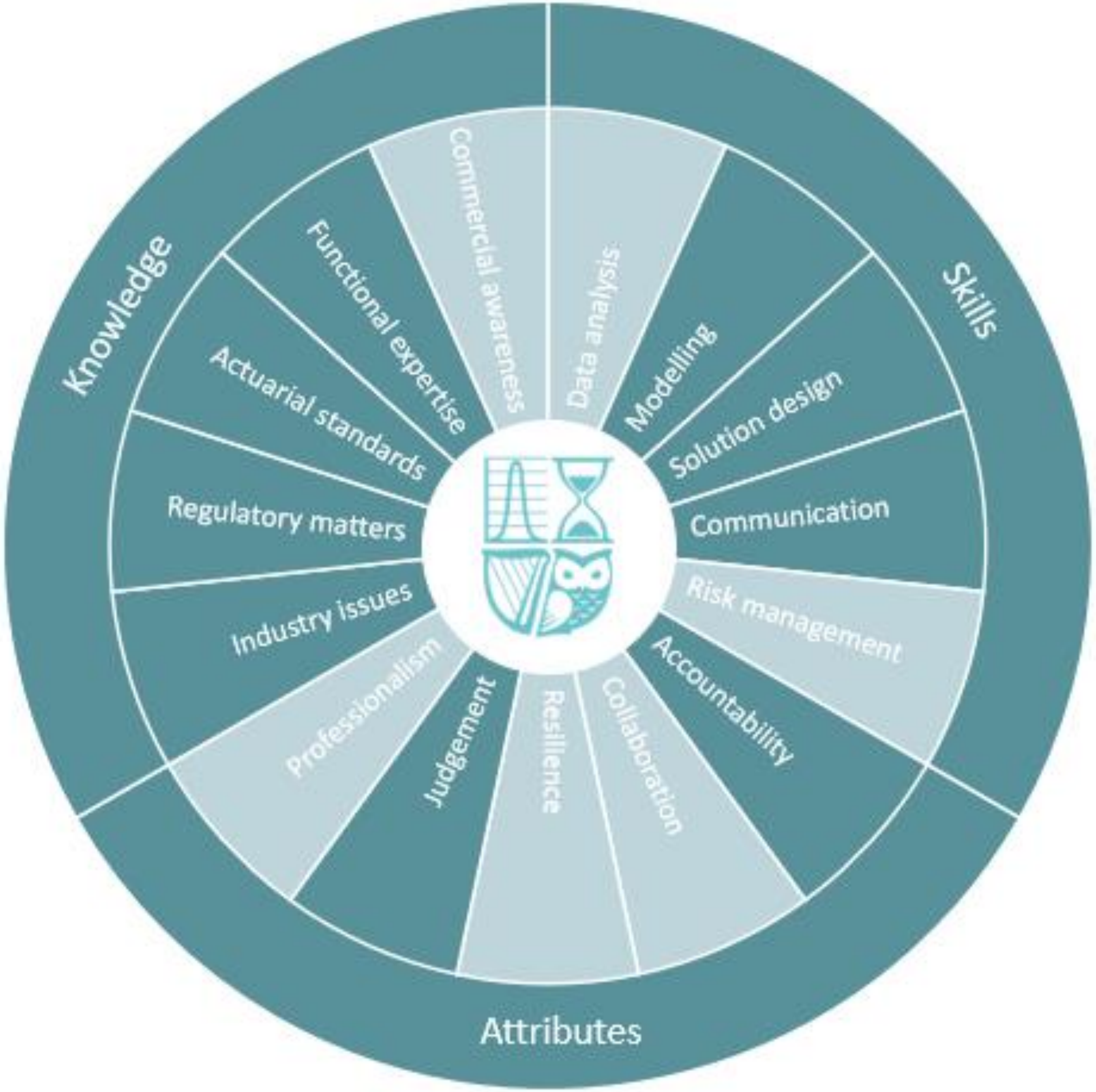
Pensions Forum 2024

2 May 2024

Disclaimer

The views expressed in this presentation are those of the presenters and not necessarily those of their employers or the Society of Actuaries in Ireland.

