1972 - 2022

Society of Actuaries in Ireland

Pensions Newsletter

May 2022

Pensions Committee

Cyra Barry
Deirdre Coyle
Richard Clossick
Brian Fitzgerald
Frederik Gilmore
Alan Hardie
Anna Kinsella
Patrick Leonard
Tom Matthews
Gerard Nolan (Deputy Chair)
Laura Power
Duncan Robertson
Thomas Synnott
Paul Torsney (Chair)
Shane Wall

Exec support:
Philip Shier

Dear All,

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

The pensions landscape in Ireland continues to evolve at pace and the Committee have contributed to a host of activity in this regard since the last newsletter. A particularly hot topic during that time has been the introduction of the IORP II legislation and the related Code of Practice. As well as preparing a detailed response to the consultation on the draft Code, the Committee has been engaging regularly with the Pensions Authority on related matters such as the DB Financial Risk Measure.

One of the Committee's primary roles is to review and update Actuarial Guidance. A new version of ASP PEN-3 (AFCs, FSRCs and actuarial statements) came into force in October 2021 and reviews of ASP PEN-4 (Funding Proposals) and ASP PEN-13 (Conflicts of Interest) are currently underway.
As well as regular engagement with stakeholders such as the Pensions Authority and Revenue, the Committee sees the value in working with like-minded bodies such as the IIPM, with whom we co-hosted a CPD event in 2021 and the IAPF, with whom we are in regular contact on matters of mutual interest.

Other areas keeping the Committee busy include organising a variety of CPD events and responding to further consultations.

Johnny Cashman, Sarah Kearns, Conor King, John O'Hara and Joanne Roche have stepped down from the Committee since the last Newsletter and we thank them all for their hard work over the years. We received a very positive response to the call for volunteers and 9 new members joined the Committee for the new term last August.

Council has approved the appointment of Gerard Nolan as the next Chair of the Committee, and he will take over from Paul Torsney. Paul has made a great contribution to the Committee over a number of years and we thank him for his commitment.

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.

The Pensions Committee

Contents:

Regulator & stakeholder engagement

Engagement with the Pensions Authority

The Society holds regular meetings with the Pensions Authority (PA) to discuss issues in relation to the regulation of pensions. In addition, meetings are set up from time to time to address particular topics.
The most recent meeting, which was attended by the Society President, Vice-President, Chief Executive, Head of Actuarial Practice and the Chair and Deputy Chair of the Committee was held via Microsoft Teams on 30 November 2021. Among the topics discussed were:

- Funding standard review / TV basis
- Risk measurement tool
- IORP II roll-out
    - Code of Practice
    - Pension Benefit Statements (PBS)
- ASP PEN-4

Updates on most of these topics are set out in separate articles below.
The Society pointed out to the PA that the requirement to make a PBS available to active and deferred members by end 2022 (other than members of one member arrangements entered into before 21 April 2021) would be challenging for providers and registered administrators for DC schemes, as the Directive required (at least) 2 projections in the PBS. The Regulations provide that the rules for determining the assumptions would be set by the PA, unlike the present situation where the assumptions for the (single) projection in the Statement of Reasonable Projection (SRP) are set by the Society via ASP PEN-12.
A subgroup of the Committee met with PA staff in February to discuss this issue and provided some input. It should be noted that the need to produce an SRP will fall away once a PBS has been produced so that from 1 January 2023, ASP PEN-12 would apply only to one member arrangements entered into before 21 April 2021
[In its Update issued on 17 May, the PA advised that the deadline of 31 December 2022 for the first PBS had been put back to permit more time to implement the new requirements. The PA has undertaken to issue its guidance on the assumptions to be used for the projections in the PBS by the end of July.]

Pensions Commission

The Commission on Pensions was set up under the *2020 Programme for Government* in response to the considerable public concern expressed during the 2020 General Election campaign regarding the raising to 67 of the State Contributory Pension Age which was due to take effect from 1 January 2021.

The Terms of Reference of the Commission were widely drawn and it submitted its Report to the Minister for Social Protection. The Department of Social Protection published that Report in October 2021.

The Report is very comprehensive and contained many of the aspects put forward by the Society within its submission to the Commission as part of the consultative process conducted in early 2021.

The Commission divided its consideration into two areas; the future funding of the State Contributory Pension and controlling future payment costs.

