



Risk Management for Trustees

**Expectations of the Pensions
Authority**

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www.charteredaccountants.ie



**An tÚdarás Pinsean
The Pensions Authority**

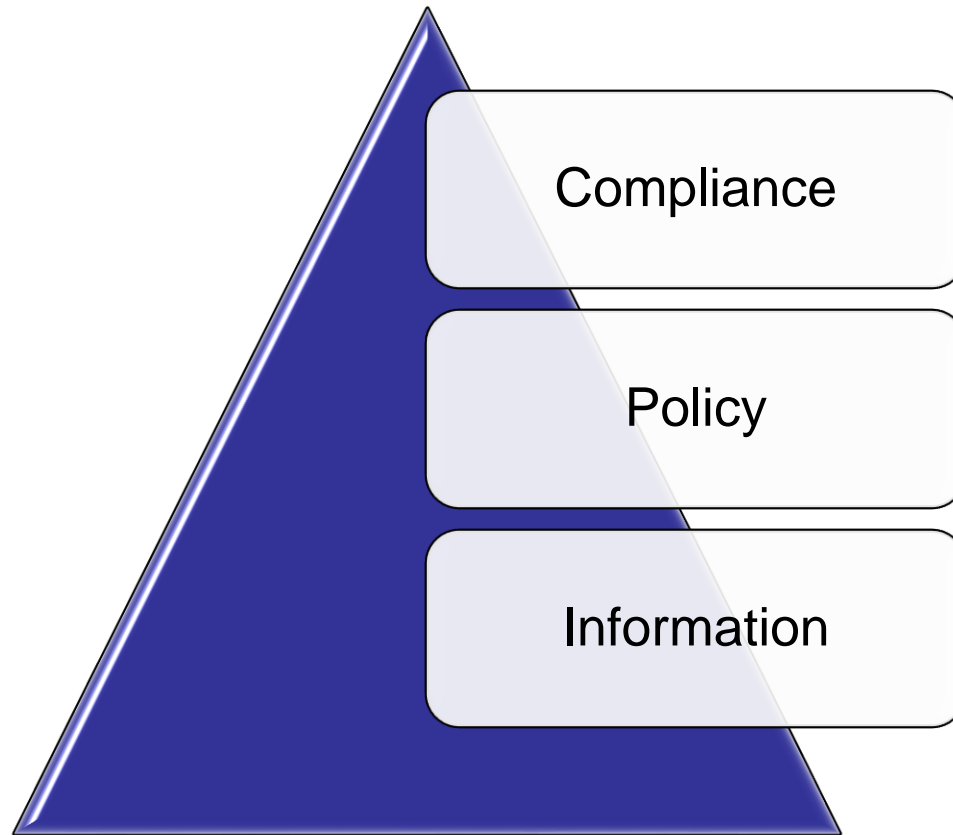
EDUCATING
SUPPORTING
REPRESENTING



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The Pensions Authority

Established by the Pensions Act, 1990



Why have a Pension?

