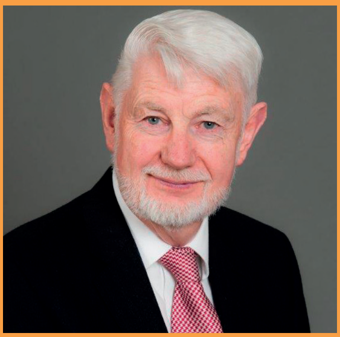
An tÚdarás Pinsean
The Pensions Authority

THE PENSIONS AUTHORITY
ANNUAL REPORT AND ACCOUNTS 2016

www.pensionsauthority.ie

CONTENTS



CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report and Accounts of the Pensions Authority ("the Authority") for the year ended 31 December, 2016 in accordance with Section 23(2) of the Pensions Act, 1990, as amended ("the Pensions Act").

Priorities

The priorities of the Authority are to oversee, support and improve Irish occupational pensions and Personal Retirement Savings Accounts (PRSAs). This work reflects the importance of these pensions in maintaining standards of living in retirement. The State pension is, and will continue to be, the foundation for retirement income: nearly half of workers (48%) in the 55 to 69 years age group expected the main source of their retirement income to be the State pension[1]. However, notwithstanding its vital role, the State pension on its own would represent a significant fall in living standards for many people: surveys by the Pensions Authority and others show that most people aspire to a higher income in retirement, and this is the important role of supplementary pensions.

The Authority's compliance supervision work takes first priority at all times. As this report shows, the level of misappropriation is low, although it continues to be a concern. However, our work shows that the quality of governance and administration of pensions is too often unsatisfactory. This can result in poor outcomes for pension members, and in the worst cases, can result in losses. Funded pensions savings represent about €100 billion of savings and it is important that these are properly managed to the standard that the public has a right to expect.

As for any regulator, our work must comprise a proper balance between enforcement and support activities. Levels of compliance will be higher where those who are subject to regulation are clear about their specific obligations and about what actions are necessary to be compliant. The guidance issued to date has been welcomed by the pensions sector, and the Authority is committed to maintaining and expanding such guidance.

An important event for pensions during 2016 was the adoption of the revised E.U. Directive on pensions, usually referred to as IORP II. The deadline for transposition into national law is January 2019. Given the complexities of pensions and the need to allow sufficient time for pension schemes and the pensions industry to adapt to the new requirements, this deadline will be very demanding. Work on IORP II will therefore be a high priority for the Authority for the next two years, and this will involve providing technical support and advice to the Department of Social Protection, and preparing the necessary changes to our oversight of pensions, and communicating with and supporting those affected by the changes.

Although the new Directive involves no changes in principle, it defines more specifically the obligations and expectations of those who manage pension schemes, which in Ireland means trustees. The Directive also imposes specific obligations on each country to ensure that the regulator actively supervises these obligations. It is an objective of the Directive to support a supervisory culture that is risk-based and proactive, and its implementation will involve considerable change for Irish pensions.

The requirements of the new Directive are consistent with the Authority's views of what changes are needed to the pension system committed to achieving the best outcomes for them. We are continuing to work with the Department of Social Protection to develop these proposals, and look forward to further progress in the coming year.

Pensions reform

The past year has been a challenging one for pension schemes. In particular, low interest rates, exacerbated by monetary policy, have increased scheme liabilities. This has given an increased impetus to the trend away from defined benefit towards defined contribution. The Authority is acutely conscious of the difficulty this is causing.

The need for pensions reform remains a high priority for the Authority. Our objective must be that every scheme member can be confident that his or her scheme is well managed and properly supervised. This is especially important given that very few pension scheme members have choice about which scheme they join. Furthermore, if pension coverage increases as a result of the introduction of a universal retirement savings system, the quality of pension management of these savings will come under increased scrutiny.

1 Central Statistics Office – Quarterly National Household Survey (QNHS) 2015.

The focus of the Authority's reform activities is the experience of members. In particular, for defined contribution schemes, the costs charged to members and the information provided to them are a source of concern. These issues can only be addressed by trustees who are active and informed. There is strong evidence internationally that larger pension schemes are more likely to provide better value and better outcomes. It is a central part of the Authority's objective that the number of schemes be reduced, which will make better use of the pool of informed committed trustees, and will allow the Authority to exercise more detailed supportive supervision scheme by scheme.

The changeover from defined benefit to defined contribution provision means that scheme members are responsible for making their own investment decisions, and bearing the resulting risks. Most defined contribution members do not feel confident about making these decisions – it may also be true that some of those who are confident should not be. There are a number of reasons for this lack of confidence, including the way in which these investment decisions are presented, the choices that members are asked to make, and members' understanding of the effects of their decisions. Each of these areas can be improved, and such improvements are among the objectives of the Authority's reform ambitions.

However, long term investment is a challenge, and there is a limit to which ordinary members of such schemes will be in a position to make informed investment decisions. The trustees of such schemes must make sure that the default strategy is well thought out and offers clear retirement expectations which, although not guaranteed, will be the focus of trustee efforts. If the default investment strategy is properly constructed, it may be more appropriate to see a defined contribution scheme as comprising a default investment with options for those who want to opt out rather than vice versa.

Research

The current attention on reform requirements is an ideal opportunity to foster a national conversation on the future for pensions and retirement provision. The Authority is concerned by the limited data and research in Ireland about matters such as how people make retirement decisions; their transition to retirement; their experience of the retirement process; and spending patterns during retirement.

At the end of 2016, the Authority initiated a project with the ESRI to conduct a research programme to investigate and study such matters. The ESRI will use data from the Irish Longitudinal Study of Ageing (TILDA) to answer a number of key research questions under the following headings:

- the transition from earning to retirement
- the process and determinants of retirement financial decisions
- wealth, income and expenditure patterns in retirement.

Results from the research will be published and joint Pensions Authority/ESRI conferences will be organised so that findings from the research work will be presented directly to stakeholders and interested parties. This work will inform and encourage a national debate about retirement and pensions.

Code of Practice for the Governance of State Bodies

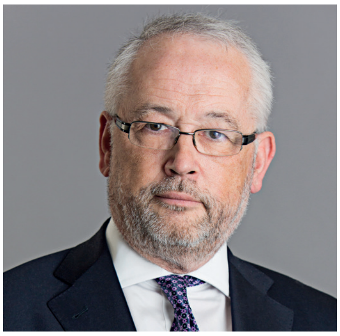
The Authority has reviewed the requirements under the Code of Practice for the Governance of State Bodies 2016. The Authority has already adopted many of the requirements of the new codes, which are present in the 2016 Annual Report. The financial statement requirements not detailed as prescribed in the Annual Report 2016 include the disclosure of key personnel compensation breakdown and the compensation paid to employees split between salary, overtime and allowances. The Authority will fully adopt the codes and report on compliance with same, in the Annual Report 2017. This approach has been agreed with the Department of Social Protection.

Support for the Authority

The Authority continues to benefit from a very good working relationship with the Minister and our colleagues in the Department of Social Protection (DSP). The challenges over the years ahead will be demanding and it is incumbent on all of us to work together to achieve our joint objectives.

Finally, I would like to thank the Executive of the Authority, members of the Audit and Risk Committee and my fellow Authority members for their hard work, expertise and commitment throughout the year.