Future funding accepted the need to employ all three levers (PRSI contributions from all those sectors currently contributing, raising the State Pension Age and Exchequer subventions) as one of those levers could not reasonably be expected to solve the problem on its own. Four packages were studied with the final recommendation being increases in only the Class S (self-employed) contributions to 10% by 2030, the alignment of Class S with Class A (employer only) over the next decade to 2040. Class A contributions (both employer and employee) would not rise until 2030 and then by a 1.35 percentage point increase over the next decade. From 2040 to 2050, there would be an overall percentage point increase of 0.1 in both Class S and Class A rates.

Exchequer Contributions would amount to 10% of annual Social Protection expenditure.

Costs would be largely moderated by increasing State Pension Age but more gradually than originally set out in previous legislation (Age 68 by 1 January 2028). Pension Age would not increase from 66 at present until 2028 when it would rise each year by three months until it reached 67 in 2031. It would then increase by three months every two years, reaching 68 in 2039.

Moving to a total contributions approach to the calculation of rate of payment was also recommended.

There were other significant modifications recommended. Most notably was the introduction of legislation to override employment contracts to permit employees to continue to work until State Pension Age. Long-term carers would receive recognition by way of deemed contributions thus filling gaps in their contribution history.

Flexibility to defer State Pension benefits was recommended on an actuarially cost-neutral basis with any payment of PRSI contributions in the deferral period being allowed to improve contribution history. Access to State Pension benefits before State Pension Age should be permitted for those with a long contribution history.

Since the publication of the Report, it has been reviewed at the request of the Minister for Social Protection by the Oireachtas Joint Committee on Social Protection, Community and Rural Development and the Islands. The Joint Committee reported in February 2022.

Most significantly the Joint Committee recommended in its Report that State Pension Age remain at age 66. Other recommendations include a more gradual increasing of Class S contributions, a study to examine how changes to Employer Class A contributions can be implemented more fairly amongst employers, a rejection that PRSI contributions should apply to those aged over 66 and the development and application of new taxes on wealth.

Automatic Enrolment Retirement Savings System

On 29 March 2022, the Minister for Social Protection published the long-awaited proposed Automatic Enrolment system, following on from the consultation on the "strawman" proposal issued in 2018, to which the Society responded.

The Society had also engaged with the Department in relation to the investment options to be provided, and the revised proposal reflects the Society's recommendation that the default fund be a lifestyle/lifecycle product, rather than a low-risk fund as proposed in the strawman.

The Society has offered its assistance to the Department in fleshing out the details of the proposal, and its implementation, which is scheduled for "early 2024".

IAPF - Funding Standard & Risk Reserve review

The IAPF discussed with members of the Pensions Committee and the Finance & Investment Committee a letter which they proposed to send to the Pensions Authority. The letter suggested a number of areas where the calculation methodology of the Funding Standard, and particularly the Funding Standard Reserve, could be updated. The suggestions were designed to facilitate more effective risk management and improve investment outcomes for DB schemes and their members. The Society provided input and suggestions in relation to the letter, but decided not to be a co-signatory, as this might delay submission. The Society had previously raised some of these issues in a letter to the Department of Social Protection in June 2020.

The IAPF sent the letter, co-signed by the CFA Institute, to the Pensions Authority in April 2022.

APS P1 issued by the Institute and Faculty of Actuaries (IFoA)

APS P1: DUTIES AND RESPONSIBILITIES OF MEMBERS UNDERTAKING WORK IN RELATION TO PENSION SCHEMES v3.0 came into effect on 1 April 2022.

This replaces v2.0, which had been in force since 1 July 2013. APS P1 v3.0 applies to IFoA Members of any category (including Fellows, Associates, Students and Affiliates) operating in the pensions area in any location. V3.0 is materially different from v2.0 in some aspects and, if you are in scope, you should review the APS and ensure that you are compliant with the new requirements.

Among the changes in the revised version are those on conflicts of interest where scheme actuaries also advise the sponsoring employer. The Society issued an email to all pensions actuaries on this subject on 31 March 2022. A sub-group has been setup to identify issues that might need consideration for Scheme Actuaries who are also IFoA members.

Updates to ASPs

The Committee has progressed updates to two ASPs – PEN-3 and PEN-4:

a. PEN-3 (AFCs/FSRCs) – A revised version of PEN-3 came into effect on 1 October 2021 (applies to certificates and actuarial statements with an effective date on or after 1 October 2021). A particular change was the requirement to use the swap curve in assessing the substitute fixed rate for schemes with inflation-linked increases to pension in payment. Available here.

b. PEN-4 (Funding proposals & on-track statements) – suggested changes were put to member consultation in January 2022. Following feedback as part of the consultation, some subsequent changes were made. An updated version was put to member consultation in March 2022 (there were no further comments in this latter consultation). Changes to PEN-4 require Ministerial consent; this consent has been sought. Once approved by the Minister, it is expected the revised version will come into effect shortly thereafter. Details of the changes are available here.