Life expectancy increasing – 20 plus years in retirement

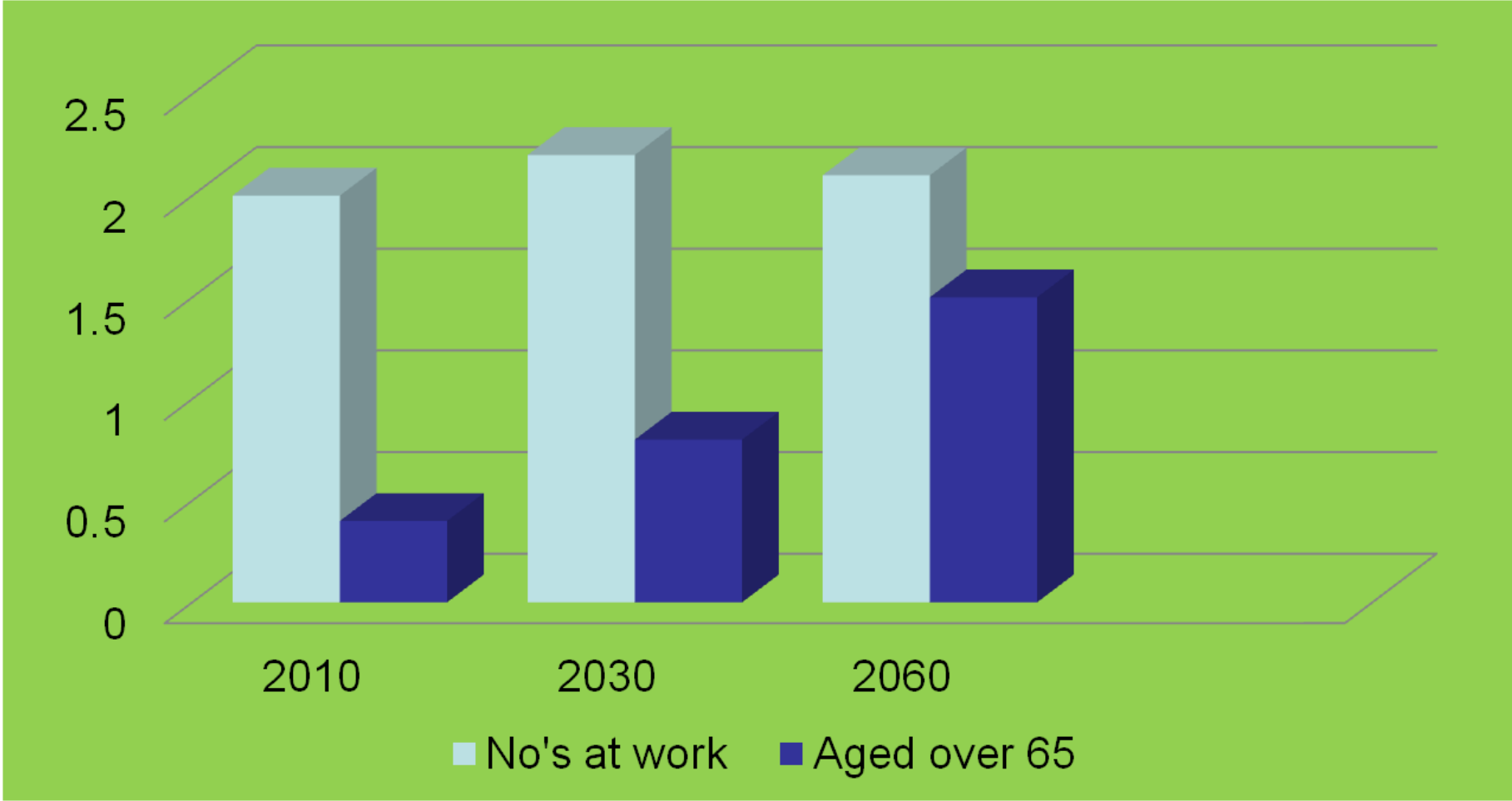
What kind of lifestyle do you want and how will you fund it?

Current State pension = €233.30 per week

8 out of 10 people say - the State pension will not meet all their needs in retirement

Pension = Income in Retirement

Changing demographics



Supplementary pension provision in Ireland

(as at 31 December 2015)

- **Defined benefit**
 - 715 schemes with 125,955 members are subject to the Funding Standard
 - 99 schemes with 339,155 Public Service members (full and part-time)
- **Defined contribution**
 - 67,125 schemes with 281,629 members
- **Personal Retirement Savings Accounts (PRSAs)**

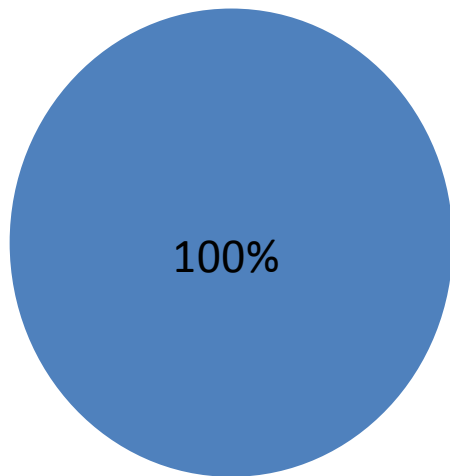
237,608 PRSAs with asset value of €5.2 billion
- **Personal Pension Plans/Retirement Annuity Contracts (RACs)**

(200,000 + contracts – Irish insurance industry)