Dr David Begg
Chairman



PENSIONS REGULATOR'S STATEMENT

Members of pension schemes entrust their own contributions and often contributions made by their employers to their pension schemes, in the expectation that these savings will be secure, will be sensibly invested during their working lifetime and will contribute to improving their standard of living in retirement. These are reasonable expectations, and it is the task of the Authority to oversee the trustees whose responsibility it is to meet them.

Many people give up their time and undertake the responsibility of acting as a trustee, in the great majority of cases, without pay. Scheme members owe a lot to those willing to undertake this work on their behalf.

But there are some trustees who play no active part in undertaking their responsibilities. The Authority has seen too many instances where trustees make no effort to ensure that the scheme is adequately managed, and there are many cases where the trustees seem to take no steps whatever to meet their obligations – this is a particular concern where the employer company is acting as sole trustee.

The most fundamental responsibility of trustees is to ensure as far as possible that the assets of the scheme and the contributions are not misappropriated. Thankfully, misappropriation is rare, given the amount of money in Irish occupational schemes – this is as a result of the vigilance of active trustees and of the good faith of almost everyone involved in pensions. But misappropriation is always unacceptable, and preventing and prosecuting such cases will always be the Authority's highest priority. The number of such cases is falling, but we are not complacent.

Keeping pension assets safe is essential but is not enough. The task of managing and investing these savings over the very long time between the first contribution and the final retirement payment is challenging and complicated, and will never be otherwise. In order to discharge their responsibilities properly, trustees must achieve good value for money, maintain accurate records, make sensible investments and keep members and other interested parties informed, including the Authority.

Almost every scheme outsources administration, communications and investment, and therefore trustees do not have a day-to-day role in their scheme. However, they must understand their responsibilities and they must have a clear idea of how their scheme is doing. Trustees are not expected to be experts in pensions management, but they must clearly define the responsibilities of their service providers, and they must monitor how well those providers are meeting their obligations. They must also ensure that they achieve good value for money.

There are trustees who meet all their responsibilities and run their scheme well to the benefit of the members. However, too many people are members of schemes where there is a great deal of room for improvement.

The guidance issued by the Authority is intended to provide practical assistance for trustees about how to set about their task. We are aware of the need for unambiguous practical information, and we are committed to maintaining and extending these materials.

The Authority's oversight of Registered Administrators (RAs) is a further important support for trustees. Elsewhere in this report, we provide details of our work in this area in 2016. However, overall, we have been disappointed with the timeliness and accuracy of the data provided to us. We note the improvements in this area, but the matters we are dealing with should not have occurred in the first place.

Although trusteeship of defined contribution schemes is demanding, there can be no question that defined benefit trusteeship is considerably more complex. I am happy to note that, in all our direct engagement with trustees of defined benefit schemes, their commitment and procedural care has been noteworthy.

Nonetheless, we have ongoing concerns about the financial management and the investment of defined benefit schemes. This raises questions about the advice that trustees are receiving. It is unlikely that trustees are receiving advice, which they are persistently ignoring without good reason. Our view is that the calibre of the advice and the emphasis placed on different issues and aspects is not as good as it ought to be.

Defined benefit schemes are complicated and their financial management is challenging. The timing and amount of benefits to be paid may be unclear; future investment returns may be uncertain; the ongoing support of the sponsoring employer cannot always be taken for granted, and trustees will try to ensure that contributions are predictable and not excessive.

There is no simple rule of thumb that will ensure good outcomes. Importantly, there is no single measure of the financial health of the scheme. But too many schemes seem to be run solely by reference to a minimum contribution rate consistent with the funding standard. This is not enough: trustees and their advisors should be monitoring a range of measures and exploring what different outcomes will mean for their schemes. Given the increased maturity and predictability of many schemes, we would have expected to see close attention being paid to medium term cashflows, but we have seen little evidence of this.

Although investment returns have been good in recent years, this has not been enough to keep pace with the increasing cost of providing reliable retirement income, which is the ultimate objective of retirement saving. Expected future investment returns are lower than they have been in recent decades. The combination of these two factors has resulted in difficulties for defined benefit schemes and indeed for all pension provision: it is important to note that these are external environmental factors, and not the result of regulation.

The typical investment of defined benefit schemes does not reflect this very challenging environment. Although in aggregate, schemes have changed their investment profile and reduced their exposure to equities, this change has just about kept pace with the maturing liabilities of the schemes, and therefore total risk has not reduced. Too many schemes appear to be invested on the assumption investment conditions will move in their favour in the short term. There is no doubt that if this comes to pass, the financial conditions of Irish defined benefit schemes will improve dramatically. However, an investment strategy designed to ensure surpluses in one very specific scenario means that the scheme will suffer losses in many other possible scenarios. Where such losses arise, the actives and deferred members will bear a disproportionate share of the losses. I do not believe that such an approach to investment is consistent with the responsibilities of trustees.

Thanks

I would to thank all the staff of the Authority for their hard work throughout 2016, which is appreciated. In April 2017 two of our senior management team, Mary Hutch, Head of Policy, and Tom Dunphy, Head of Regulatory Intelligence, retired from the Authority. Both played important roles in developing this organisation as an independent regulator with its own expertise. We will miss their knowledge, experience and contributions.

I would like to extend my thanks to the members of the Authority, and in particular to the Chairman David Begg for his support and advice during 2016.

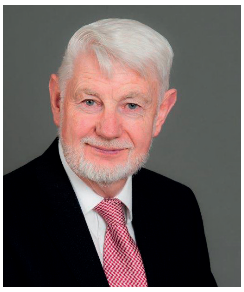
Brendan Kennedy

Brendan Kennedy
Pensions Regulator

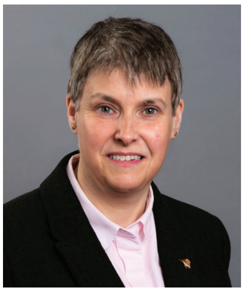
THE PENSIONS AUTHORITY

The Pensions Authority is a statutory body comprising an independent chairperson appointed by the Minister for Social Protection and two ordinary members. The term of office for the Authority members is five years.

The members of the Authority are:



Dr David Begg
Chairman



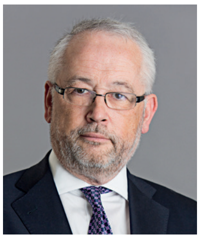
Ms Anne Vaughan
Deputy Secretary
Department of Social Protection
(Representative of the Minister for Social Protection)

Ms Ann Nolan
Second Secretary
Department of Finance
(Representative of the Minister for Finance)

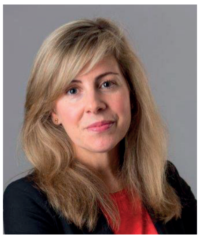
The Authority held eight meetings in 2016 and attendance at meetings was one hundred percent.

Day to day decision making is delegated to staff under the Authority's active supervision.

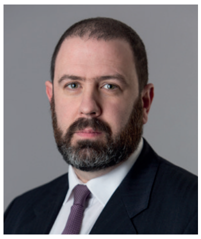
The Pensions Authority structure is as follows:



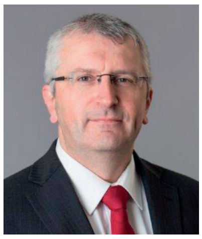
Brendan Kennedy
Pensions Regulator



Grace Guy
Head of Compliance
(Secretary to the Authority)



Andrew Nugent
Head of Development



Pat O'Sullivan
Head of Technical

Dervla O'Keeffe
Head of Regulatory Intelligence

Ger Clarke
Deputy Head of Compliance

Sylvia McNeece
Head of Legal
(on leave of absence until September 2017)

David Malone
Head of Operations

All current staff are listed on the website at www.pensionsauthority.ie

MEETING THE AUTHORITY'S GOALS

The Authority's vision for the future is for a pension landscape where pension savings are secure, well managed and understandable and which encourages pensions savings. The Authority's Statement of Strategy 2016 - 2020 sets out the organisation's four strategic objectives to deliver its vision.

