

# **Engagement and audit findings report 2023**

## Table of contents

1. Introduction .....	3
2. MTs .....	3
2.1 New MTs .....	3
2.2 Established MTs .....	4
2.2.1 Administration capacity .....	4
2.2.2 Continuity plans .....	5
2.2.3 Support for retiring members .....	5
2.2.4 Engagement with employers .....	5
2.2.5 Pension benefit statements (PBSs) .....	6
3. DB scheme engagement .....	6
4. Audits .....	7
4.1 Key function holders (KFHs) .....	7
4.2 Annual compliance statement (ACS) .....	7
4.3 Investment and borrowings for SSAPs .....	8
5. Conclusion .....	8

## 1. Introduction

The purpose of the report is to share observations on the key findings identified during the Pensions Authority's (the Authority) engagement and audit activity in 2023. Engagements included face-to-face meetings with defined contribution (DC) master trusts (MTs) and large defined benefit (DB) schemes. The Authority also conducted a series of compliance audits across a range of DB and DC schemes.

While the details of the findings set out in this report are not exhaustive, the Authority expects all trustee boards and their advisers to consider these findings and evaluate their own practices to establish if any improvements are required.

## 2. MTs

At the time of preparation of this report, there were 17 MTs registered with the Authority. Six of these were established either at the end of 2022 or throughout 2023. The Authority collects monthly data returns from all 17 MTs and the below table shows an aggregate of members, employers and asset value information as of 31 October 2023:

Total on 31 October 2023		
<b>Number of members</b>	<b>Active</b>	276,812
	<b>Deferred</b>	124,235
<b>Assets under management</b>		€17.7 billion
<b>Number of participating employers</b>		20,822

### 2.1 New MTs

As noted, six new MTs were set up either at the end of 2022 or in 2023. In the first half of 2023, the Authority concentrated on ensuring that these newly established MTs met basic compliance standards in the following key risk areas:

- trustee structure and director appointments,
- trustee fit and proper requirements,
- trustee decision-making and conflicts of interest,
- capitalisation,

- key policies and procedures, and
- key functions (risk and internal audit).

The Authority is still engaging with two of these MTs on the basic compliance standards. However, it is satisfied that overall, all new MTs meet the requirements of the legislation and the Code of Practice for trustees (the Code) in relation to the above risk areas. The Authority will continue to engage with these MTs and future engagement will involve a more in depth review of their operations and risks.

## **2.2 Established MTs**

During the second half of 2023, the Authority met with the trustee boards of the remaining 11 MTs to assess progress since the MTs' previous engagement with the Authority.

Some specific findings and related commentary on the established MTs are below:

### **2.2.1 Administration capacity**

The Authority questioned trustee boards on the administration services being provided to their MTs. Several trustee boards advised that their MTs are currently under administrative pressure because of the ongoing consolidation of the DC sector which has led to the onboarding of a large number of transferring employers and members into MTs. Trustees advised that in some cases this has resulted in delays, particularly in issuing disclosure information to members outside of contracted service levels agreements (SLAs).

The Authority expects trustees to satisfy themselves that their MT's administration standards are fit for purpose and to take action if this is not the case. Trustees should engage with administrators to understand the details of any existing, or anticipated, issue or delay, that could impact on the provision of services to members. Trustees should also ensure that administrators have a plan in place to address and prioritise existing delays/issues and an appropriate escalation process to bring any potential delays/issues to the attention of trustees well in advance of any delays or issues arising.

Where breaches of the terms of SLAs with the administrator occur, trustees should take steps to enforce the relevant provisions. Trustees should further ensure that any such breaches are considered by the trustees when conducting the administrator's annual and critical reviews.

### **2.2.2 Continuity plans**

The Authority found that five of the MTs did not meet their continuity plan (CP) income projections. The reasons provided by trustees for slower income growth included, employers being reluctant to engage with the MT trustee, the pace of onboarding new employers and issues with moving to new IT systems to support the MT.

The purpose of the CP is to assist trustees with ensuring their MTs viability. The Authority expects trustees to make sure they adequately reflect risks to growth relevant to their MT including those arising from current issues with administration capacity in the market, as mentioned above. The Authority reminds trustees that continuity plans must be reviewed every year and updated where necessary. Updated continuity plans should be submitted to the Authority with an explanation of the relevant changes, why the targeted projections were missed and what conclusions the trustees have drawn from the variance between projected and actual income and expenditure.

### **2.2.3 Support for retiring members**

The Authority discussed the supports and information made available by MTs to members close to retirement with trustee boards. The supports detailed by trustee boards included targeted messages to members due to retire around the decisions they will need to make in relation to their benefits at retirement, information on retirement options available and the provision of investment options and financial estimates to members. Many boards specifically mentioned offering 1:1 support for potential retirees via phone calls or meetings with retirement consultants. Other boards recognised that more thinking and improvements in the retirement communication process was necessary for their MT.

Overall, the Authority found that the practices varied widely amongst MTs in relation to the information and supports in place for retiring members. In one MT , members were provided with information on their impending retirement three months before their retirement date, whereas in another MT, members were given information on retirement several years before their retirement date. The Authority expects trustee boards to consider what forms of communication and information will best support their membership in making informed retirement related decisions. The Authority will keep this matter under review and expects to provide further information on its expectations in this area in 2024.