Pensions coverage in the Irish workforce

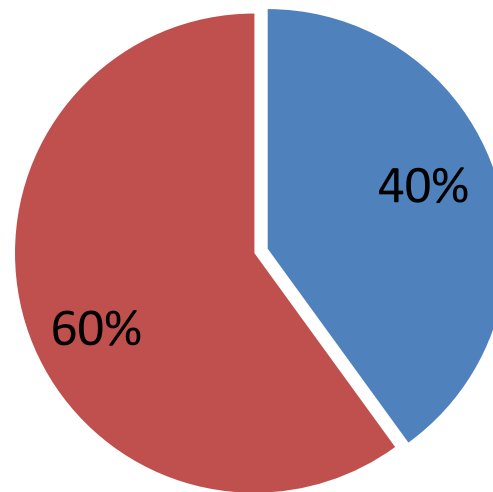
Public Sector

■ 100% coverage

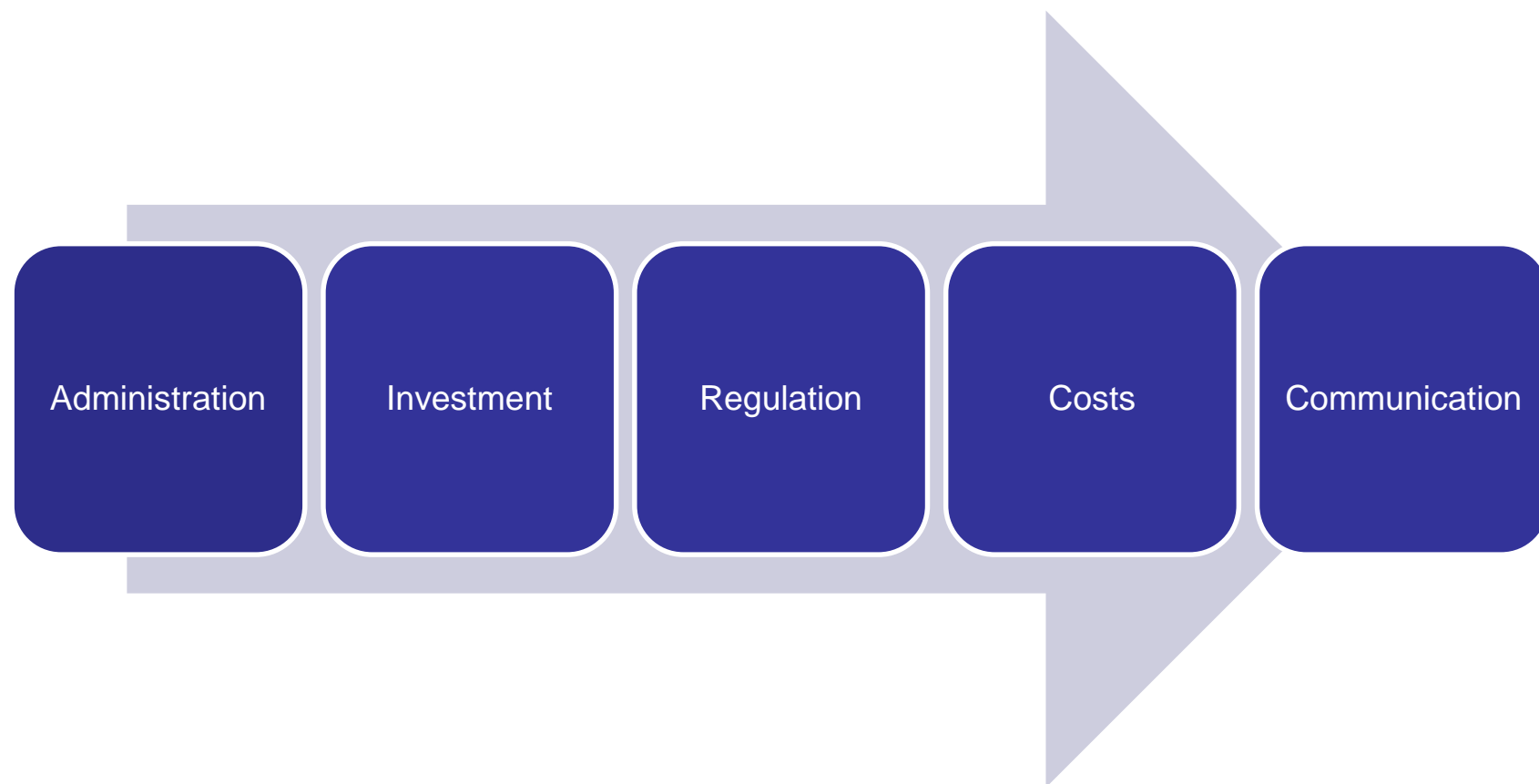


Private Sector

- 40% have some form of private pension coverage
- 60% do not have a private pension