1. To monitor and supervise occupational pension schemes and PRSAs to ensure they continue to be or will be well managed by competent trustees, providers and administrators.
2. Scheme trustees, the pensions industry and employers can rely on the Authority for guidance and support on what the Authority expects.
3. To be well known as an accessible, relevant and practical source of information for the public, members, contributors and beneficiaries.
4. To be a valuable source of technical pensions advice, knowledge, information and support to the Department of Social Protection.

The Authority has adopted high-level strategies to achieve these objectives, which include:

- a proactive and visible approach to dealing with non-compliance
- a practical approach to information and guidance provision focusing on accessibility, best practice documents and codes of practice
- a high quality enquiry service that addresses issues of concern and queries raised by stakeholders that are within our statutory remit
- a comprehensive blueprint for a pensions structure that delivers on our vision and that informs the policy deliberations of the Minister and Department of Social Protection.

The annual report sets out the activities undertaken by the Authority in 2016 to meet these objectives.

Hierarchy of risk priorities

In order to ensure that its regulatory practices are efficient and that activities are directed to the most important and effective means, the Authority adopts a supervisory approach based on a hierarchy of risk priorities:

1st priority: misappropriation of pension assets or contributions

2nd priority: lack of governance or maladministration impacting on benefits/failure to pay benefits due

3rd priority: defined benefit scheme solvency

4th priority: failure to provide prescribed information to members

5th priority: failure by regulated entities to submit accurate and timely data to the Authority.

This order represents the seriousness of the risks, not the likelihood of their occurrence. Whilst these priorities determine general Authority regulatory activity, the organisation will also ensure that no area is overlooked. Because regulation depends on Authority access to reliable information, the organisation especially targets failure to provide the Authority with information required under the Pensions Act, including whistle-blowing obligations.

Compulsory and voluntary reporting/whistle-blowing

There are statutory provisions, known as whistle-blowing obligations, which place a legal obligation on a range of specified persons involved in the operation of occupational pension schemes, Trust Retired Annuity Contracts (RACs) and PRSAs. Such persons must make a report to the Authority where fraud or material misappropriation is suspected to have occurred or it is feared it is about to occur. Any person can make a voluntary report on matters concerning the state and conduct of a scheme, Trust RAC or PRSA.

The Authority investigates whistle-blow reports and other serious complaints or allegations to find out what has happened. Where non-compliance is discovered, the primary aim of the Authority is to ensure compliance. Nonetheless, the Authority will use its full powers under the Pensions Act where necessary.

Protected disclosures

The Authority received two disclosures under the Protected Disclosures Act in 2016. The disclosures relate to suspected non-compliance with the Pensions Act. The Authority investigates protected disclosures.

Investigations

The Authority opened 32 new investigations for various alleged breaches of the Pensions Act. The alleged breaches varied from deduction and non-remittance of pension contributions to failure to reply to a statutory request for information. In 2016 32 cases were closed and 10 cases were recommended for prosecution.

In general, the number of incidents that require investigation regarding deduction and non-remittance of contributions have been declining in recent years.

Compliance audits

The Authority uses a range of risk-based criteria to select cases for desk-based audits. In 2016, the schemes selected were smaller schemes with between five and fifty active members that had not previously been audited by the Authority. However, if a scheme had been the subject of an investigation in recent years or there were administrative issues such as outstanding Annual Scheme Information (ASI) returns and no appointed Registered Administrator (RA) these additional risk factors contributed to the selection of some schemes for scrutiny. The Authority also audited a range of PRSA products during 2016.

The Authority carried out 483 audits in 2016 to assess compliance with the Pension Act. These audits looked at benefits due, disclosure requirements, scheme status transitions from current to frozen, scheme wind-ups, PRSA disclosure and excluded employees. In addition, the Authority wrote to 145 employers to remind them of their obligations concerning remittance of pension or PRSA contributions.

Where non-compliance is discovered, the main objective is to ensure the regulated entity becomes compliant. Where this does not happen, the Authority may consider enforcement action.

Findings from the audits help inform the Authority's ongoing compliance oversight activities.

Direct engagement with scheme trustees

Throughout 2016, the Authority continued its programme of direct engagement meetings with the trustees of both defined contribution and defined benefit schemes. The Authority meets the trustees without their advisors or administrators present to discuss in detail how they undertake the management of their scheme and their governance responsibilities.

The Authority met with the trustees of 37 defined contribution schemes to discuss how they actually run and oversee the governance of their schemes. The Codes of Governance published by the Authority in 2016 form the basis for these discussions.

By the end of the year, the Authority had also met with the trustees of 35 defined benefit schemes. The Authority uses the defined benefit financial management guidelines and the Codes of Governance as the basis for these discussions.

This programme of direct engagement increases the Authority's knowledge of how trustee boards are formed, how they operate, the general levels of understanding of trustee responsibilities and trustees' views on issues such as investment strategy and risk management.

Inspections and meetings with RAs

The Authority also assesses levels of administration compliance with the Pensions Act by carrying out on-site inspections of RAs.

Poor pension administration and record keeping could result in members not receiving all of the benefits to which they are entitled. The Authority carried out 11 on-site inspections of RAs varying in size and type in 2016.

Following the failure of some RAs to submit ASI returns accurately and on time, increased emphasis was put on this requirement during 2016. In October 2016 the Authority met with the 12 largest RAs (covering about 90% of all schemes) to discuss in detail their obligations in relation to submitting ASI returns.

During 2016, the Authority enhanced the Pensions Data Register (PDR) portal enabling RAs to file their returns more efficiently. Detailed guidance for filing data returns was also published to assist RAs meet their filing obligations. The Authority also developed compliance packs that highlight anomalies and inaccuracies in the data to assist RAs improve the quality of their data. As a result, of this activity, the Authority is seeing improvements in the integrity of the data submitted. The Authority expects a significant improvement in the compliance levels with the ASI requirements in 2017.

The Authority met with the Authorised Officer and a Director of the 10 RAs who were late renewing their RA registration in 2016 to impress upon them the importance of the RA renewal process and their wider reporting obligations under the Pensions Act. As part of the process, the RA was required to set out why they were late renewing and to detail what procedures were being put in place to mitigate this re-occurring.

In 2016, the Authority also conducted on-site inspections of pension administration services within the public health sector following reports of delays in payments of member benefits. The Authority will continue with inspections of schemes in the public sector in 2017.

These on-site inspections and meetings with RAs and administrators cover a broad spectrum of compliance obligations. Where any issues of concern are identified, a timescale is put in place to resolve the matter to the Authority's satisfaction. If the issues are not resolved and non-compliance persists, the Authority may consider appropriate sanctions under the Pensions Act.

The overall level of compliance indicates an improvement on the previous year. Administration standards have improved incrementally since inspections began in 2010 indicating the value of this activity. The Authority intends to maintain a consistent level of direct engagement activity in this area.

Prosecutions

Non-compliance by regulated entities can result in prosecution. In 2016, the Authority concluded 23 prosecutions cases and secured convictions in 12 of those cases. Defendants received the benefit of the Probation Act in two of the cases and a further seven cases were struck out due to payment of arrears. Two cases were dismissed on appeal. In total, fines of €20,850 were imposed.

