



An tÚdarás Pinsean
The Pensions Authority

Engagement and audit findings report 2022

Table of contents

1. Introduction	3
2. DB and DC engagement.....	3
2.1 Overview	3
2.2 Trustee board composition.....	3
2.3 Key function holders (KFHs)	4
2.4 Outsourcing.....	4
2.5 Scheme policies	4
2.6 Investment.....	5
2.7 Defined benefit financial management	5
3. OMA audits	6
4. New OMAs – general compliance.....	6
5. SSAPs – investment and borrowing	6
6. Annual compliance statement audit	7
7. Conclusion.....	7

1. Introduction

The Pensions Authority's (the Authority) engagement activity in 2022¹ included face to face meetings with trustees of large defined benefit (DB) and defined contribution (DC) group schemes. The Authority also carried out several compliance audits on one-member arrangements (OMAs) and conducted a specific compliance audit on pension scheme trustees' obligation to prepare the 2021 annual compliance statement (ACS).

The main engagement and audit findings are set out below.

2. DB and DC engagement

2.1 Overview

As in previous years, the Authority met a number of large DB and DC schemes across many sectors, with a mix of lay and professional trustees. The Authority continued its policy of meeting with trustee boards without advisers in attendance reflecting the Authority's position that the trustee board remains responsible and accountable for all scheme activity.

In advance of meeting, each scheme received a detailed questionnaire which included subject areas covered by the Authority's [Code of Practice for trustees](#) (the Code) and was asked to furnish specific scheme information including copies of trustee meeting minutes. Following the Authority's analysis of the responses and information received, a meeting was held with the trustee board.

In summary, the findings of the engagements indicate that progress has been slow in certain areas given the enhanced standards of the IORP II requirements and the deadline for full compliance for group schemes of 1 January 2023. Some specific findings are set out below.

2.2 Trustee board composition

Few trustee boards had reviewed their composition to assess whether their mix of skills, knowledge and experience was adequate for the good governance of their scheme. Often there was a reliance on one individual who was considered to have superior knowledge, either by way of experience or by holding a position with the sponsoring employer.

¹ A review was conducted of all master trusts prior to the 1 July 2022 compliance deadline. The results of the master trust review were [published on the Authority's website on 3 August 2022](#).

The Authority expects all trustees to play an active part in the scheme's stewardship. Trustee boards should have a structured approach to assessing each trustee's knowledge and experience to determine if the board as a whole is fit for purpose to meet the significantly increased governance standards contained in the Pensions Act, 1990, as amended (the Act). This includes considering appropriate skill sets and whether to appoint a professional trustee to act as an independent chair. Trustees should engage in discussions with the sponsoring employer on the composition of the trustee board and on any desired changes that may be warranted.

2.3 Key function holders (KFHs)

Progress on the appointment of KFHs was slow with many trustee boards still in the process of short-listing candidates for review. Trustees are reminded of the need to have KFH appointments in place by 1 January 2023 and to [notify the Authority of the outsourcing of a key function](#) not later than four weeks following the making of that appointment and before that appointment enters into force.

Once these appointments have been made, the Authority expects trustees to actively engage with their KFHs throughout 2023 to embed the functions for their scheme's internal control framework.

2.4 Outsourcing

There was a lack of review by trustees of outsourced providers. This was evident, for example, in the appointment of the scheme administrator which in some cases had not undergone critical review for many years. The Authority reminds trustees to ensure they have considered, and have a proper understanding of, what they expect from each service provider. In turn, service providers should be made clearly aware of the key performance indicators on which they will be assessed. Evidence of service provider performance reviews by trustees and the reasons for any consequent trustee decisions should be documented and be available for review by the Authority.

2.5 Scheme policies

While plans for the completion of written scheme policies by the compliance deadline were in place, there was also evidence of the adoption of template policies proposed by advisers without sufficient consideration of content and scheme specific appropriateness. The Authority reminds trustees to carefully consider and tailor policies to reflect their scheme's circumstances. Trustees also need to ensure that there is a structured process for the ongoing development and review of their policies.

2.6 Investment

The Authority reminds trustees of the importance of formulating their investment strategy and being clear on investment objectives. The strategy and objectives should then be the basis of the trustees' review of investment performance.

