

Findings report on 2024 supervisory activities

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1. Introduction

The purpose of the report is to share observations on the issues identified during the Pensions Authority's (the Authority) supervisory activities in 2024. These activities included:

- supervisory review of a number of multi-employer master trusts (MTs) and defined benefit (DB) and defined contribution (DC) schemes,
- ongoing engagement with all MTs and a number of larger DB and DC schemes,
- compliance audits of DB, DC schemes and PRSA providers, and
- registered administrator (RA) and trustee inspections.

While the details of the findings set out in this report are not exhaustive, the Authority expects that the information provided will assist trustee boards, PRSA providers and their advisers in evaluating their own practices.

2. Supervisory review process (SRP)

2.1 Overview

Section 26J of the Pensions Act (the Act) requires the Authority to conduct a supervisory review of the strategies, processes and reporting procedures established by the trustees of pension schemes. The review consists of an assessment by the Authority of a scheme's system of governance, the risks that the scheme faces and the ability of the trustees to manage those risks.

The Authority began its review programme in 2024 with the selection of six master trusts, one large defined contribution and one large defined benefit scheme. The SRP assesses data and documents relating to six specific risk areas: governance, operations, risk management, communications, investment, and fees and charges.

On conclusion of each review, the Authority issued a preliminary findings letter to each scheme, and the trustees were invited to respond to the findings. A final findings letter was issued following consideration of the trustees' responses. Each finding was assigned a rating depending on the severity of the issues identified and potential risk to member interests. Where issues were identified, the Authority has put in place a monitoring programme to ensure all issues are addressed. Failure to address the issues identified within the timeframe specified may result in the imposition of sanctions by the Authority, including the imposition of Advisory Notices in accordance with section 26M of the Act.

The Authority intends to review master trusts at least every three years and to apply the SRP to other schemes in the coming years, having regard to the scale, nature, size and complexity of those schemes.

The review found a range and variety of issues among the schemes examined: no issue was common to all schemes, but there were some findings for each scheme. The following sections summarise the most significant issues identified.

2.2 Governance

The Authority's assessment of governance included a review of the trustee decision-making processes, conflicts of interest, oversight of service providers, board policies and procedures, and ensuring trustees meet the fit and proper requirements of the Act.

Master trusts are usually closely linked to their founder organisation, with some founders directly appointing employees to the trustee board, or providing services to the master trust, or both. It is therefore particularly important to not just identify conflicts of interest, but also to mitigate the risk posed by those conflicts.

The Authority was concerned to note that in some instances the trustees did not recognise that the appointment of service providers from the founder or parent group or the appointment of key function holders from the founder organisation warranted inclusion in the conflicts of interest register. Furthermore, there were some instances of the founder or parent group conducting the required critical reviews of administration services and investment services despite providing those same services, and this was not recognised by trustees as a conflict of interest.

The Authority also found that some master trust deeds include clauses which restrict the trustees to particular service providers or require the trustees to consult with the founder on key decisions. Such provisions may limit the ability of trustees to achieve the best outcomes for members and the Authority expects trustees to seek to remove these requirements.

The Authority observed some variation in the quality of trustee board minutes across the master trusts reviewed. Many master trust boards prepare comprehensive board minutes, which clearly document the issues discussed, decisions made, and the subsequent actions taken. This provided the Authority with substantive evidence to assist in determining the level of trustee engagement with issues impacting the scheme and an overall sense of the quality of trustee governance. However, in some cases board minutes were considerably less comprehensive and key decisions and actions were not recorded.

The Authority expects board minutes to contain a summary of discussions held and all decisions made, as well as any actions identified and timelines to complete these.

The Authority reviewed all the policies and procedures specified in the Authority's Code of Practice for trustees (the Code) for each master trust and identified several instances where wording in policies and procedures was copied directly from the Code and not tailored to the specifics of the scheme. In other instances, trustees had not adequately indicated when policies had been last reviewed, or revisions made. All policies and procedures should contain adequate specific detail, and the Authority expects trustees to maintain adequate records relevant to their process of policy review.

In a small number of cases, accounting procedures, remuneration policies and the policies for appointment and removal of service providers had not been prepared by some master trust boards. The Authority also noted instances where policies had not been followed and the reasons for departures from policies were not documented.

The Authority identified some deficiencies with procedures for planning and running board meetings, particularly in relation to the processes for voting, logging actions and assigning responsibility for actions. In some cases, there was no evidence of follow up on actions and/or target action dates were persistently deferred.

2.3 Operations

Almost every Irish pension scheme relies on service providers for the provision of services such as administration and investment management. This is a sensible course of action for the trustees, but there must also be a robust outsourcing oversight framework to manage the risks posed by outsourcing and sub-outsourcing arrangements. This includes the establishment of written agreements and contracts, service level agreements (SLAs), regular consideration of key performance indicators, triennial critical reviews, and exit strategies in the event that an outsourcing arrangement must be terminated.

As part of the SRP the Authority reviewed contracts with administration service providers and investment managers. In many contracts there is a lack of clear recourse for the trustees in the event that service levels fall below the agreed standard. In such instances, the trustees are limited to engaging in dialogue with the service provider to address performance issues. There were also some instances where the service provider has limited its financial liability in the event of financial loss to the scheme. The Authority expects the trustees to engage with service providers in relation to such indemnifications and to ensure they are appropriate for the scheme.

