Society of Actuaries in Ireland

Pensions Newsletter

May 2021

Pensions Committee

John Cashman
Richard Clossick
Alan Hardie
Sarah Kearns
Conor King
Anna Kinsella

Tom Matthews
Gerard Nolan (Deputy Chair)
John O'Hara (Secretary)
Joanne Roche
Paul Torsney (Chair)

Exec support:
Philip Shier

Dear All,

Welcome to the first edition of the Pensions Committee's newsletter, the aim of which is to provide updates to members on the activities of the Committee.

The Committee's main areas of focus include:

- Organising CPD events
- Ensuring that Actuarial Standards of Practice for pensions are developed, reviewed, and updated
- Engaging with stakeholders such as the Pensions Authority, Revenue etc
- Developing responses to consultation papers as they arise from the Pensions Authority, Pensions Commission etc
- Overseeing various pensions related working groups

We hope you find that this newsletter provides an insight into the workings of the Committee. If you have any feedback, or suggestions for other areas of focus, please do not hesitate to contact any of the Committee members or email the Society directly at info@actuaries.ie.

In this edition of newsletter, we provide updates including:

- Engagement with stakeholders including the Pensions Authority, Revenue and the Department of Social Protection
- Updates on Actuarial Guidance
- Highlights from the CPD calendar
- Scheme Actuary Survey
- Action Plan for 2021

Paul Torsney, who had served as Deputy Chair for the previous 2 years, assumed the role of Chair from Ronan Keane with effect from June 2020. Thanks to Ronan for all his hard work on the Committee over the years. Gerard Nolan replaced Paul as Deputy Chair. Peter Gray has also recently stepped down from the Committee and we thank Peter for his contribution.

We are seeking new members to join the Committee and would be delighted to get applications from anybody who would like to contribute to the Committee's work. Please look out for the call for volunteers which will be issued shortly.

The Pensions Committee

Regulator & stakeholder engagement

Pensions Authority

The Society has regular and ongoing engagement with the Pensions Authority on issues related to existing regulation as well as on the implications of the transposition of IORP II.

The President and Chief Executive, along with the Chair and Deputy Chair of the Committee and Philip Shier, Head of Actuarial Practice, meet with the Pensions Regulator and senior Pensions Authority staff on a regular basis to discuss issues of mutual interest. The most recent meeting was in December 2020, when the main topic for discussion was the long-awaited transposition of IORP II, including the Authority's plans in relation to pension scheme supervision post transposition. The next meeting will take place in the coming weeks, when the ramifications of IORP II, now that it has been transposed, will no doubt be the main focus.

In addition to these scheduled meetings, the Committee has had correspondence and discussions with the Authority on a number of specific issues including

- The Authority's approach to supervision during Covid-19 e.g. possible extension or relaxation of deadlines for the submission of AFCs and funding proposals.
- Discussion related to the admissibility of certain assets in the list of "qualifying assets" for the purposes of FSR certification
- What allowance, if any, should be made in Funding Proposals for material changes in the value of assets post effective date, leading to the proposed revision to ASP PEN-4
- How to make AADRs more meaningful i.e. to split out the items now included in the "other" asset category
- The circumstances in which a change to the investment strategy set out in a S49(3) needed to be reported to the Authority
- Issues arising from the expected transposition of IORP II, in particular relating to the new risk management requirements
- Discussions on the standard transfer value basis and section 34 statutory guidance

The Pensions Regulator made presentations at the Scheme Actuary Forum in June and at the Annual Convention in December and the Committee has invited the Authority to present at the Scheme Actuary Forum scheduled for 15 June 2021.

On 28 April, the Pensions Authority announced that the Regulations transposing the IORP II Directive had been made, and the Authority issued Information for Trustees on 13 May. The Society will meet with the Authority in the near future to discuss issues relating to the implementation of the new requirements and have asked the Pensions Regulator to speak at a CPD event on this topic later in the year.

Revenue

Based on advice received from Large Cases Division of Revenue, we advised members in February that the tax- free retirement lump sum used in the calculation of tax on severance payments (usually in the SCSB calculation) should be calculated using the "3/80ths for each year of service" approach. We asked Revenue for further clarification and have recently had a meeting with the Revenue Legal Services team who are undertaking a review of practice in this regard. The Committee is strongly supportive of the objective of achieving consistency and clarity in relation to this issue and we will advise members when Revenue have confirmed their position.

We have also been advised that other issues which we have raised with Revenue in recent years and to which we are awaiting a response will be addressed. The Society has repeatedly requested that the capitalisation factors set out in Chapter 7 of the Pensions Manual be updated and we have offered to assist Revenue with this.

Department of Social Protection

i. Qualifying assets for FSR

Following discussion with the Pensions Committee, the Pensions Authority issued a document entitled 'FAQs on the Funding Standard Reserve' in September 2019 to provide additional information in this regard. This document confirmed that only those asset classes specifically set out in the legislation were deemed to be 'qualifying assets' and that further primary or secondary legislation would be required to include additional asset classes. In addition, the paper noted that changing regulations is a matter for the Department.