The convictions in the 12 cases were as follows:

- seven cases related to the deduction and non-remittance of employee pension contributions to schemes (Section 58A(1))
- five cases related to failure to respond to a statutory request for information from the Authority (Section 18)

Details of the Authority's prosecutions are available in Appendix I.

Cases prosecuted by the Authority in 2016 mainly related to the deduction and non-remittance of pension contributions by employers to the Construction Workers Pension Scheme (CWPS). Whistle-blow reports in relation to the deduction and non-remittance of PRSA contributions resulted in two convictions in 2016 and a further eight cases were carried forward into 2017.

There were three bench warrants executed in 2016 for directors who failed to appear in court on foot of a summons. In total, the Authority appeared in court on 47 occasions in 2016 in order to prosecute cases.

Defined benefit scheme funding

At 31 December 2016, there were 677 defined benefit schemes subject to the funding standard and 65% of these schemes (not in wind-up) complied with the standard. All except eight of the remainder have agreed funding proposals designed to bring the scheme into compliance with the standard. The Authority will continue to engage with the trustees of the remaining eight schemes in 2017 to ensure compliance with the standard. In some exceptional cases, the Authority using its powers under Section 50B of the Pensions Act may have to instruct the trustees to wind-up the scheme.

In 2016, the Authority received and approved three funding proposals from defined benefit schemes. The Authority also received and approved three applications from defined benefit schemes to reduce accrued benefits.

Developing proposals for pensions simplification and reform

In July 2016, the Authority issued a consultation document setting out the proposals it had formulated for a package of pension reforms. The Authority received 64 responses from stakeholders and interested parties.

The Authority completed the public consultation process by the end of 2016 culminating in the submission of a draft report on 'Governance and Simplification of Supplementary Pensions' to the Minister for Social Protection at the end of January 2017.

Technical support

The Authority provides ongoing technical advice and support to the Department of Social Protection. In 2016, the Authority continued to provide technical support to the Department related to the implementation of the IORP II Directive, which was adopted by the EU in 2016. The Directive must be transposed into national law by 13 January 2019. IORP II will extend the obligations of IORP I by imposing more detailed requirements in domestic law for the management, governance and supervision of Irish pensions. The Authority's recommendations for reform were formulated independently of IORP II, but are consistent with its requirements.

Through its policy advisory role the Authority gives effect to its strategic objective of being a valuable source of technical pension advice, knowledge, information and support to the Department.

The Authority also assisted the Department with the preparation of the following:

- Occupational Pension Schemes (Section 48A) Regulations, 2016 [S.I. No. 155 of 2016].
- European Union (Occupational Pension Schemes Investment) (Amendment) Regulations 2016 [S.I. No. 643 of 2016].

Determinations

Under the Pensions Act, the Authority has the power to make decisions to facilitate scheme trustees in transferring the benefits of deferred members to other arrangements. In 2016, the Authority issued two such statutory determinations.

Support, information and guidance

The Authority supports trustees, administrators, employers and their advisors with information and guidance to help them understand and meet their obligations under the Pensions Act.

During 2016, the Authority issued 11 individual codes of governance to help trustees meet the standards of practice that the Authority believes form the basis of good governance and administration of occupational trust-based pension schemes. The codes cover a range of issues including conflicts of interests, record keeping, member communication, data protection and risk management. They set out standards of behaviour, activities and control processes that the Authority expects trustees to adopt.

In December 2016, the Authority published two guidance documents regarding investment issues for trustees of defined benefit schemes. The first document sets out the Authority's view of good practice in setting the investment strategy of a defined benefit scheme. The second document sets out good practice for when preparing and maintaining a Statement of Investment Policy Principles (SIPP) and includes a sample SIPP.

In 2016, the Authority also revised its section 34 Statutory Guidance as well as implementing Statutory Guidance on section 48A.

During 2016, the Authority dealt with over 10,000 general and data enquiries. The Authority continues to provide a comprehensive range of free information and guidance material on its website. Throughout the year, the Authority regularly attends and presents at public events. The Authority also deals with direct media enquiries and seeks events and media opportunities to promote public discussion of pension issues.

Freedom of information (FOI)

The Authority received and responded to five FOI requests in 2016 within the statutory deadlines.

Data protection

In 2016, the Authority began a review of its data protection practices and procedures to ensure compliance with the impending General Data Protection Regulation (GDPR), which comes into force on 25 May 2018.

Human resources

The Authority is committed to providing a safe place to work and operates in accordance with the Safety, Health and Welfare at Work Act.

Prompt payments

The Authority operates a 15-day prompt payment policy in line with Government Decision S29296 of March 2011. The Authority posts its quarterly prompt payment reports on the website.

Energy usage

In 2016, the total energy consumption by the Authority amounted to 117,650 kW hours of electricity.

COMMITTEE OF THE AUTHORITY

Audit and Risk Committee

The Audit and Risk Committee met six times in 2016. The Committee is part of the control environment, tasked with providing independent advice to the Authority on matters including the suitability and robustness of the organisation's internal control, internal audit, risk management, governance systems procedures and the reliability of financial reporting.

Following the end of each financial year, the Committee, formally reports to the Authority outlining its activities during the year together with such advice and recommendations as it may deem appropriate.

In 2016, the Committee's internal audit programme consisted of:

- a high level review of the system of internal financial control; and
- a review of the management of Human Resources.

The outcome of these reviews were positive and no significant issues of concern were raised. The Committee works with the Executive to ensure any issues raised in audits are addressed.

Audit and Risk Committee members

- Bill Cunningham (Chairman)
- Eilis Hamilton (Department of Social Protection)
- John Palmer (Department of Finance)
- Michael Roche

The renaming of Finance & Audit Committee to Audit and Risk Committee was approved by the Authority at its meeting on 3 May 2017.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

The Pensions Authority

I have audited the financial statements of the Pensions Authority for the year ended 31 December 2016 under the Pensions Act 1990. The financial statements comprise the statement of income and expenditure and retained revenue reserves . the statement of comprehensive income , the statement of financial position, the statement of cash flows and the related notes. The financial statements have been prepared in the form prescribed under Section 22 of the Act, and in accordance with generally accepted accounting practice.

Responsibilities of the Authority

The Authority is responsible for the preparation of the financial statements , for ensuring that they give a true and fair view and for ensuring the regularity of transactions .

Responsibilities of th e Comptroller and Auditor General

My responsibility is to audit the financial statements and to report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation .

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Pensions Authority's circumstances , and have been consistently applied and adequately disclosed

- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and

- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Pensions Authority's annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements:

- give a true and fair view of the assets , liabilities and financial position of the Pensions Authority as at 31 December 2016 and of its income and expenditure for 2016; and

- have been properly prepared in accordance with generally accepted accounting practice .

In my opinion, the accounting records of the Pensions Authority were sufficient to permit the financial statements to be readily and property audited. The financiai statements are in agreement with the accounting records .

Matters on which I report by exception

I report by exception if I have not received all the information and explanations I required for my audit, or if I find

- any material instance where money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or

- the information given in the Pensions Authority's annual report is not consistent with the related financial statements or with the knowledge acquired by me in the course of performing the audit, or

- the statement on internal financial control does not reflect the Pensions Authority's compliance with the Code of Practice for the Governance of State Bodies, or

- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception .

Patricia Sheehan

Patricia Sheehan
For and on behalf of the Comptroller and Auditor General
15 June 2017

STATEMENT OF AUTHORITY RESPONSIBILITIES

Section 22(1) of the Pensions Act, 1990, as amended, requires the Authority to prepare financial statements in such form as may be approved by the Minister for Social Protection with the concurrence of the Minister for Public Expenditure and Reform. In preparing the financial statements, the Authority is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Authority will continue in operation;
- disclose and explain any material departures from applicable accounting standards.

The Authority is responsible for maintaining adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority and which enable it to ensure that the financial statements comply with Section 22(1) of the Pensions Act, 1990, as amended. The Authority is also responsible for safeguarding the assets of the Authority and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

David Begg
Chairman
14 June 2017

STATEMENT ON INTERNAL FINANCIAL CONTROL

Responsibility for system of internal financial control

On behalf of the Authority, I acknowledge our responsibility for ensuring that an appropriate system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected in a timely period.

Key control procedures

The Authority has taken steps to ensure an appropriate control environment by:

- clearly defining management responsibilities;
- establishing reporting procedures to control significant failures and ensuring appropriate corrective action is taken;
- establishing a dedicated Finance and Audit Committee;
- providing for a clear separation of Authority and Executive functions;
- publishing a Code of Conduct for the Authority members and staff of the Authority;
- appointing internal auditors.

The Authority has established processes to identify and evaluate business risks by:

- identifying the nature, extent and possible implication of risks facing the Authority including the extent and categories which it regards as acceptable;
- assessing the likelihood of identified risks occurring;
- assessing the Authority's ability to manage and mitigate the risks that do occur;
- having regard to the costs of operating particular controls relative to benefit obtained.

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and agreed by the Authority;
- regular reviews by the Finance and Audit Committee and the Authority of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- regular internal audits.

The internal audit function is a key element in informing the Authority of the effectiveness of the system of internal financial control. The internal auditors operate in accordance with the Code of Practice for the Governance of State Bodies. The work of internal audit is informed by analysis of the risk to which the body is exposed and a full risk analysis exercise has been undertaken in that regard.

The analysis of risk and the internal audit plans are endorsed by the Finance and Audit Committee and approved by the Authority.

The Authority have in the year ended 31 December 2016, through the on-going activity of its Finance and Audit Committee monitored the work of the Executive in the area of financial control. Specifically, the Committee examined the following:

- regular and/or periodic management accounts for 2016, with analysis and explanation of significant deviations from budget;
- risk register and risk management process;
- OPS and PRSA fees;
- annual budget and financial plan for 2017;
- internal audit reports.

Annual review of controls

I confirm that in respect of the year ended 31 December 2016, Authority members conducted a review of the effectiveness of the system of internal financial control.

David Begg
Chairman
14 June 2017

STATEMENT OF INCOME AND EXPENDITURE AND RETAINED REVENUE RESERVES

for the year ended 31 December 2016

	Notes	2016 €	2015 €
Revenue			
Occupational Pension Scheme fees		3,279,826	3,206,716
Personal Retirement Savings Account fees		2,796,816	2,494,527
State grant in respect of Pension payments to retired staff		231,658	359,885
Other income	2	20,823	51,374
Total income		6,329,123	6,112,502
Transfer from PRSA capital reserve	15	–	29,339
		6,329,123	**6,141,841**
Expenditure			
Salaries, pensions and related expenses	3	3,661,857	3,508,337
Authority members' fees	5	19,934	20,520
Rent and office expenses	6	626,494	663,360
Training, education and staff related expenses	7	139,850	126,848
Information, research and publicity	8	221,134	180,363
Professional fees	9	497,170	483,251
General administration	10	508,823	425,419
Depreciation	11	121,412	170,722
Total expenditure		**5,796,674**	**5,578,820**
Surplus for the year		**532,449**	**563,021**
Revenue reserve at 1 January	19	6,525,426	5,962,405
Surplus for the year		532,449	563,021
Revenue reserve at 31 December		**7,057,875**	**6,525,426**

The statement of cash flows and notes 1 to 22 form part of these financial statements..

David Begg
Chairman

Brendan Kennedy
Pensions Regulator

14 June 2017

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016			
		2016	2015
	Notes	€	€
Surplus for the year		532,449	563,021
Experience gains on retirement benefit obligations[1]	19	(357,000)	(142,000)
Change in assumptions underlying the present value of retirement benefit obligations	19	3,357,000	(1,125,000)
Adjustment to deferred retirement benefits funding	19	(3,000,000)	1,267,000
Total comprehensive income for the year		**532,449**	**563,021**

The statement of cash flows and notes 1 to 22 form part of these financial statements.

David Begg
Chairman

Brendan Kennedy
Pensions Regulator

14 June 2017

1 The "Experience Gains on Retirement Benefit Obligations" reflects the impact on the liability valuation of differences between the assumptions made at the start of the year and the actual experience over the year. For example, gains or losses arise from differences between assumed and actual mortality experience, inflation, salary inflation and pension increases.

STATEMENT OF FINANCIAL POSITION

At 31 December 2016					
		2016		2015	
	Notes	€	€	€	€
Non- current assets					
Property, plant and equipment	11		321,559		158,997
Current assets					
Receivables	12	653,756		537,731	
Cash and cash equivalents	18	7,969,694		7,718,650	
		8,623,450		8,256,381	
Creditors amounts falling due within 1 year					
Payables	13	387,134		389,952	
Net current assets			**8,236,316**		**7,866,429**
Net assets before retirement benefits			**8,557,875**		**8,025,426**
Retirement benefits					
Retirement benefit liability	19		(20,468,000)		(16,582,000)
Deferred exchequer retirement benefit funding	19		**20,468,000**		**16,582,000**
Net assets after retirement benefits			**8,557,875**		**8,025,426**
Representing					
Compliance enforcement reserve	16	1,500,000		1,500,000	
PRSA capital reserve	15	—		—	
Revenue reserve		7,057,875		6,525,426	
			8,557,875		**8,025,426**

The statement of cash flows and notes 1 to 22 form part of these financial statements.

David Begg
Chairman

Brendan Kennedy
Pensions Regulator

14 June 2017

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016			
		2016	2015
	Notes	€	€
Net cash inflow from operating activities	17	477,751	744,774
CASH FLOWS FROM FINANCING ACTIVITIES: Interest received		34,105	41,645
CASH FLOWS FROM INVESTING ACTIVITIES: Payments to acquire property, plant and equipment		(260,812)	(132,338)
Increase in cash and cash equivalents in year		**251,044**	**654,081**
Reconciliation of net cash flow to movement in net funds	18		
Increase in net funds in the year		251,044	654,081
Net funds at 1 January		7,718,650	7,064,569
Net funds at 31 December		**7,969,694**	**7,718,650**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. Accounting policies

The basis of accounting and significant accounting policies adopted by the Pensions Authority are set out below. They have all been applied consistently throughout the year and for the preceding year.

a) General information

The Pensions Authority was set up under the Pensions Act, 1990, as amended, with a head office at Verschoyle House, 28-30 Lower Mount Street, Dublin 2, D02KX27.

The Pensions Authority's primary objectives as set out in Part 10 of the Pensions Act, 1990, as amended, are:

- to monitor and supervise the operation of this Act and pensions developments generally;
- to advise the Minister either at his request or on its own initiative on all matters relating to the functions assigned to the Authority under this Act and on matters relating to pensions generally;
- to issue guidelines on the duties and responsibilities of trustees of schemes and codes of practice on specific aspects of their responsibilities;
- to encourage the provision of appropriate training facilities for trustees of schemes;
- to advise the Minister on standards for trustees of schemes and on their implementation;
- to publish an annual report and such other reports as it may from time to time consider necessary;
- to perform such tasks as the Minister may from time to time request.