The Committee also intends to undertake a review of ASP PEN-13, Conflicts of Interest – Pensions Actuaries, which was last revised in 2012. The Committee will consider the provisions of APS P1 that relate to conflicts of interest and may incorporate some of these into ASP PEN - 13, if they are considered to add value.

Pensions Authority Code of Practice for trustees

Following the publication by the Pensions Authority in July 2021 of the draft code of practice for trustees of occupational pension schemes and trust RACs, a working group, led by Kieran Manning, was set up to coordinate the Society's response to the consultation.

The working group produced an extensive response to the consultation which was reviewed by Council and submitted to the Authority during September 2021. The response highlighted the areas of the code where it was considered there was a need for clarification or amendment, including;

- Application of proportionality
- Extent of Trustees power under law to comply with some requirements of the Code

- Minimum Funding Standard concerns

The final code of practice was published by the Pensions Authority, along with a short commentary on the consultation responses on 18 November 2021. While some of the points raised in the SAI consultation were addressed in the final code there were a significant number that were not and the working group commenced work on identifying these during the first quarter of 2022 with a view to engaging further with the Authority.

Risk Measure for DB schemes

Paragraph 101 of the Pension Authority's Code of Practice for trustees refers to a defined benefit financial risk measure ("the Risk Measure"). This Risk Measure is to be used in assessing levels of financial risk for defined benefit schemes.

The Risk Measure is a means of assessing how resilient the scheme's funding position (as measured using the funding standard over a 1 year period) is to market shocks. The better funded and the better risk mitigation measures in place the less likely a market shock could occur that would result in the scheme being unable to meet the funding standard and funding standard reserve, and thus require additional support from the employer.

This measure must be used by trustees of defined benefit pensions schemes when considering the risks faced by the scheme.
During the second half of 2021, the Pensions Authority engaged with the Pensions Committee to seek testing and feedback in relation to the Pensions Authority's Risk Measure.

The Pensions Committee arranged for testing of the Risk Measure by a number of members of the Committee and across difference consulting firms. The findings and comments from this process were fed back to the Pensions Authority for consideration.

The Pensions Authority subsequently released an information note in November 2021 with the details around the Risk Measure including a standardised spreadsheet.

Transfer Value Basis / Funding Standard

Following a request for input, the Pensions Committee has been engaging with the Pensions Authority in relation to a review of the Authority's prescribed guidance on section 34 of the Pensions Act 1990. The Committee provided input on how the economic assumptions may be updated to bring them more in line with current market conditions. Mortality assumptions have also been reviewed recently by the Demography Committee and the recommendations have been sent to the Authority. The Authority has signalled that it proposes to take this input into consideration and prepare draft revised section 34 guidance with a view to making a recommendation to the Minister for Social Protection in due course.

On a related note, the Committee also expressed the view that a more fundamental review of the Funding Standard should take place, and the relationship of the standard transfer value basis with the Funding Standard might be considered. It has been suggested that a policy objective for the basis should be articulated. The Authority has indicated that this review will be undertaken during 2022.

Working Group submission on Sections 3 and 6 IDPRTG 2020 Report

The Society submitted a detailed response to the Consultation on Supplementary Pensions Reform in October 2018. The Consultation was initiated by the Interdepartmental Pensions Reform and Taxation Group (IDPRTG) which issued its report in November 2020. That Report addressed many of the issues in the SAI submission.

The Society responded to the conclusions set out in Section 8 of the IDPRTG Report by sending its comments to the Department of Finance in July 2021. Those comments related to Section 3 - Reforming & Simplifying the Existing Supplementary Pension Landscape and Section 6 - Review of the Approved Retirement Fund. A delegation from the Society subsequently had a call with members of the IDPRTG to discuss the issues raised.

Modest progress has been made in both areas to date with two suggested amendments (see following article) being enacted in the Finance Act 2021 in December 2021. A fundamental stumbling block remains in the need to substantially overhaul the present PRSA framework to make it more suitable as a single all-embracing retirement vehicle for individuals not covered by occupational pension schemes.

