An tÚdarás Pinsean
The Pensions Authority

Annual Report and Accounts 2022

Statement from the Pensions Regulator, Brendan Kennedy

By far the most significant current pensions issue is the implementation of the IORP II Directive, which was transposed into Irish legislation in April 2021. This implementation involves fundamental and unprecedented change to Irish pensions. Considerable progress has been made, which is the result of a lot of work by pension scheme trustees, sponsoring employers, administrators and other professionals, and, not least, by the staff of the Pensions Authority.

Some schemes have decided to take the necessary measures to become compliant with the new obligations. However, for many schemes, trustees and sponsoring employers have decided that it is not practical or economic to make their scheme compliant and they have decided to move their pension provision into multi-employer master trusts or Personal Retirement Savings Accounts (PRSAs). As a result, the number of Irish pension schemes has begun to fall, for the first time. The number of new pension schemes being created has fallen from a typical average of over 1,000 schemes per month almost to zero and existing schemes are closing in increasing numbers as their benefits and contributions are moved elsewhere.

The Pensions Authority is engaging closely with the pensions sector to support this activity and to address the inevitable practical issues that arise. We welcome the positive and practical attitude that has been adopted by almost all involved. However, it is now more than two years since the transposition of the Directive into Irish legislation. We expect the remaining group schemes to achieve compliance before the end of 2023 and our focus must inevitably turn to considering enforcement action against the trustees of non-compliant schemes.

In April 2021, a large number of single member schemes were provided with a five-year derogation from most of the IORP II obligations. This derogation period is now almost halfway through. Trustees of those schemes and their advisors and administrators should be already considering how they can become compliant: April 2026 is the date by which this process should be completed, not started.

As a result of the transposition, the Pensions Authority is now obliged to apply a system of forward looking risk based supervision to pension schemes. As part of this, our supervisory review process will be implemented in the coming months and years as the IORP II transition is completed. We have already implemented a system of close supervision of master trusts.

Although much effort has and is being put into setting up the structures needed to comply with IORP II, trustees must recognise that this is not a once-off task. The standards and activity required of trustees have changed fundamentally. Anyone considering whether to accept or continue in a trustee role must satisfy themselves that they fully understand the responsibilities, have the knowledge and/or experience required and they are willing to make the necessary commitment.

In the same way that forward looking risk assessment will be the basis for much of the Authority's oversight, trustees are also expected to implement effective and objective risk management processes whether their scheme is defined benefit or defined contribution. Trustees and their advisers have been looking to the Authority for guidance on risk assessment and on other IORP II related matters. Such guidance is an important part of the Authority's responsibilities, and we will continue to provide it where appropriate. But the trustees' responsibilities are not limited to following guidance, and they are expected to be proactive and to take the initiative in addressing the interests of members and beneficiaries of their scheme.

Although there has been an understandable focus in Irish pensions on IORP II, there are other important issues being considered by the Pensions Authority.

- There are lessons to be learned from the problems that arose with Liability Driven Investments (LDI) in the UK in Autumn 2022 which may be relevant to Irish defined benefit schemes. The Authority has been looking at the complex issues involved and is considering issuing guidance later in 2023.

- The Authority has concerns about pension investment in unlisted unregulated investment and whether they are appropriate in all cases for the scheme members. This will be addressed further by the Authority as part of our forward looking risk based supervision.

- As a result of the IORP II transposition, there is a significant increase in the numbers of new PRSA contracts. The Authority is examining whether the investment rules governing PRSAs are sufficiently robust and will if appropriate discuss the matter further with the Department of Social Protection.

The objective of the work of the Pensions Authority is to improve consumer protection for members and beneficiaries, who have the right to expect the same standards from their pension schemes as they expect from any other institution with which they might be saving. Progress has been made in recent years, but there is further work to be done.

Brendan Kennedy

Pensions Regulator

4 September 2023