### **2.2.4 Engagement with employers**

The Authority reviewed MT practices around engagement with employers and found varying standards in place. Three boards had not actively engaged with employer participants in 2023 but advised they were planning on commencing employer

communications in 2024. One board advised that its founder held a MT employer conference in 2023 but that in general communication has been with potential employers that might move into the MT, as opposed to existing employers who participated in the MT. Another board advised that an employer newsletter was issued during 2023 outlining how the MT had grown in the last year, IORP II compliance and the MT's risk governance framework. Other boards informed the Authority that engagement is carried out via the founder's consultants who manage the relationship with employers but who provide feedback to the trustee board.

The Authority reminds trustee boards that they must consider communications and engagement with employers as well as members, and the type and frequency of these communications must be documented in a formal written policy. The Authority may look for documented evidence that this policy is being adhered to in future engagements.

### **2.2.5 Pension benefit statements (PBSs)**

A minority of boards had already issued PBSs with one noting that issuing statements for deferred members was something they had already done before the legislative requirement to do so. The majority of boards advised that all PBSs were on track for issue before 31 December 2023.

## **3. DB scheme engagement**

As in previous years, the Authority met with the trustee boards of a number of large DB schemes. Engagements with trustee boards of these schemes focussed on their governance systems and findings indicated that progress had been made over 2023 towards meeting the enhanced governance standards. The Authority was largely satisfied that the trustee boards it met had an effective process of governance in place. Those trustee boards had their scheme policies in place, had appointed their key function holders and had a structured approach for their trustee meetings and their decision making.

All the trustee boards the Authority met 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. Further, all the trustee boards had regular engagement with the sponsoring employer on investment strategy, funding, and the sponsor contribution commitment.

The Authority reminds all DB schemes that regular engagement with the sponsoring employer is required, and the Authority reminds trustees that they must give priority to the best interests of the members in such engagements. The Authority also expects 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.

## 4. Audits

### 4.1 Key function holders (KFHs)

Trustees are required to have KFHs in place since 1 January 2023 and to notify the Authority of the outsourcing of a key function. The Authority conducted sample audits across a range of DB and DC schemes of varying sizes to assess compliance with this obligation.

For DB schemes, the Authority found that approximately 28% of schemes audited had not appointed KFHs as they were in the process of winding up. 16% had not appointed KFHs as they were undergoing a review process with the sponsor which could lead to scheme wind up. 56% had appointed KFHs but had not notified the Authority of the outsourcing of the key functions.

For DC schemes, the Authority found that approximately 57% of audited schemes had not appointed KFHs as they were in the process of winding up and transferring to a MT or PRSA. 24% of audited schemes had appointed KFHs but had not notified the Authority of the outsourcing of the key functions. 19% of schemes did not provide a satisfactory response and the Authority is continuing to engage with those schemes.

The Authority reminds trustees of their obligation to appoint risk management and internal audit KFHs and to [notify the Authority of the outsourcing of a KFH appointment](#) not later than four weeks following the making of that appointment and before that appointment enters into force.

### 4.2 Annual compliance statement (ACS)

Trustees of all schemes are required to prepare an ACS no later than 31 January each year. The Authority conducted an audit covering group DB and DC schemes and one-member arrangements (OMAs) including small, self-administered schemes (SSAPs) to check compliance with the ACS obligation. Selected schemes were also requested to submit a copy of their 2022 ACS form to the Authority.

The Authority found that while all audited ACS forms met the statutory certification requirements, some instances of non-compliance were highlighted via the content of the ACS forms, including a failure to appoint a risk management or an internal audit KFH, and failure to implement a risk management or an internal audit policy. The audit findings

also showed that 25% of audited schemes had made a decision to wind up and move to an alternative pension arrangement.

### **4.3 Investment and borrowings for SSAPs**

The Authority conducted a series of audits on SSAPs to determine the level of compliance with the investment and borrowing requirements for OMAs introduced by the Act in 2021. The audits focused on any investments or borrowings made from 22 April 2021 for SSAPs established prior to that date. No immediate non-compliance was detected. However, a number of schemes did not provide sufficient information and the Authority continues to engage with these schemes.

## **5. Conclusion**

The findings from the Authority's engagement and audit activity in 2023 demonstrate the continued growth of the MT sector with increasing numbers of schemes of all sizes winding up and moving into MTs and to PRSAs. This widescale movement is leading to some administration capacity issues and the Authority expects trustees to engage with administrators to ensure compliance is prioritised.

All schemes moving into MTs and PRSAs should have completed their wind up by the end of 2023. The Authority is monitoring the compliance position across schemes and where schemes and their trustees cannot evidence a clear plan and timeline to complete the scheme wind up, they may be liable to enforcement action.

The Authority is satisfied that all 17 MTs meet the core requirements of the legislation and the Code but this should not be seen as an endorsement of the MTs involved and the Authority will apply a more in-depth focus on MTs as part of the supervisory review process (SRP) programme which will start in 2024. Further, the Authority expects that MT's will approach compliance in a more proactive way, rather than relying on sustained engagement and prompting from the Authority.

The Authority continues to engage with large DB schemes and broadly the schemes the Authority met had made good progress in meeting the new standards. DB schemes will also be subject to the SRP in 2024.

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.