Society of Actuaries in Ireland

Pensions Committee Newsletter

July 2024

Foreword

Dear Member

It has been a busy period for all those involved in pensions, with IORP II and related matters increasing the requirements on scheme trustees and their advisers. The Committee have been involved in many of these matters, and continues to engage with various stakeholders to ensure the voice of pension actuaries is being heard. We regularly engage with the Pensions Authority on various matters. Earlier this year we prepared a detailed response to the consultation on the Standard Fund Threshold and met with the group undertaking the review for the Department of Finance.

Actuarial Guidance is a key part of the Committee's remit – ASPs will typically be reviewed every 3 years. A new version of ASP PEN-11 (Disclosure of Directors Pensions Costs) came into effect on 1 July 2024. A review of three other ASPs is currently underway – full details below.

The minimum transfer values payable to members of DB schemes is set by the Pensions Authority under the Section 34 guidance. We have been liaising with the Authority on potential changes to these assumptions, which the Authority are currently considering. Any changes to the assumptions will be flagged in advance to give schemes time to prepare for their implementation.

Numerous CPD events have been held, with the Pensions Forum and Scheme Actuary Forum being held as in-person events in recent months. We will continue to partner with the IIPM to co-host an event each year and will also continue to liaise with other bodies to provide a varied CPD programme to members.

A number of new members joined the Committee in late 2023. We strive to ensure the make-up of the Committee is appropriate and represents our members - if serving on the Committee would be of interest to you, please let one of the Committee members know. We would be happy to provide further information or receive expressions of interest from members.

We hope you find that this newsletter provides valuable insights to the work done by the Committee. We are considering how best to communicate the work done by this committee to members, for example, more regular updates on the Society's website. If you have any feedback on this, 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.

Committee Members

Gerard Nolan (Chair)
Laura Power (Deputy Chair)
Fred Gilmore (Secretary)
Cyra Barry
Richard Clossick
Deirdre Coyle

Brian Fitzgerald
Rita-Anne Keyes
Anna Kinsella
Tom Matthews
Michelle McSweeney

Barry O'Gorman
Barry O'Mahony
Thomas Synnott
Shane Wall
Michael Sharpe (SAI Exec Support)

Engagement with 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's President, Chief Executive, Head of Actuarial Practice, Chair of the Pensions Committee and subject matter expert was held on 27 June 2024.

Areas of mutual interest that were discussed from the general pensions landscape included:

- Transfer Value basis
- Own Risk Assessments
- Actuarial Standards of Practice
- IORP II and Supervisory Review Process

You can read updates on these topics and more in separate articles below.

Transfer Value Basis

Following a request for input, the Pensions Committee has engaged with the Pensions Authority in relation to their review of the "Pensions Authority Prescribed Guidance in relation to Section 34 of the Pensions Act, 1990". The Section 34 guidance sets out the assumptions and methodology which determine the minimum transfer value from a DB scheme. The current Section 34 guidance has been in effect since 1 January 2017.

The Pensions Committee engagement has included consideration of:

- assumed return in the pre- retirement period
- assumed return in the post- retirement period
- approach to setting the yield for the post-retirement MVA
- phasing period over which the post-retirement MVA applies
- inflation assumption
- approach to setting the benefit increase assumption where an increase rate is subject to a cap and/or floor
- the mortality assumption

As part of the engagement, members of the Pensions Committee calculated the change in transfer value for indicative assumption changes and also the impact on the statutory Funding Standard liability value for sample model schemes (on the assumption that such schemes use Section 34 guidance to set the liability value for active and deferred members). The Authority is considering the input from the Pensions Committee with a view to making a recommendation to the Minister for Social Protection in due course.

ASP Updates

Version 1.8 of ASP PEN-12 Statements of Reasonable Projection – Occupational Pension Schemes and Trust RACs became effective from 1 May 2023, reflecting changes to the financial and economic assumptions. A wider review of this ASP, in conjunction with a review of ASP LA-8 and ASP PRSA-2, is currently in progress.

Version 1.3 of ASP PEN-11 Disclosure of Directors' Pension Costs under Irish Stock Exchange Listing Rules will be effective from 1 July 2024. This version includes some minor changes from version 1.2. The other ASPs under review currently are:

- ASP PEN-13 Conflicts of Interests – Pensions Actuaries
- ASP PEN-1 Funding Defined Benefits – Actuarial Reports. This review will take into account any learnings from the recently completed cycle of Own Risk Assessments.