Competency Framework Wheel



Agenda

- Update from the Pensions Committee – Laura Power
- Are DC plans working? – Caitriona MacGuinness & Cian Hurley
- Auto Enrolment – Michelle McSweeney
- DORA – Patrick Cosgrave
- Q&A after each presentation (to discuss)

This event is not being recorded
Slides will be available on website

Update from the Pensions Committee

Laura Power

2 May 2024

Pensions Committee - members

- Gerard Nolan (Chair)
- Fred Gilmore
- Richard Clossick
- Anna Kinsella
- Barry O'Gorman
- Tom Matthews
- Rita-Anne Keyes
- Shane Wall
- Laura Power (Deputy Chair)
- Deirdre Coyle
- Brian Fitzgerald
- Cyra Barry
- Thomas Synnott
- Michelle McSweeney
- Barry O'Mahony

Update from Pensions Committee (1)

ASPs:

- PEN-12 (SORPs) – working group reviewing (with Life & PRSA committees)
- PEN-13 (Conflicts of Interest) – being reviewed
- PEN-1 (Valuation reports) - to be reviewed (post ORAs)
- PEN-11 (Directors pensions costs) – new version (minor amendments)

Pensions Authority:

- Section 34 guidance / transfer value basis
- LDI guidance – expected (but not likely to be very prescriptive)

Update from Pensions Committee (2)

- Transfer value guidance – working group

- Auto Enrolment
  - Session today
  - Submitted observations to Dept of Finance

- SFT consultation
  - Submitted response to Dept of Finance
  - Met with review group

- State Pension – flexibility of drawdown

- 2022 PRSA changes – recent coverage

Update from Pensions Committee (3)

Recent CPD events:

- Auto-Enrolment: Actuarial Learning Three Years On (3 April)
- Tracing Pensioners and Deferred Members (21 March)
- CMI Update on Pension Scheme Mortality Assumptions (12 March)
- Pensions Risk Management Forum (22 February) (ERM Committee)
- Role of the Risk Management KFH and ORA expectations (12 Dec 2023)

Call for volunteers:

- Future CPD events – call for topics & speakers:
  - Scheme Actuary Forum (11 June)
  - Annual Convention (15 November)
  - Or stand-alone events

Contact Gerard Nolan (gerard.nolan@mercer.com) or any Pensions Committee member

- Areas of public interest – contributions to add?
  - eg, Decumulation phase for DC schemes

Society of Actuaries in Ireland

Are DC plans working?

Caitriona MacGuinness & Cian Hurley

2 May 2024

Father Ted (There's A Dent In The car)

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The Automatic Enrolment Retirement Savings System Bill 2024

Michelle McSweeney

2 May 2024

Agenda

1. Autoenrolment – the basics: what, who, how and when?
2. Synopsis of the Automatic Enrolment Retirement Savings Bill 2024, with a focus on

    Part 3: Enrolment and contributions

    Part 4: Investment

    Part 5: Payment out of accounts

    Part 6: Communications and services

3. Questions

CAVEATS

1. This presentation does not provide legal or financial advice.
2. Any views expressed today are my own and not necessarily the views of Mercer.
3. The provisions in the Autoenrolment Bill are subject to changes as they pass through the stages to become law

Auto-enrolment – the basics

1

Autoenrolment – the Basics

What

Biggest change ever to Irish occupational pensions landscape?

New occupational retirement savings regime introducing **mandatory saving** for the first time.

Government estimates **800,000+ new individual savers**

Almost all employers will be affected in some way, resulting in **both short and long term implications**.

Who and How

Affects all **employees** aged 23 to 60 with gross earnings of €20,000+ p/a

Creation of new **State-run central savings scheme** run by the "National Automatic Enrolment Retirement Savings Authority" (NAERSA)

All employees within scope will be automatically enrolled into the central system unless contributions are being paid through payroll to an **occupational pension plan or PRSA**

When

AE Bill published in April; expected to quickly pass into law

First enrolments into the central system targeted for **January 2025**

Government is actively urging employers to **"plan and budget"**

Auto-Enrolment – the basics

Central AE system vs Occupational Pension Plan on day 1 of the introduction of AE

Key feature	Central AE System	Occupational pension plan
Basis of benefit accrual	Defined contribution	Defined contribution
Contribution rates	Fixed (phased increases over first 10 years)	Flexible
Basis of contributions	Total gross earnings; capped at €80k	Flexible; no cap
Fund choices	Fixed (based on choice of 3 fund types: high, medium and low risk)	Flexible
AVC facility	No	Yes
Risk cover available	No	Yes
Tax relief on employee contributions	No (State top-up provided in lieu, equivalent to 25% tax relief)	Yes
Transfers in/out	No	Yes
Early drawdown prior to age 66	No	Yes
Late drawdown after age 66	No	Yes
Ill health early retirement	Yes	Yes
Benefits at retirement	Lump sum only (at outset)	Lump sum / pension / ARF
Ability to opt out	At prescribed times only	Flexible (but opting out will risk enrolment of AE eligible employee into central system)