In this respect, the Authority did not see enough evidence of trustees reviewing investment information and evaluating fund performance, fund managers and their investment advisers. The Authority expects trustees to be active in assessing their investments, probing the investment information presented to them and considering value for money. The suitability of investments, including the default investment in DC schemes, needs ongoing critical review to ensure these remain appropriate for the relevant scheme and its members. Trustees should look for regular independent investment information and advice and trustee meeting minutes should capture the trustees' review process including interaction with investment advisers.

2.7 Defined benefit financial management

Most DB trustees had an objective of de-risking the scheme over time, either to address the scheme's approaching maturity and/or to reduce the reliance on the employer covenant. Some had a targeted plan for de-risking but others did not. DB schemes need to consider their approach to de-risking and where appropriate have a focused plan for scheme de-risking which ensures trustee focus on the scheme's de-risking objectives.

Most DB trustee boards had regular engagement with the sponsoring employer on investment strategy, funding, and the sponsor contribution commitment. Regular engagement with the sponsoring employer is expected and the Authority reminds trustees that they must give priority to the best interests of the members in such engagements. The Authority also expect an evidence-based view of the strength of the sponsor's covenant to the scheme to form a key component of the trustees' own-risk assessment.

3. OMA audits

The Authority conducted a number of compliance audits on OMAs throughout 2022, including on small self-administered schemes (SSAPs) which are a particular type of OMA that facilitate investment flexibility and require a Revenue approved pensioner trustee.

4. New OMAs – general compliance

Following the 1 July 2022 compliance deadline, the Authority conducted a series of offsite and onsite inspections of OMAs established after 21 April 2021 (new OMAs) to assess their compliance status.

The offsite desk-based audit programme focused on non-professional trustees who were asked to submit a copy of the 2021 ACS and to provide details of how they meet the fitness and probity requirements under the Act and the Code. Overall, findings showed that the majority of trustees audited did not meet the fitness and probity requirements and, in most cases, could not provide an ACS. However, in almost all instances, the trustees notified the Authority of their intention to wind up the OMAs involved and transfer them to a Personal Retirement Savings Account (PRSA) or master trust.

The onsite audit programme focused on the KFH appointments, Statement of Investment Policy Principles (SIPP) and the risk management policy. The Authority found that in the majority of cases the KFH appointments were being provided en masse by one provider to a large portfolio of schemes. It also found that the SIPPs and risk management policies were template documents and not specific to the individual schemes. The Authority questioned trustees on whether this approach provided the sufficient scheme specific attention and focus required for an effective system of governance. Following further engagement with the Authority the trustees involved notified the Authority of their intention to wind up the OMAs in question and transfer the assets to PRSAs.

5. SSAPs – investment and borrowing

Throughout 2022, the Authority conducted a series of audits on SSAPs to determine the level of compliance with the new investment and borrowing requirements for OMAs introduced by the Act in April 2021. The audits focused on any investment and borrowings made by new SSAPs established after 21 April 2021 and, on any investment and borrowings made from 22 April 2021 for SSAPs established prior to that date. The Authority found no instances of non-compliance. This area will continue to be audited in 2023.

6. Annual compliance statement audit

Trustees of all schemes are obliged to prepare an ACS not later than 31 January each year in accordance with section 26T of the Act. The Authority conducted an audit of group schemes to check compliance in relation to the 2021 ACS and selected schemes were requested to submit a copy of the completed 2021 ACS for review.

The audit found that most schemes were compliant in preparing the ACS although there was an evident lack of understanding of the ACS requirements and process amongst trustees of smaller schemes. Trustees need to ensure their ACS is completed appropriately. [Information on the ACS is available on the Authority's website.](#)

7. Conclusion

Most schemes that the Authority reviewed appear to be taking steps to address the significantly enhanced governance standards introduced in 2021 but the pace of changes is slow and needs to be accelerated. The Authority found instances of non-compliance amongst the majority of schemes it looked at in 2022 and this is concerning. The Authority expects trustees to implement the changes necessary to bring their schemes into compliance as a matter of priority.

As can be seen from the above findings, there is scope for improvement in several governance areas including the structure of trustee boards, the adoption of scheme specific policies, embedding KFHs and interrogating outsourcing and investment arrangements. The compliance of new OMAs and SSAPs with the Act and the Code remains under constant review and will continue to be closely monitored by the Authority.

The Authority expects all trustees and their advisers to carefully consider these findings and use them as a basis for evaluating their own practices and making improvements where necessary.