Trustee challenges

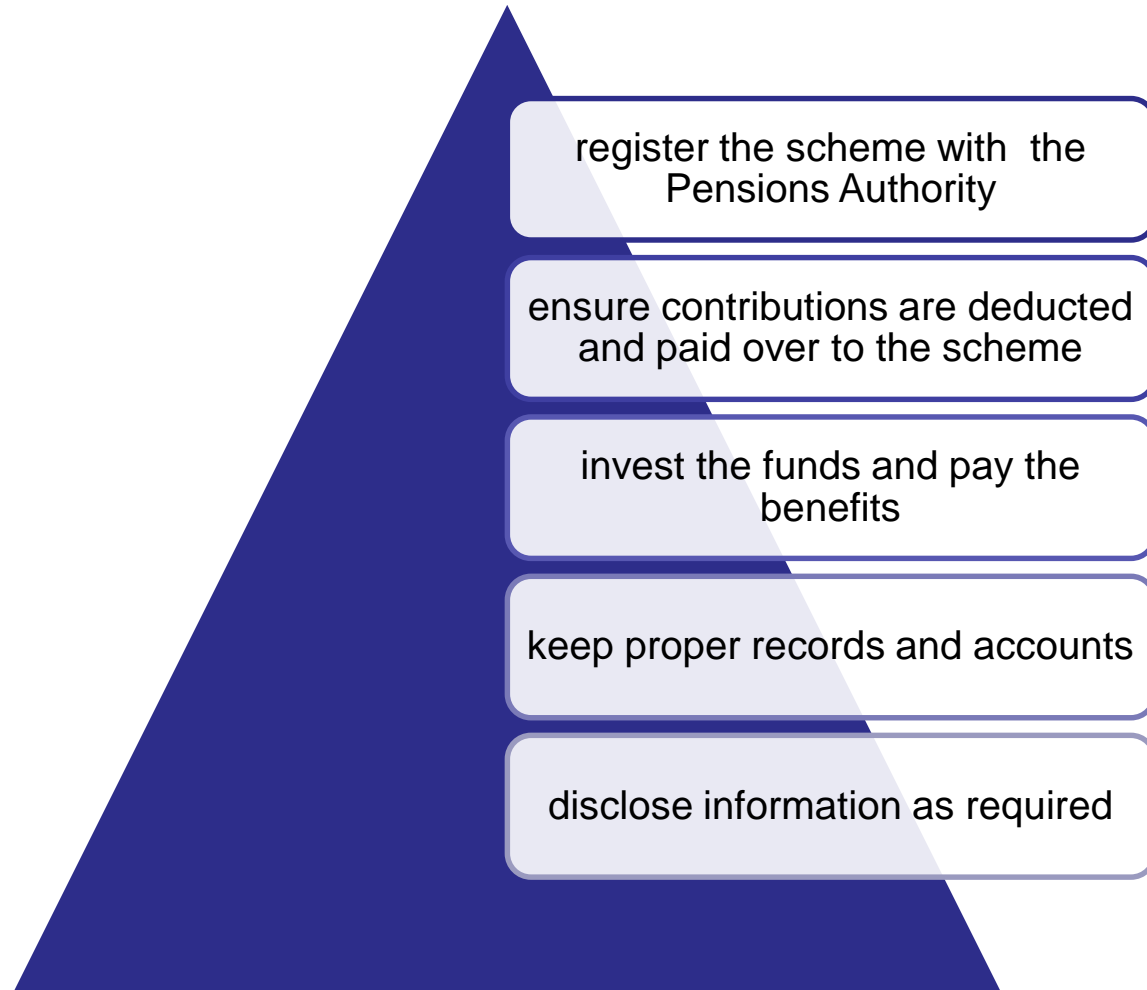


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Main duties of Trustees under the Act



What the Authority expects of trustees

Before describing, it may be useful to set out what we do not expect:

- trustees are not expected to be full-time
- trustees are not expected to be pension professionals
- trustees are not expected to be infallible.