The Pensions Authority is a Public Benefit Entity (PBE).

The financial statements are denominated in euro.

b) Statement of compliance

The financial statements of the Pensions Authority for the year ended 31 December 2016 have been prepared in accordance with FRS 102, the financial reporting standard applicable in the UK and Ireland issued by the Financial Reporting Council (FRC), as promulgated by Chartered Accountants Ireland. The date of transition to FRS 102 was 1 January 2014.

c) Basis of preparation

The financial statements are prepared under the accruals method of accounting and under the historical cost convention in the form approved by the Minister for Social Protection with the concurrence of the Minister for Public Expenditure and Reform, in accordance with Section 22(1) of the Pensions Act, 1990, as amended.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Pensions Authority's financial statements.

d) Oireachtas grants

Oireachtas grants represents the amount made available in respect of the year by the Department of Social Protection to recoup the cost of superannuation benefits paid by the Authority. Oireachtas grants are recognised on a cash receipts basis.

e) Fee income

i) Occupational pension scheme fees

Fees are payable to the Authority by scheme trustees in accordance with Section 25 of the Pensions Act. The current fee rates payable are set out in Statutory Instrument No.634 of 2010 - Occupational Pension Schemes (Fees) (Amendment) Regulations, 2010. Fees in respect of group schemes are payable on an actual year basis and one person schemes are payable a year in arrears.

The Authority recognises all fees due as income on a calendar year basis and fees due in respect of one person schemes are included as debtors at year end.

ii) Personal Retirement Savings Account fees (PRSA)

Amounts due in respect of application, product and annual fees levied on PRSA providers. Annual PRSA fees are calculated by reference to the number of registered approved products and the value of funds under management by the provider as at the end of the prior year.

The current fee rates are set out in Statutory Instrument No.506 of 2002 - Personal Retirement Savings Accounts (Fees) Regulations, 2002.

f) Property plant and equipment

Property plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged in the statement of income and expenditure and revenue reserves on a straight-line basis at the annual rates set out below, so as to write off the assets, adjusted for estimated residual value, over the expected useful life of each appropriate category.

• Leasehold improvements	6⅔%	15 years
• Computer equipment	25%	4 years
• Office furniture	12½%	8 years
• Office equipment	20%	5 years

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of an age and in the condition expected at the end of its useful life.

If there is objective evidence of impairment of the value of an asset, an impairment loss is recognised in the statement of income and expenditure and retained revenue reserves in the year.

g) Operating lease

Rental payments are dealt with in the statement of income and expenditure and retained revenue reserves in the year to which they relate.

h) Retirement benefits

Nature of schemes

The Authority operates the following defined benefit pension schemes in respect of its employees:

For employees appointed prior to 1 January 2013:

- Pensions Authority Superannuation Scheme, 1993, and the Spouses' and Children's Contributory Pension Scheme,1993, with the scheme structure based on the Public Service model (the "Model scheme").

For employees appointed after 1 January 2013:

- Single Public Service Pension Scheme, which provides consumer price index-linked defined benefit pensions based on career-average pay (the "Single scheme").

The schemes are unfunded with pension benefits payable by the Exchequer. In addition, the Authority's arrangements have a number of specific characteristics:

- the Authority makes agreed contributions to the Department of Social Protection (for the Model scheme) and to the Department of Public Expenditure and Reform (for the Single scheme);
- the contributions for both schemes comprise an employee element along with an employer element. The employer contributions, paid by the Authority, amount to 25% of gross pay for employees paying PRSI at the A rate and 30% of gross pay for employees paying PRSI at the D rate;
- there is an explicit commitment from the Department of Social Protection, with the agreement of the Department of Public Expenditure and Reform, that the Exchequer will meet the cost of benefits as they fall due.

In substance, the Authority considers that the obligation to pay pension benefits remains with the Authority but that the Exchequer has committed to providing the Authority with sufficient funds to settle any such obligations as they fall due, provided that the Authority pays over employees' and the employer's contributions at rates specified by the Minister of Social Protection and the Minister for Public Expenditure and Reform.

Accordingly, the financial statements recognise both a deferred pension benefit obligation and a deferred exchequer pension funding receivable and full details of Superannuation benefit payments are included in the financial statements as an expenditure item and there is a corresponding income representing recoupment of payments from the Department of Social Protection.

Scheme actuarial gains or losses

Actuarial gains or losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised for the year in which they occur and a corresponding adjustment is recognised to the balance for deferred exchequer retirement benefit funding.

Pension costs in the statement of income and expenditure and retained revenue reserves comprise the employer's contribution in the year.

Scheme liabilities

Scheme liabilities represented by the present value of future payments earned by Pension Authority staff to date are measured on an actuarial basis using the projected unit method. Pension costs reflect pension benefits earned by employees.

The amount to be included in the financial statements for the deferred exchequer benefit funding amount is estimated at an amount equal to the estimate of the obligation for the pension scheme liabilities.

i) PRSA capital reserve

This reserve represents the unamortised amount of State grant used for the purchase of fixed assets relevant to PRSA administration and is amortised in line with depreciation of the relevant assets acquired. The full reserve was utilised in 2015 and the 2016 balance is zero.

j) Compliance enforcement reserve

As the Authority is a statutory regulatory body charged with monitoring and enforcing compliance with the provisions of the Pensions Act, 1990, as amended, it may be necessary for the Authority, from time to time, to have recourse to legal action.

In certain cases, such action could involve the Authority in significant costs. It is not possible to anticipate when such cases may arise or the resulting level of costs, but the Authority considers it prudent to ensure that adequate resources are available and to spread such costs over the years.

Accordingly, amounts are transferred from the statement of income and expenditure and retained revenue reserves to the compliance enforcement reserve when deemed necessary.

Amounts are transferred from the compliance enforcement reserve to the statement of income and expenditure and retained revenue reserves in the case of significant legal proceedings i.e. contested high court action.

k) Critical accounting judgments and estimates

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgments have had the most significant effect on amounts recognised in the financial statements.

Depreciation and residual values

The Authority has reviewed the asset lives and associated residual values of all fixed asset classes, and in particular, the useful economic life and residual values of fixtures and fittings, and have concluded that asset lives and residual values are appropriate.

Retirement benefit obligation

The assumptions underlying the actuarial valuations for which the amounts recognised in the financial statements are determined (including discount rates, rates of increase in future compensation levels, mortality rates and healthcare cost trend rates) are updated annually based on current economic conditions, and for any relevant changes to the terms and conditions of the pension and post-retirement plans.

The assumptions can be affected by:

(i) the discount rate, changes in the rate of return on high-quality corporate bonds

(ii) future compensation levels, future labour market conditions

(iii) health care cost trend rates, the rate of medical cost inflation in the relevant regions.