The IDPRTG report proposed to replace the present ARF framework by extending PRSAs to become "whole of life" vehicles, with income drawdown from the PRSA in retirement. The Society's view is that this would be very complex and that it would be better to design and implement a new whole of life vehicle. The proposal would also mean the transfer of supervision of drawdown from the Central Bank of Ireland (CBI) to the Pensions Authority, which the Society considers to be unnecessary and undesirable, given the CBI has a monitoring and enforcement regime in place for ARFs.

Finance Act 2021 changes

The Finance Act 2021 was enacted on 21 December 2021. There were three changes of substance affecting pensions.

1. The removal of compulsory annuitisation of death benefits in excess of the lump sum limit which will allow such monies access to the ARF framework.
2. The removal of the 15-year rule for transfer of preserved pension in a defined benefit scheme to a PRSA thus enabling drawdown for former employees with longer service.
3. The abolition of the requirement for the setting up of an AMRF where there was insufficient guaranteed income. A major driver of the change was that the amount of the single person's State Contributory Pension (for a fully qualifying contribution history) now exceeds the minimum income threshold needed.

Pensions Council

The Pensions Council was established in 2015 to advise the Minister for Social Protection on matters relating to policy on pensions. Roma Burke FSAI was appointed Chair in August 2021 and three other members of the Society have been appointed to the Council – Olive Gaughan, Munro O'Dwyer and Joanne Roche.

The Pensions Council issued a consultation on gender gaps in supplementary pensions in Ireland to which the Society made a submission in June 2021. This included the following general remarks;

- Issues designed to improve education, access, coverage, and levels of contribution made apply also to males, although we agree that some of these are more prevalent amongst females, and proposals to improve these shortcomings should not be focussed exclusively on females.
- The gender gap in pension provision is directly linked to the lower pay and service gaps in the female population, and these cannot be fully resolved within the pensions framework.
- Some of the issues discussed, such as education and access, will be at least partly addressed by the introduction of an automatic enrolment (AE) system. In addition to taking account of replacement rates and affordability issues, the earnings trigger for AE should be set having regard to gender differences and should not disproportionately impact on any group.

Social Security update

A Social Security Working Group was established as a sub-Committee of the Pensions Committee in Quarter 4, 2021. Its initial focus was to assess whether the Society should implement ISAP2. ISAP2 is an IAA standard relating to the Financial Analysis of Social Security Programs.

The WG reviewed ISAP2 and considered the need for a local ASP. Their recommendation was that no ASP was required. This recommendation will be reviewed by the Pensions and Professional Affairs Committees in due course. The members of the WG agreed, that, subject to the recommendation being accepted, there would be no further need for the existing WG to continue.

Update from the Social Security Sub-Committee of the Actuarial Association of Europe.

The Social Security Sub-Committee of the Actuarial Association of Europe organised a successful webinar in December 2021 on the topic of "The Added Value of Social Security Actuaries". The webinar was attended by attendees from 26 different countries including 50 people outside of the actuarial profession, from institutions and government bodies. A discussion paper prepared by the sub-committee is due to be published in late April/early May. This paper provides commentary by the actuarial profession in Europe on the recent 2021 Ageing Report and 2021 Pension Adequacy Report issued by the European Commission.

The sub-committee held a virtual meeting on 31 March 2022, attended by Mark Lee as the Society's representative. The meeting involved a broad discussion of the goals of the Social Security sub-committee such as: raising the profile and promoting the role of actuaries in social security; providing informative commentary on social security topics; identifying areas to research and develop and promote results. Avenues of potential future advocacy were considered such as in the area of Long Term Care and harmonised pan-European social security system.

CPD events

Over the past few quarters, there have been a number of pension-related CPD events, including a joint event with the IIPM (a successful format which we plan to arrange again during Q4 of 2022).
Details of the events can be found on the Society's events page:

Webinar: Bulk Annuity Buy Out & Buy In, for DB Schemes
Webinar: Pensions Forum 2022 | Society of Actuaries in Ireland
Webinar: An Introduction to Collective Defined Contribution (CDC) Pension Schemes | Society of Actuaries in Ireland
Webinar: Employer covenant for pension schemes in Ireland | Society of Actuaries in Ireland
Joint webinar: SAI and IIPM | Society of Actuaries in Ireland

This year's Scheme Actuary Forum will be held as an online event on Wednesday 8 June.

Please also save the date (July 6th) for *'Lifting the lid on intergenerational investment risk-sharing'* at which Professor Catherine Donnelly FIA (Heriot-Watt University) will update us on her research and analysis of this topic.