Note: the above at a glance summary of how the two systems compare at the outset is the position as it stands now. OPPs & PRSAs will become subject to specific ***minimum standards*** *(no later than Year 7)*

Auto-Enrolment – the basics

Contributions payable under Central System

Year	EE %	ER %	State %	Total %
1 to 3	1.5	1.5	0.5	**3.5**
4 to 6	3	3	1	**7**
7 to 9	4.5	4.5	1.5	**10.5**
10 +	6	6	2	**14**

Contributions payable on employee's total gross earnings (capped at €80k).

Contributions in the AE system are deducted from net pay

Contributions payable under pension plan

Timing	Requirement
Prior to minimum standards*	• No requirement to replicate central system rates • Only an 'active' ER or EE contribution required • ER decides plan membership terms (incl. rates)
Post minimum standards	• Plan design will need to meet prescribed minimum standards • Core principle: Employee position must be 'at least as favourable as' than in central system • Levels of required contribution rates will be decided • Other requirements may also apply
No state top-up payable; existing tax reliefs on contributions apply at EE's marginal rate	

Minimum standards are expected no later than Year 7 after AE commences

Synopsis of the Bill

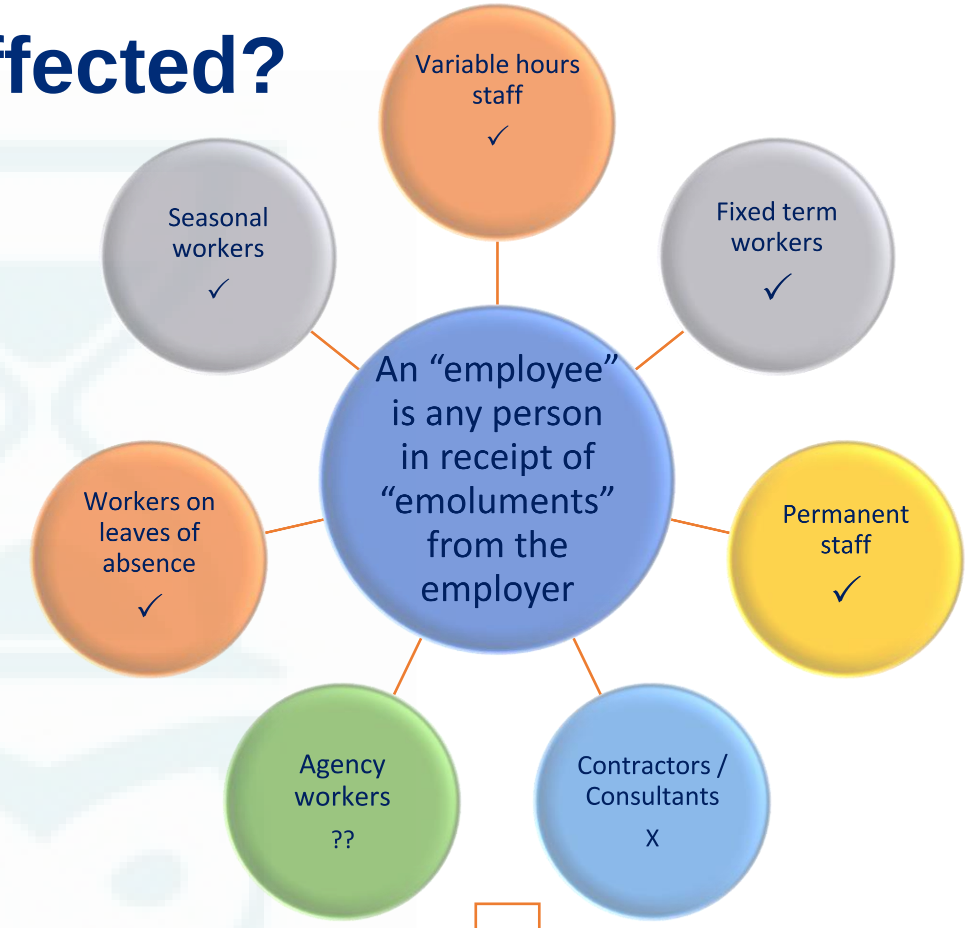
2

The Bill

- Essentially implements the final design features from the Draft Heads of the Bill
- Minimal changes from the pre-legislative scrutiny report
- The Bill has completed the Second Stage (of five) within Dáil Eireann, then five more stages in the Seanad
- Secondary legislation to follow