2. Other income

Other income	2016 €	2015 €
Interest income	15,167	44,722
Recoupment of prosecution costs	5,656	6,002
Miscellaneous income	–	650
	20,823	51,374

3. Employee costs

The average number of full-time equivalent employees during the year was 49 (2015, 42) and the Employment Control Framework (ECF) was 61.5 at the end of 2016 (2015, 51). The aggregate employee and related costs were as follows:

Employee costs	2016 €	2015 €
Salaries	2,547,204	2,322,828
Employer superannuation contributions	651,379	598,434
Employer PRSI contributions	225,695	199,124
Superannuation benefits payable	231,657	359,885
Agency/temporary staff	5,922	28,066
	3,661,857	3,508,337

Range of Total Employee Benefits[2]		Number of Employees	
From €	To €	2016	2015
60,000	69,999	6	4
70,000	79,999	3	3
80,000	89,999	2	1
90,000	99,999	4	4
100,000	109,999	1	1
110,000	119,999	-	-
120,000	129,999	-	-
130,000	139,999	-	-
140,000	149,999	1	1

2 Figures are in line with grades as set out in circular 28/2009

4. Pensions Regulator remuneration[3]

Pensions Regulator remuneration	2016 €	2015 €
Salary	143,535	143,535
Employer superannuation contribution	35,884	35,884
	179,419	**179,419**

The Pensions Regulator's pension entitlements do not exceed the standard entitlements provided in the model public sector defined benefit superannuation scheme.

5. Authority members' fees

Authority fees		
Name	**2016 €**	**2015 €**
Jane Williams	–	20,520
David Begg	19,934	–
Anne Vaughan	–	–
Ann Nolan	–	–
	19,934	**20,520**

3 Included as part of employee costs in note 3

6. Rent and office expenses

Rent and office expenses	2016 €	2015 €
Rent	426,002	490,662
Service charge	63,569	60,655
Rates	57,278	48,753
Electricity	24,247	24,925
Cleaning	24,515	22,640
General maintenance	28,651	13,121
Offsite storage	2,232	2,604
	626,494	663,360

The Authority occupies office premises at Verschoyle House, Lower Mount Street, Dublin 2, under a 25 year lease, which commenced on 16 July 2001. The Authority entered into an additional lease for the third floor of Verschoyle House from 21 October 2016 to 15 July 2026.

7. Training, education and staff related expenses

Training, education and staff related expenses	2016 €	2015 €
Training and education	125,997	99,311
Staff related expenses[4]	13,853	27,537
	139,850	126,848

8. Information, research and publicity

Information, research and publicity	2016 €	2015 €
Advertising and engagement activities	154,105	132,814
Printing, publications and website	38,216	27,130
Research	28,813	20,419
	221,134	180,363

4 Includes canteen expenses, contributions to staff sports and social club and other activities

9. Professional fees

Professional fees	2016 €	2015 €
Legal advice	172,088	79,184
Investigation and compliance support	-	72,120
Project development	156,535	142,802
System enhancement consultancy	79,322	–
Research consultancy	22,344	62,077
Internal audit fees	14,883	14,268
Statutory audit fees	15,000	15,000
Recruitment consultancy	6,948	69,157
Public relations	2,103	3,272
Other	27,947	25,371
	497,170	483,251

10. General administration

General administration	2016 €	2015 €
Stationery and administration expenses[5]	45,352	53,822
Corporate subscriptions	144,136	132,388
Telephone and postage	28,846	33,747
Computer maintenance and consumables	206,924	126,622
Travel and subsistence[6]	27,989	24,416
Insurances	52,082	50,433
Bank charges	3,494	3,991
	508,823	425,419

5 Includes Finance and Audit Committee member fees of €4,796

6 Included in travel and subsistence costs were:
- Foreign travel, €23,332
- Pensions Regulator expenses - €7,530 (incldg. €3,217 foreign) (2015 - €4,744 mainly foreign)

Foreign travel related mainly to the Authority's participation in EU regulatory and supervisory policy activity, in particular attendance at meetings of the European Insurance and Occupational Pensions Authority (EIOPA)

11. Property plant and equipment

	Leasehold improvements €	Computer equipment €	Office furniture €	Office equipment €	Total €
Cost or Valuation					
At 1 January 2016	1,163,434	1,186,113	216,795	79,802	2,646,144
Additions in year	–	277,650	5,698	626	283,974
Disposals in year	–	(23,125)	–	(17,756)	(40,881)
At 31 December 2016	1,163,434	1,440,638	222,493	62,672	2,889,237
Accumulated Depreciation					
At 1 January 2016	1,149,004	1,058,901	204,340	74,902	2,487,147
Charge for year	2,499	112,522	3,551	2,840	121,412
Disposals in year	–	(23,125)	–	(17,756)	(40,881)
At 31 December 2016	1,151,503	1,148,298	207,891	59,986	2,567,678
Net Book Value					
At 31 December 2015	14,430	127,212	12,455	4,900	158,997
At 31 December 2016	11,931	292,340	14,602	2,686	321,559

12. Receivables

Amounts falling due within one year:	2016 €	2015 €
Fee income	460,000	420,000
Accrued interest receivable	9,964	28,901
Prepayments and accrued income	84,374	43,309
Debtors other	99,418	45,521
	653,756	537,731

13. Payables

Amounts falling due within one year:	2016 €	2015 Restated €
Creditor accruals	212,519	164,437
Capital accruals	35,960	12,798
Holiday pay accrual	43,705	44,388
Tax creditor	84,950	84,313
Department of Social Protection creditor	10,000	–
Trade creditors	–	84,016
	387,134	389,952

14. Financial commitments

(i) **Capital commitments**
There were capital commitments of €16,414 at 31 December 2016.

(ii) **Operating leases**
The Authority had commitments payable under non-cancellable operating leases as follows:

	2016 €	2015 €
Within 1 year	558,400	396,567
2-5 years	2,233,600	1,660,000
Over 5 years	**2,534,277**	**2,297,849**
	5,326,277	**4,354,416**

Lease payments are recognised as an expense.

15. PRSA capital reserve

	2016 €	2015 €
At beginning of year	–	29,339
Transfer to Statement of income and expenditure and retained revenue reserves	–	–
Amortisation - prior years' acquisitions	–	(29,339)
At end of year	–	–

16. Compliance enforcement reserve

	2016 €	2015 €
At beginning and end of year	**1,500,000**	**1,500,000**

17. Reconciliation of surplus for the year to net cash inflow from operating activities

	2016 €	2015 Restated €
Surplus for year	532,449	563,021
Non-operating items		
Finance income	(15,167)	(41,645)
Non-cash items		
Transfer from PRSA capital reserve	–	(29,339)
Depreciation	121,412	170,722
(Increase) in receivables	(134,962)	(42,976)
(Decrease) in non-capital payables	(25,980)	124,991
Net cash inflow from operating activities	477,751	744,774

18. Analysis of changes in net funds

	At 1 January 2016 €	Cash flow €	At 31 December 2016 €
Cash at bank and on hand	437,504	4,884	442,388
Short term deposits	7,281,146	246,160	7,527,306
	7,718,650	251,044	7,969,694

19. Accounting treatment for retirement benefits

The Authority operates the following defined benefit pension schemes in respect of its employees:

For employees appointed prior to 1 January 2013:

- Pensions Authority Superannuation Scheme, 1993 and the Spouses' and Children's Contributory Pension Scheme, 1993 (the scheme structure is based on the traditional Public Service model).

For employees appointed after 1 January 2013:

- Single Public Service Pension Scheme (the structure provides consumer price index-linked defined benefit pensions based on career-average pay).

The schemes are unfunded statutory schemes with pension benefits payable under the schemes funded by the Exchequer.