Any proposed changes to the ASPs will be circulated to members for comment.

IAN Updates

IAN PEN-2 Review of IFoA APS P-1: Duties and Responsibilities of Members Undertaking Work in Relation to Pension Schemes was issued in January 2023 and provides guidance for members of the Society who are also members of the Institute and Faculty of Actuaries (IFoA) in complying with the IFoA's APS P1 v3.0, noting differences in practice between the UK and Ireland.

The Committee noted that this version of APS P1 poses additional requirements on members undertaking work in relation to pension schemes, notably around:

- Obligations relating to appointment, replacement and absence
- Speaking up
- Conflicts of interest.

IAN PEN-1 Report on Actuarial Liabilities was reviewed in March 2023. The revised version refers to FRS 102's updated Statement of Recommended Practice and confirms that the previous template remains appropriate for use.

Automatic Enrolment Retirement Savings System

The Automatic Enrolment Retirement Savings System Bill 2024 ("the Bill") was published on 5 April 2024. Its main purpose is to address the current pension coverage gap by introducing a new retirement savings system for approximately 800,000 eligible employees who are not currently covered by a qualifying pension scheme.

The Bill was fully passed by both houses of the Oireachtas on 19 June 2024. It is anticipated to become law in July 2024, with a target commencement date of 1 January 2025.

A Bill Digest has been published by the Library and Research Service, providing background information and summarizing the principal provisions of the Bill.

The AE minimum standards will be a key piece of additional legislation as they will establish the criteria for measuring whether an occupational pension plan is "at least as favourable as" the Central AE System and therefore qualifies as a qualifying pension scheme.

These standards will be drafted over the coming years and will be in force no later than the commencement of Year 7 following the introduction of AE.

In addition to our response to the Draft Heads of the Bill, the Society has engaged with the Department to offer assistance and feedback on various aspects of the Central AE System's design. The Society has also established a working group focused on Auto Enrolment which is expected to be active for several years as the initial legislation comes into force and the forthcoming AE Minimum standards are drafted and enacted.

Recent Finance Act Changes

On the back of the findings of the Interdepartmental Pensions Reform and Taxation Group Report, the most recent Finance Acts have included significant changes in the operation of PRSAs along with some other changes to the pensions landscape.

Firstly, Finance Act 2022 removed benefit- in-kind for employer contributions to PRSAs, bringing their tax treatment in line with occupational pension schemes. This Act also introduced Pan-European Personal Pensions (PEPPs) for the first time.

Finance Act 2023 introduced what may well be the first step towards a whole of life PRSA to allow distributions past age 75. It also set 1 January 2024 as the date from which new Retirement Annuity Contracts (RACs) would no longer be approved.

CPD Events

Details of past Pensions events can be found on the Society's website. In-person and online events during the current CPD year included:

- Scheme Actuary Forum (11 June 2024)
- Pensions Forum (2 May 2024)
- Auto-Enrolment: Actuarial Learning Three Years On (3 April 2024)
- Tracing Pensioners and Deferred Members (21 March 2024)
- CMI Update on Pension Scheme Mortality Assumptions (12 March 2024)
- Role of the Risk Management KFH and ORA expectations (12 December 2023)

Additionally, two in-person events were held in relation to Risk Management:

- The Pensions Authority held a Risk Conference on 11 October 2023
- The ERM Committee hosted a Pensions Risk Management Forum on 22 February 2024

Further CPD events are currently being planned for Q3 and Q4 of 2024 (including at the Society's Annual Convention on 15 November). If there is a particular topic or presenter that you would like to hear from - or if you would like to present yourself - then the Pensions Committee would be happy to hear from you! Details of events can be found on the Society's events page.

Own Risk Assessments and the Financial Risk Measure

ORA guidance

In advance of the 22 April 2024 deadline for the first Own Risk Assessments (ORAs), the Pensions Authority issued guidance to Trustees in October 2023. The Pensions Authority released this guidance to supplement Trustees' existing ORA process rather than the

To align with the release of the guidance, the Pensions Authority held their first Risk Conference on 11 October 2023, with its theme being risk management for pension schemes and the increased obligations on trustees from the transposition of the IORP II directive into Irish law. This included highlighting that the ORA process should be given sufficient consideration and should not be a mechanistic process.

The ERM Committee hosted a Pensions Risk Management Forum on 22 February 2024.