- Part 1: Preliminary and General
- Part 2: An tÚdarás Náisiúnta um Uathrollú Coigiltis Scoir
- **Part 3: Enrolment and contributions**
- **Part 4: Investment**
- **Part 5: Payment out of accounts**
- **Part 6: Communications and services**
- Part 7: Information sharing and data protection
- Part 8: Reviews and appeals
- Part 9: Compliance and enforcement

Part 3: Which employees will be affected?



Employees in scope:

- aged between 23 and 60
- earning €20k+ p/a across all employments
- not contributing to a pension plan or PRSA

Including:

- Employees included in the plan but not contributing, e.g.
  - **Covered for risk benefits only, or**
  - **In a waiting period to become full active members, or**
  - **Previously opted out of full membership for any reason**

Part 3: How will Auto Enrolment work initially?*

First enrolments to the Central AE System are targeted to take place in January 2025

NAERSA will coordinate assessing employee eligibility and notifying employers

1. **NAERSA checks employee data** to see if pension contributions are being made by or in respect of an employee through payroll to a qualifying pension plan or PRSA

2. Either … NAERSA can see that contributions are being made to a pension plan, in which case the employee will not be automatically enrolled in the central AE system

3. Or … NAERSA checks the amount of the employee's pay during the relevant "pay reference period". E.g. If an employee has exceeded 5k in gross earnings in the 13 week period prior to the start of the new regime they will be deemed to be in scope and the employee will be auto-enrolled in the central system; **NAERSA will issue an "AE Payroll Notification"** to the employer / payroll provider

4. The APN **will confirm the rate at which contributions must be deducted** from the employee's pay.

   (In Years 1 to 3, employee and employer contributions will be payable at 1.5% of gross earnings)

5. Employers must ensure that they have communicated the automatic enrolment to impacted employees

   Employers must **ensure the relevant AE contributions are made** through payroll.

   An **AE return** must also be made through payroll to NAERSA (in addition to existing Revenue PAYE returns) on or before payment to employee

Part 4: Investment

- The Bill allows for investment management provider(s) to be appointed.
- All providers will provide 3 "AE provider schemes" (funds) as outlined below.
- Contributions when invested will be split evenly between investment management providers, into the appropriate risk rated fund.
- Bill allows for the adjustment to the default via regulations, day 1 default is outlined below.
- AMCs not prescribed in the Bill

Higher risk fund

Default for those with more than 15 years to pensionable age

Risk rating: 5, 6 or 7

Medium risk fund

Default for those between 15 and 5 years to pensionable age.

Risk rating 3 or 4

Lower risk fund

Default for those with less than 5 years to pensionable age

Risk rating of 1 o 2

Part 5: Payment out of accounts

- This is the decumulation phase
- Payable from redemption date, which is the date on which a participant reaches pensionable age, which in turn has the meaning given by section 2 of the Social Welfare Consolidation Act 2005.
- Units to be disinvested, any outstanding fees deducted and a notification issued by the Authority to confirm that the participants account is eligible for withdrawal in the form of:
    - A lump sum or
    - Following additional regulation in the form of an annuity, ARF or similar related arrangement.
- Tax treatment on the way out to be dealt with in the Finance Bill, however Minister Humphries has outlined that treatment will be similar to tax treatment of PRSAs
- Ill health early retirement/ and early retirement on the grounds of incapacity will be permitted

Part 6: Communications and Services

For employees

- Digital by default
- NOT digital only - will be possible to access communications and services by other means
- E.g. Annual statements, if provided by electronic means shall be provided no later than the period of 6 months beginning with the statement date
- Members will access an online portal, with notifications via email, phone number or via post.

For employers

- Central AE System is employee rather than employer centric
- There is the ability to communicate with Employers, however it is unclear as yet the format that this will take.

For the public

- There will be a publically available information website

Questions

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Society of Actuaries in Ireland

Digital Operational Resilience Act (DORA)

Patrick Cosgrave

2 May 2024

What will we be Exploring?