The Committee set up a Working Group in conjunction with members of the Finance & Investment Committee which developed a paper which was sent to the DSP on 30 June 2020. This paper made the general point that delegation to the Pensions Authority of responsibility to define the qualifying criteria in statutory guidance (rather than the use of legislation) would provide greater scope to update the relevant definitions in appropriate limited circumstances as conditions evolve. The paper made further points about the different treatment of asset classes with very similar economic exposure. Specific points were made in relation to Corporate Bonds and LDI strategies.

The Department acknowledged receipt of the paper and stated that they would give it very serious consideration and include it in their continuing review of matters relating to occupational pension schemes generally.

ii. Investment Options for Automatic Enrolment

A short paper setting out three key principles in relation to the selection of the default investment strategy was sent to the Department in March 2021, and a subsequent meeting with the Roshin Sen, AE Program Manager in the Department, was attended by the Chairs of the Pensions and the Finance & Investment Committee. The Society undertook to provide some further information to Roshin to assist with their deliberations.

Interdepartmental Pensions Reform and Taxation Group

On 13 November 2020 the InterDepartmental Pensions Reform and Taxation Group (IDPRTG) published their Report as they were charged to do under the terms of The Roadmap for Pensions Reform 2018-2023. This Report has taken into account the responses to the consultation process which they undertook in 2018. The Report and the consultation responses are available in full on gov.ie.

The Report is very comprehensive and detailed, running to 145 pages. The Table of Conclusions which comprises Section 8 contains the proposals to reform and simplify the existing Supplementary Pension Landscape. Many of those Conclusions have been highlighted by the industry as very desirable, if not essential, for some years now and are sequiturs of an approach built on the principle, endorsed in the Report, of having only one all-embracing product for personal pension provision which would operate alongside the occupational pensions scheme as the twin mechanisms for private pension provision to complement State Pensions (including AE which continues to be advocated in the Report).

There are a few Conclusions worthy of further comment.

1. *Key ages are to be increased by five years across the board eg access to pension funding at 55 rather than 50; upper NRA increased to 75 from 70. (State Pension Age is dealt with separately elsewhere in the Report)*. This is in line with a generally perceived need (supported in the Report) to draw or receive benefits at older ages.

2. *An enhanced PRSA is the personal pension vehicle of choice.* It would be the sole recipient of transfers and it is intended to supplant ARFs by the use of its drawdown function. It is suggested that that would be achieved by amending the existing product

which is likely to be problematic. It may be preferable to start again with a totally new product. Management of the transition and the multi-faceted legacy of existing products should not be underestimated.

3. *The drawdown principle would also apply within occupational pension schemes.* This is relatively uncharted territory and will also be problematic. The intention to abolish ARFs and replace them with the proposed drawdown arrangements will bring ARFs under the pensions regulatory regime which may well be counterproductive in providing good outcomes for pensioners.

The Committee, in conjunction with the PRSA Committee, is preparing comments on the Report to send to the Department of Finance.

Pensions Commission

The Pensions Commission was set up to examine sustainability and eligibility issues in respect of the State Pension and the Social Insurance Fund. A consultation paper was issued in February on *sustainable State Pensions into the future*. The Society responded and also attended the Stakeholder Forum.

Updates on Actuarial Guidance

The Committee has reviewed a number of pension-specific ASPs, and provided input to more general ASPs. Recent changes cover:

a) PEN-1 (valuation reports) – a new version came into effect on 1 April 2020. This reflected feedback from Reviewing Actuaries following the compliance monitoring process and discussion at the Scheme Actuary Forum in March 2019.

b) PEN-3 (AFCs/FSRCs) – suggested changes were put to member consultation in late 2020. Following feedback as part of the consultation, some subsequent changes were made – specifically to mandate the use of the swap curve in assessing the substitute fixed rate for schemes with inflation-linked increases to pension in payment. An updated version of PEN-3 was put to member consultation in March 2021, with a proposed implementation date of 1 July 2021. The Committee, having considered the comments received, concluded that no further changes were required and Council approved the draft for submission for approval by the Minister for Social Protection.

c) PEN-4 (Funding proposals & on-track statements) - currently under review, particularly in light of comments during 2020 from the Pensions Regulator. We expect this will be put to member consultation in the near future.

d) PEN-11 (Directors pensions costs) - a new version came into effect on 1 April 2020. This amended the classification from Recommended to Mandatory.

e) PEN-12 (DC projections) - a new version came into effect on 1 March 2021. This reflected changes in financial and economic assumptions – in general, the assumed future increases and investment return assumptions were lowered.