In addition, the Authority's arrangements have a number of specific characteristics:

- the Authority makes an agreed contribution to the Department of Social Protection (for the Model scheme) and to the Department of Public Expenditure and Reform (for the Single scheme);

- the contribution for both schemes comprises an employee element along with an employer element. The employer contribution amounts to 25% of gross pay for employees paying PRSI at the A rate and 30% of gross pay for employees paying PRSI at the D rate and is paid by the Authority;
- there is an explicit commitment from the Department of Social Protection, with the agreement of the Department of Public Expenditure and Reform, that the Exchequer will meet the cost of benefits as they fall due.

Actuarial valuation

The Authority commissioned an actuarial valuation of retirement benefit liabilities under FRS102 at the statement of financial position date and the cost of benefits (service costs) accrued during the year. This valuation, which was based on the Project Unit method, is premised on the following key financial assumptions (with comparatives for 2015):

	31 December 2016	31 December 2015
Discount rate[7]	1.90% p.a.	2.60% p.a.
Inflation rate	1.75% p.a.	1.50% p.a.
Increases to pensions in payment	2.75% p.a.	2.50% p.a.
Pensionable salary increases	2.75% p.a.	2.50% p.a.

The key demographic assumptions used to calculate the retirement benefit liabilities under FRS102 at the beginning and the end of the period were as follows:

	31 December 2016		31 December 2015	
Mortality: pre retirement	None		None	
Mortality: post retirement	58% (male) of ILT15 62% (female) of ILT15 with allowance for future mortality improvements		62% (male)/70% (female) of mortality tables PNML00/PNFL00 with allowance for future mortality improvements	
Life expectancy at age 65:	Male	Female	Male	Female
FRS date:	21.3	23.8	22.7	23.5
FRS date + 20 years:	24.0	26.4	25.1	25.6
Retirement	70% of those with the option are assumed to retire at 60 with all other members assumed to retire at normal retirement age.		70% of those with the option are assumed to retire at 60 with all other members assumed to retire at normal retirement age.	
Age gap	Spouses are assumed to be 3 years younger than male members and 3 years older than female members		Spouses are assumed to be 3 years younger than male members and 3 years older than female members	

7 The discount rate is prescribed under FRS102 and is based on the yield on high quality corporate bonds at the valuation date.

Analysis of total pension costs charged to expenditure

	2016 €000	2015 €000
Total employer contribution	651	598
Current service cost[8]	690	747
Interest cost	428	393
Past service cost	0	0
Adjustment to deferred exchequer pension funding	(1,118)	(1,140)
Total charged to the statement of income and expenditure and retained revenue reserve	651	598

Movement in net pension liability

	2016 €000	2015 €000
Net pension liability at 1 January	16,582	17,069
Current service cost	690	747
Interest cost	428	393
Past service cost	0	0
Experience (gains)/losses on scheme liabilities	(357)	(142)
Change in assumptions	3,357	(1,125)
Benefits paid during the year	(232)	(360)
Net pension liability at 31 December	20,468	16,582

8 The current service cost included employee contributions totalling €119,000 in 2016 and €121,000 in 2015

Superannuation deductions and contributions

The total superannuation deductions and contributions remitted to the Department of Social Protection and Department of Public Expenditure and Reform were as follows:

	2016 €	2015 €
Employer ordinary contributions[9]	651,379	599,586
Employee ordinary contributions	118,882	121,357
Pension related deduction[9]	125,556	144,401
	895,816	865,344

20. Disclosure of transactions

In accordance with the Code of Practice for the Governance of State Bodies, the Authority has in place a Code of Business Conduct for Authority members. The Code of Business Conduct includes guidance in relation to the disclosure of interests by Authority members and these procedures have been adhered to by the Authority during the year covered by these financial statements. During 2016, there were no financial transactions with Authority members other than the payment of Authority fees detailed in Note 5. There were no occasions whereby Authority members disclosed a financial interest during 2016.

21. Taxation

The Authority is exempt from Corporation Tax under Section 220 of the Taxes Consolidation Act 1997.

22. Approval of financial statements

The financial statements were approved by Authority members on 7 June 2017.

9 The Pension Related Deduction is not technically a pension contribution so has been excluded from the disclosures below.

APPENDIX I

The Pensions Authority prosecution convictions in 2016

No.	Case name	Relevant section of the Pensions Act	Penalty
1	Paul Deegan t/a Tudor Tiles (non-CWPS pension scheme)	S18	Convicted
2	Paul Deegan t/a Tudor Tiles (CWPS pension scheme)	S58A(1)	Fined €500
3	Paul Deegan t/a Tudor Tiles (CWPS pension scheme)	S18	Convicted
4	Earthworks Profiling Ltd	S18	Fined €400
5	Cornelius Farrell, director of C F Quality Decorators Ltd	S58A(1)	Fined €100
6	Michael Harrington Plant Hire (Beara) Ltd Michael Harrington, director of Michael Harrington Plant Hire (Beara) Ltd	S58A(1) S58A(1)	Fined €2,000 Fined €2,000
7	Charles McCarthy Plumbing Ltd	S58A(1)	Fined €500
8	Aidan McGurn, director of Aidan McGurn Construction Ltd	S58A(1)	Fined €1,000
9	Aidan McGurn, director of AMC Labour Hire Ltd	S58A(1)	Convicted
10	Gerry Neilon, director of Gerry Neilon Scaffolding Ltd Raymond Neilon, director of Gerry Neilon Scaffolding Ltd	S18 S18	Sentenced to 6 months imprisonment, suspended for 2 years. Sentenced to 6 months imprisonment, suspended for 2 years.
11	O'Grady Crane Hire Ltd Liam O'Grady, director of O'Grady Crane Hire Ltd	S18 S18	Fined €100 Convicted
12	Rice Insulations Ltd Edward Rice, director of Rice Insulations Ltd Liam Rice, director of Rice Insulations Ltd	S58A(1) S58A(1) S58A(1)	Fined €1,750 Fined €1,750 Fined €1,750

APPENDIX II

Membership of occupational pension schemes and Personal Retirement Savings Accounts

Table 1: Number of schemes and current membership as at 31 December 2016

Number of schemes with active members as at 31 December 2016								
Scheme Size	Defined Contribution		Defined Benefit				All Schemes	
			Subject to the Funding Standard		Not Subject to the Funding Standard			
	No of Schemes	Active Members	No of Schemes	Active Members	No of Schemes	Active Members	No of Schemes	Active Members
Frozen	n/a	n/a	212	0	0	0	212	0
In wind-up	n/a	n/a	32	0	0	0	32	0
Non Group	57,666	57,666	0	0	2	2	57,668	57,668
1 to 50	9,317	60,918	262	3,576	39	771	9,618	65,265
51 to 99	339	23,520	52	3,794	11	748	402	28,062
100 to 500	305	62,354	80	20,552	21	4,304	406	87,210
501 to 1000	46	31,658	18	11,228	7	5,389	71	48,275
1001+	30	63,666	21	72,385	21	348,859	72	484,910
2016 Total	67,703	299,782	677	111,535	101	360,073	68,481	771,390
2015 Total	67,125	281,629	715	125,995	99	339,155	67,939	746,739
Change since 2015	**578**	**18,153**	**-38**	**-14,460**	**2**	**20,918**	**542**	**24,651**

Table 2: PRSAs as at 31 December 2016

	End 2016	End 2015	Change
Total number of contracts:	250,719	237,608	13,111
• Standard PRSA contracts	185,707	176,784	8,923
• Non-Standard PRSA contracts	65,012	60,824	4,188
Total assets:	**€5.6 billion**	**€5.2 billion**	**€0.4 billion**

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