- Digital Operational Resilience Act (DORA) places the responsibility for managing the Information and Communications Technology (ICT) risks faced by pension schemes on the scheme Trustees

- This session is intended to increase awareness of DORA among actuaries operating as
  - Risk Management Key Function role holders; and
  - Pension Scheme Trustees

Digital Operational Resilience Act

- DORA is an EU regulation that entered into force on 16 January 2023 and will apply as of 17 January 2025

- DORA brings harmonisation of the rules relating to operational resilience for the financial sector, applying to 20 different types of financial entities and ICT third-party service providers

- It aims at making sure that the financial sector in Europe is able to stay resilient in the event of a severe operational disruption

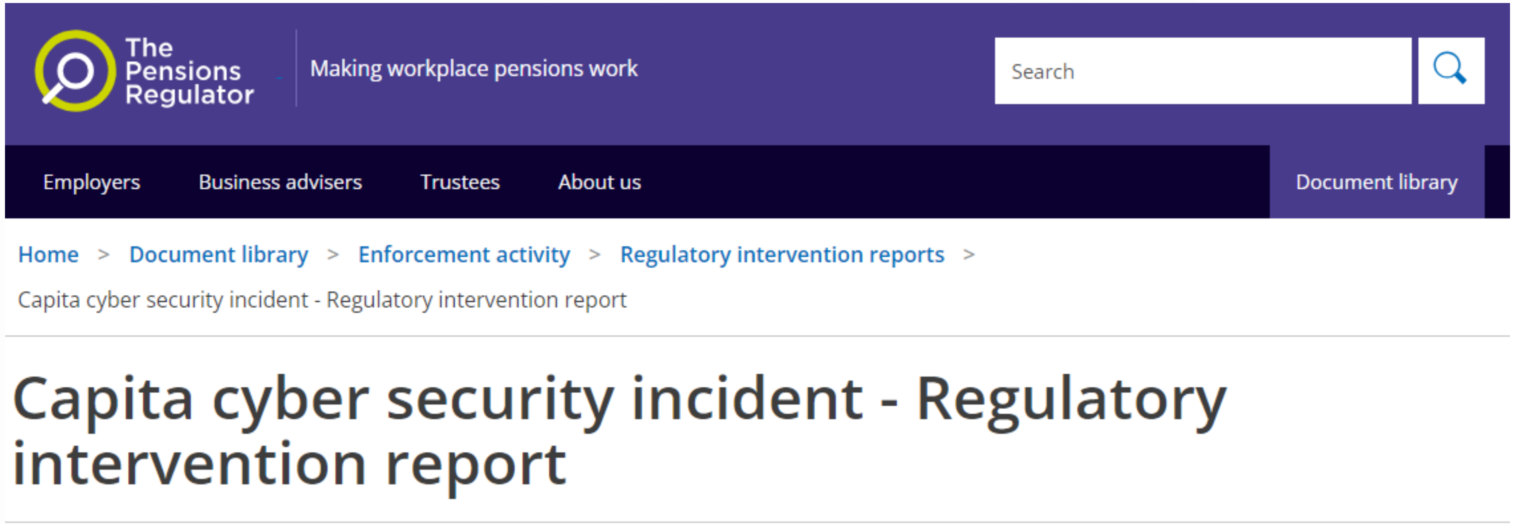
Information and Communications Technology (ICT) Services

"ICT services" are broadly defined as:

- "digital and data services provided through ICT systems to one or more internal or external users on an ongoing basis,
- including hardware as a service and hardware services which includes the provision of technical support via software or firmware updates by the hardware provider,
- excluding traditional analogue telephone services"

ICT Risk is Real for Pension Trustees

- Capita became aware of a cyber security incident on 31 March 2023, which resulted in the exfiltration of certain data
- Costs to Capita as a result of this incident are estimated at £25 million, as well as disruption to their operations and potential reputational damage



DORA amended IORP II

- DORA is a Regulation as opposed to a Directive
- DORA amended Article 21(5) of the IORP II Directive:

  21(5) Member States shall ensure that IORPs take reasonable steps to ensure continuity and regularity in the performance of their activities, including the development of contingency plans. To that end, IORPs shall employ appropriate and proportionate systems, resources and procedures, **and shall, in particular, set up and manage network and information systems in accordance with Regulation (EU) 2022/2554 of the European Parliament and of the Council, where applicable.**