The Society has also issued updated general standards which impact on pensions actuaries

f) PA-1 (Continuing Professional Development), which will apply for the CPD year commencing 1 September 2021, sets out revised CPD requirements. This has been exposed for member consultation (now closed) and will be issued in the near future.

g) PA-2 (General Actuarial Practice) - a new version came into effect on 1 April 2021. The revised version reflects new requirements in international standards in relation to actuarial models and also brings in requirements concerning compensation for professional shortcomings.

h) EXP-1 (Expert Witness) - a new version came into effect on 1 September 2020 which is Mandatory for pensions actuaries providing expert evidence.

The IFoA have proposed certain changes to **Actuarial Profession Standard (APS) P1: Duties and Responsibilities of Members undertaking work in relation to pension schemes**, particularly around conflicts of interest where scheme actuaries also advise the sponsoring employer. We have engaged with the IFoA on this point, noting that PEN-13 is in place to provide safeguards in this regard. We will provide further information on this as the update to APS P1 progresses.

Working Group reviewing the standard transfer value basis

In 2014, the Pensions Authority took over responsibility for setting the standard basis for calculating transfer payments under section 34 of the Pensions Act, and the Society no longer has a direct role in setting the basis. However, in response to comments raised by members as well as the Committee's regular engagement with the Authority, it was proposed that the Committee would give some input to the Authority on potential changes to the transfer value basis, primarily to reflect current market conditions.

Any reform of the standard transfer value basis may potentially impact on scheme funding levels and the allocation of pension scheme assets between retired and non-retired members (or between younger and older non-retired members). It is arguably a policy decision for the Department of Social Protection, which must consent to any change. However, even taking no action has a consequence for the potential share of funds as the pensioner valuation basis, being directly linked to current annuity rates, has automatically increased in value due to reductions in interest rates over the last number of years, while the standard transfer value basis for non-retired members has only to a limited extent.

The Committee's engagement with the Pensions Authority on this matter is ongoing.

Brexit: The Occupational Pension Schemes (UK Members) Regulations 2020

In case you missed it, the Occupational Pension Schemes (United Kingdom Members) Regulations 2020 came into effect on 31 December 2020. These Regulations retain the protections afforded to UK members under the Pensions Act 1990 following from the withdrawal of the United Kingdom from membership of the European Union. The Regulations can be accessed here.

Survey on actions being taken by pension schemes as a result of COVID-19

Early 2020 saw the start of the COVID-19 crisis and brought a significant level of volatility and uncertainty to investment markets with a resulting impact on the funding position of defined benefit pension schemes. In order to understand how pension schemes were reacting to the crisis, the Pensions Committee carried out a survey of scheme actuaries in relation to how their clients were reacting. The results of the survey were presented at the Scheme Actuary forum on 12 June 2020. The key findings included:

- Most clients were reviewing the funding position of their schemes
- Where funding valuations were in progress, then in most cases, no explicit allowance was being made for experience since the start of the year
- In terms of reacting to the crisis, the view in most cases was 'wait and see'
- Although there was no indication of any immediate actions being taken, 75% of respondents stated that some/most of their clients saw

engagement between the company and the trustees in relation to how the company's business was affected by the COVID-19 crisis.

The survey also asked scheme actuaries what aspects of the pensions landscape they wished to see changed to provide alleviation for clients at current time. Responses included:

- Extending recovery periods for funding proposals
- Flexibility on certification date for funding standard position
- Complete review of the statutory funding stand and the transfer value basis
- Amendments to the classification of assets which are allowance as part of the funding standard reserve calculations
- Revision of the statutory funding standard to better align with long term funding targets
- More support / guidance from Pensions Authority
- More guidance on the valuation of pensioner liabilities for funding standard purposes
- Implementation of the IORP II directive but with the requirements being relaxed for small schemes

There were also suggestions on how the Society, and the Pensions Committee could help, including engagements with the Pensions Authority and the Department of Social Protection.

CPD

There have been a number of pension-related CPD events, details of which can be found on the Society's events page.

Webinar: Evolving DB pension scheme investment strategy | Society of Actuaries in Ireland

Behavioural risk management for trustees | Society of Actuaries in Ireland

We are planning to run a Scheme Actuary forum in webinar format on 15 June. It is also hoped to hold an event on IORP II later in the year.

As a reminder the Society recently produced a video guide to using the CPD system on the website and this is available here.

Committee plans for 2021

The Committee submits an Action Plan to Council each year. This year's plan focuses on the following topics:

- Learning and Development (including CPD events and the Pensions Forum)
- Regulatory Framework (reviews of ASPs 2, 3, 4 and 13 as well as the transfer value guidance)
- Awareness (member communications – including this newsletter)
- Stakeholder Engagement (regular meetings with the Pensions Authority and other stakeholders as required)
- Public Interest (respond to regulations and consultations as appropriate including IORP II, auto-enrolment, Pensions Commission etc)
- Sustainability and Climate Change (engaging with the SCCSG and considering other relevant issues for pensions actuaries)