Financial Risk Measure

Paragraph 101 of the Code of Practice for trustees refers to a defined benefit financial risk measure. The purpose of this risk measure is to provide Trustees with a quantitative estimate of the ability of a defined benefit pension scheme to absorb financial shocks, on a funding standard and funding standard reserve basis over a one-year time horizon. The Pensions Authority's information note issued in November 2021 included the spreadsheet to use for the risk measure calculations.

Now that the deadline for the first ORA and Financial Risk Measure has passed, it might be useful to share experiences and feedback among the actuarial community and this was considered by the Pension for a future CPD event.

Liability Driven Investment (LDI)

The UK gilt market crisis in 2022, arising from significant volatility in gilt yields, highlighted risks to financial stability as a result of excessive use of leverage which forced defined benefit trustee boards to sell gilts following yield increases. The Bank of England ultimately was required to intervene to stabilise the system.

Following the experience in the UK, the Central Bank of Ireland (together with CSSF (Luxembourg)) issued a letter in November 2022 setting out requirements for Trustees with exposure to GBP- denominated LDI. The Central Bank of Ireland also announced the introduction of macroprudential measures for Irish- authorised GBP-denominated LDI funds on 29 April 2024.

The Society of Actuaries held an event in March 2023 where a number of speakers were invited to discuss LDI, including the risks LDI presented for Irish pension schemes and potential lessons from the experience in the UK.

The Pensions Committee has engaged with the Pensions Authority regarding high level guidance on the use of Euro- denominated LDI by Trustee Boards of defined benefit pension schemes in Ireland; guidance was subsequently issued by the Authority on 18 June 2024. Guidance at a European level from EIOPA is also expected.

Standard Funds Threshold Consultation

In December 2023 the Department of Finance launched a public consultation on the Standard Fund Threshold ("SFT") following the appointment by the Minister for Finance of an independent expert to conduct a targeted and focussed examination of the SFT. The review aims to examine and consider the role and calibration of the SFT in the current pension landscape.

The SFT was introduced in 2005 to discourage the build-up of further tax incentivised pension saving once the value of an individual's pension had reached a prescribed ceiling. Originally, the limit was set at €5m (and increased to €5.4m in 2008 to reflect inflation) but was then reduced a number of times from 2010 to 2014 to €2m, where it has remained.

The highlights of the SAI's response to the consultation are:

- The SAI continues to support the purpose of the SFT; the review should focus on how best to set the limit, noting that it now impacts a much broader contingent of senior employees in the private and public sector. The response also highlighted the need to ensure equity between DC and DB, as well as public and private sector, pension savers.
- The practice of increasing the SFT at regular intervals (potentially linked to CPI) should be reintroduced; consideration should be given to an initial one-off increase to allow for backdating since the last increase.
- The tax rate for exceeding SFT (effectively 69%) is penal, particularly on those who may have inadvertently exceeded it due to accrued DB pensions or growth on legacy DC. Consideration should be given to whether a lower excess tax rate would achieve sufficient disincentive to further accumulation above the SFT threshold.

EIOPA Review of IORP II Directive

The European Commission has commenced a review of the IORP II Directive, in line with 5 year review mechanism built into the Directive. EIOPA issued an advice note in September 2023 to the Commission, that advice note calls out proposed changes in a number of areas including:

- Governance and prudential standards
- Cross-border activities and transfers
- Information to members and beneficiaries and other business conduct requirements
- Shift from defined benefit to defined contributions
- Sustainability
- Diversity and inclusion (D&I)

Prior to issuing its advice to the Commission, EIOPA held a consultation based on a draft advice note in May 2023. The Actuarial Association of European (of which the SAI is an active member) responded to this advice supporting many of the proposed changes but calling out concerns or practice considerations in relation to some of the proposals.

The IORP II review is an extensive process and a new Directive would not be expected for a number of years. However, the process of reviewing the Directive (by EIOPA and the Commission) and gathering consultation with stakeholders has commenced and will be important in shaping the final content of any future changes to the Directive.

Revenue Pensions Manual Update on the Present Value of Lump Sums

On 23 February 2023, a new Appendix was added to the Revenue Pensions Manual: Appendix V: Calculation of the Present Value of Pension Lump Sum for the Purposes of the Relevant Capital Sum Calculation.

The Pensions Committee are currently in the process of preparing an IAN on this topic.

If you have any queries or comments about the Newsletter, or would like more information on any of the topics mentioned, please contact the Society at info@actuaries.ie