- IORPs with less than 15 members are excluded and a ‘simplified’ framework applies for IORPs with less than 100 members

DORA - Key Components

ICT risk management

Principles and requirements on ICT risk management framework

ICT third-party risk management

Monitoring third-party risk providers

Key contractual provisions

Digital operational resilience testing

Basic and advanced testing

ICT-related incidents

General requirements

Reporting of major ICT-related incidents to competent authorities

Information sharing

Exchange of information and intelligence on cyber threats

Oversight of critical third-party providers

Oversight framework for critical ICT third-party providers

Source: EIOPA website

Implementation Journey

- DORA came into force in 2023 and builds on EBA and other requirements that had been in force prior to then

- The CBI has called out that financial entities it regulates should recognise similarities between several DORA requirements and existing guidelines

- DORA details can be found on several websites including the CBI https://www.centralbank.ie/regulation/digital-operational-resilience-act-(dora) and EIOPA https://www.eiopa.europa.eu/digital-operational-resilience-act-dora_en

DORA - Detailed Requirements

- The joint European Supervisory Authorities (EBA, EIOPA & ESMA) are obligated to draft regulatory technical standards (RTS) and implementing technical standards (ITS) to assist entities to understand their obligations

- The first batch was published on 17th January 2024:
  1. RTS on ICT **risk management framework** and on simplified ICT risk management framework;
  2. RTS on criteria for the **classification of ICT-related incidents**;
  3. RTS to specify the **policy on ICT services** supporting critical or important functions provided by ICT third-party service providers (TPPs); and
  4. ITS to establish the templates for the **register of information**.

- The remaining requirements are due to be published on 17th July 2024

DORA Requirements - Contractual Arrangements

- ICT services contracts must include the description of functions, locations for data processing, provisions for data security, service levels, availability of data as well as termination rights and conditions for training

- DORA requires contracts include an obligation on service providers to provide assistance when an ICT incident occurs, "at no additional cost or at a cost that is determined ex-ante"

- Organisations will be required to maintain a register of information in relation to their ICT service contracts and that identifies those that support critical or important functions

- The register must be made available upon request by a competent authority

Contracts which support critical or important functions

- A critical or important function is a function, the disruption of which would materially impair the financial performance of a financial entity, or the soundness or continuity of its services and activities, or the discontinued, defective or failed performance of that function would materially impair the continuing in compliance with its regulatory and other obligations

- These contracts will need to include extra provisions, for example, including obligations on the service provider to
  - cooperate in threat-based penetration testing;
  - implement contingency plans and put in place security measures providing an appropriate level of security;
  - make provision for unrestricted rights of access, inspection and audit and exit strategies.

Pension Scheme Operating Model

- Reliance on external Service Providers
  - Multiple & diverse ICT systems
  - Lots of data transmission
- Internal resource challenges
  - Quarterly meeting schedule
  - Limited/No full-time support staff
  - Limited subject matter expertise
- Making contractual arrangements compliant likely to be a key challenge

Trustee's obligations under DORA

Trustees will have ultimate responsibility for managing their scheme's ICT risks, and will have to:

1. Complete and submit a register of all their ICT systems
2. Develop a comprehensive ICT risk management policy as part of the overall risk management framework;
3. Monitor third party service providers and ensure their legal contracts meet DORA requirements;
4. Conduct appropriate tests on ICT systems on an annual basis; and
5. Report major ICT risk events to the Pensions Authority.

Potential fines for non-compliance are up to 2% of turnover or €1 million for an individual

Some Practical Actions for Trustees

1. Become more informed about DORA
2. Ensure you have access to appropriate Subject Matter Expertise
3. Set up a DORA implementation team
4. Identify all services which have potential embedded ICT risk exposure
5. Carry out a gap analysis of existing ICT risk management frameworks against DORA
6. Arrange for the review and amendment of all ICT legal agreements with third-party service providers
7. Review scope of their own indemnities and PI insurance cover

Potential DORA Implications?

- The cost and effort required to comply with DORA will be significant for most scheme Trustees
- Accessing the necessary Subject Matter Expertise resources that can effectively navigate the ICT world from a Trustee perspective may be challenging
- DORA could result in trustees seeking to consolidate their external suppliers (reduce diversity) to focus their compliance activities
- DORA may be a final straw in bringing more schemes to master trusts or other appropriate exit strategies

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Q&A / Wrap Up