Nonetheless, trustees are looking after money on behalf of other people.

Therefore there are minimum standards they must satisfy:

- they must have certain basic knowledge
- they must engage
- they must act reasonably
- they must have process.

Supporting trustees

The Authority supports trustees in the following ways:

- Trustee Handbook
- Financial management guidelines for defined benefit schemes
- Codes of governance for defined contribution schemes
- Model disclosure documents
- information and guidance materials
- information and enquiry service
- a register of trustee training providers is available on the website
- an e-learning facility for trustees which is free of charge and can be accessed on the website

What is risk management

- Risk is part of all our lives. As a society, we need to take risks to grow and develop.
- In our fast paced world, the risks we have to manage evolve quickly.
- We need to make sure we manage risks so that we minimise their threats and maximise their potential.
- Risk management involves understanding, analysing and addressing risk to make sure organisations achieve their objectives.
- So it must be proportionate to the complexity and type of organisation involved.

(Institute of Risk Management – www.theirm.org)

Risk management for trustees

- Trustees should establish a risk management framework to:
 - identify, evaluate and manage the risks that are critical to the scheme
 - identify which risks are likely to have significant impact on the scheme's ability to provide member benefits.
- It is also the trustees responsibility:
 - to decide what controls are necessary to manage the risks
 - and carry out ongoing monitoring of the identified risks

Risk analysis

- The purpose of risk analyses is to identify threats to the ability of the scheme to meet its liabilities and to allow the trustees to consider what they should do in response.
- Trustees need to make a conscious, informed decision of what action, if any, is being taken.
- Taking no particular action to mitigate a risk is also a decision provided consideration has been given to how one will deal with the outcome if the risk materialises.
- Some risks will have different effects on different classes of members. This is a challenge for trustees given their responsibility to balance the financial interests of all members of the scheme.

Risk assessment

Assess risk likelihood

- Although it is rarely possible to put a meaningful numerical value on any risk, trustees should at least be able to assess likelihood as high, medium or low.

Assess Impact

- Trustees should make a broad estimate of the likely impact on the scheme and its members in the event that the risk materialises.

Risk register

- Once risks are identified, record them in a risk register and review regularly.

Risk management strategy

- Unless trustees have a strategy for dealing with risks, they are not managing their scheme properly.
- There is no single or simple answer - trustees must identify the best answers for their own scheme.
- Hoping it won't happen or hoping that something will turn up is not a risk management strategy.

Risk management for DB schemes

As well as assessing whether the scheme is adequately funded, the trustees:

- must understand the risks to which the scheme is subject, i.e. what events may harm the scheme's ability to meet its obligations.

Other questions for trustees include:

- do you know all the costs?
- how optimistic are the calculations?
- how much might they vary?
- are you depending on high equity returns?
- what happens if you don't get them?

In the long run, trustees will do themselves and all others concerned with the scheme the most good if they look at scheme funding from all angles.

Identify the greatest risks for DB schemes

The risks may vary from scheme to scheme, but the greatest risks for a typical defined benefit scheme are:

- longevity increasing by more than expected
- investment losses or lower than anticipated returns
- liabilities increasing because of falling interest rates
- the sponsoring employer being unable or unwilling to pay the necessary contribution rate
- scheme liabilities increasing because of unexpected growth in member earnings.

Risk management for DC schemes

Trustees on behalf of the members must identify the greatest risks - these may vary from scheme to scheme but the greatest risks for a typical DC scheme and its members include:

- fraud
- investment
- managing costs
- administration
- regulatory requirements
- communications.

Pensions reform

The Authority is proposing a revised regulatory framework that encompasses the following:

- higher standards for trustees of occupational schemes
- an authorisation process for new occupational pension schemes
- closer supervision of pension scheme management
- better information for members and more transparent charges
- rationalisation of the number of pension savings vehicles.

Pensions information

www.pensionsauthority.ie



Pensions
calculator



Information
and guidance



Pension
checklists

Enquiry service

[info@pensionsauthority.ie/](mailto:info@pensionsauthority.ie)

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and to finish.....



Thank you for your time and attention.

I hope you found my presentation interesting and of some benefit

Questions & Answers