The Authority observed some issues in relation to the quality of administration for some schemes. There were several instances of breaches of administration service level agreements, including failures to provide statutory information to members, and issues with the remittance and processing of pensions contributions. The Authority observed a number of failures by trustees to take meaningful action in response to service level agreement breaches, including failures to enforce provisions contained within the administration contract. This will be an area of continued focus for the Authority.

The Authority also examined a number of administration critical reviews as part of the SRP. The critical review is intended to be an in-depth review of the administrator's performance and should clearly document the reasons underlying a decision to remain with the current provider or consider a replacement. It was noted that some critical reviews lacked detail on the criteria assessed and the factors considered as part of the review.

The multi-employer nature of master trusts involves large numbers of different size employers, with different salary scales and payment systems, joining and leaving the master trust on an ongoing basis. The Authority expects trustees of a master trust to be satisfied that appropriate systems, safeguards and controls are in place to support this type of activity and ensure the timely collection of the correct contributions from both members and employers.

As part of the SRP, the Authority reviewed the continuity plans for the selected master trusts and noted that some lacked sufficient detail on the assumptions underlying forecasts or comparison with actual experience. Several master trusts did not have adequate wind-up procedures in place and there was a lack of clarity on how transfers of member benefits would be dealt with in an efficient and timely manner.

2.4 Risk management

The assessment of scheme risks and the ability of the scheme to manage scheme risks is central to the SRP. The Authority focused particularly on the own-risk assessment (ORA) that must be carried out and documented by the trustees in accordance with section 64AL of the Act, and the process followed by the trustees to develop the ORA. The Authority also examined the risk management framework for schemes, including the risk management policy, risk appetite statement and the risk register.

The Authority identified issues in the following areas:

- Risk appetite statements and stated risks tolerance did not always state whether a given risk was within or outside of tolerance.

- It was not clear in all cases what data and information is used to assess the risks, and how trustees are assured of the accuracy of this data.
- The Authority expects trustees to be responsible for the delivery of the ORA and for drawing conclusions. In some cases, there was no evidence of trustee involvement prior to signing off the ORA report.
- Not all ORAs examined were comprehensive. There was limited wider risk scanning of external events outside the control of trustees but for which mitigations could be considered. In some cases, outsourcing risks were not considered, and in others, scheme viability and sustainability were not addressed. Not all ORAs identified or implemented appropriate actions.
- There was no evidence of cohort analysis to assess specific risks to different categories of members.

The Authority considers that the ORA process should be central to the trustees' decision-making. This will continue to be a key area of focus for the Authority oversight.

2.5 Communications

The Authority expects trustees to have a member engagement policy in place. However, many of the policies reviewed by the Authority were minimal in detail and tended to focus mainly on statutory communications obligations. Where advisors or brokers play a role in the provision of communications material to members, this was generally set out in the member engagement policy; however, in some cases, there was a lack of clarity about trustees' oversight of communications provided by advisors and brokers.

While it is noted that there is a particular focus on the use of IT platforms for the purposes of communicating with members, there was minimal information provided by some boards on trustees' monitoring of the platform usage. Some master trusts have put in place measures for ongoing engagement with participating employers, (e.g., a relationship manager, online updates, etc.). However, many appear to have only limited direct engagement with participating employers.

Some of the member investment and charges communications lacked detail on legacy funds and clear and transparent information on fees and charges, including those payable to advisors. Some documents failed to include other member charges such as administrative costs.

The Authority also observed instances of member complaints not being progressed in a timely manner and a lack of trustee oversight over member complaints handling.

2.6 Investment

For some schemes, the investment objectives were not clearly identifiable and performance relative to these targets could not be measured. Similarly, some schemes' investment documentation lacked detail on the performance measures for funds and strategies. Furthermore, in some instances, the Authority noted that the trustees focused on the performance of investments relative to the market rather than the specific investment objectives documented in the statement of investment policy principles (SIPP). In some cases, the minutes of board meetings did not provide evidence of sufficient discussion or probing of investment performance.

A default investment strategy (DIS) is a trustee obligation and has a significant effect on member outcomes. It is not always clear from the documentation provided how the trustees decided that their DIS is appropriate for their members. In those cases where there are different default strategies for different categories of members (usually as a result of consolidation into master trusts), there are cases where the strategies are not consistent with each other. Similar considerations arise in relation to the investment choices offered to members of standalone defined contribution schemes.

The Authority notes that the transfer of standalone schemes to master trusts has resulted in several master trusts maintaining a large number of legacy funds and strategies, each with differing charging structures. This is a significant governance challenge for the trustees, and trustees should consider whether a rationalisation of fund choice would be in the best interest of members. They should also satisfy themselves that the investment strategies and objectives for members are consistent.

2.7 Fees and charges

As part of their efforts to achieve good outcomes for their members, the Authority expects trustees to evaluate the value for money provided by the scheme in relation to the benefits and services provided and when compared to other available options.

In general, there was little evidence that trustee boards have established processes for monitoring and benchmarking scheme charges. However, it was noted that some master trusts are actively reviewing and monitoring the variation in charges, particularly with respect to the transition of legacy funds and charging structures.

The Authority also noted that several master trusts intend to participate in the Cost Transparency Standard (CTS) and welcomes this development. The Authority considers that participation in the CTS will enable trustees to better understand the investment costs

they pay, and to benchmark these costs against their peers and we will expect schemes which are not participating in the CTS process to have equivalent data, from whatever source. Nonetheless, the Authority is also mindful that there are a range of other fees and charges applicable to members of master trusts, including service charges and commission to advisors in some cases. This is an area the Authority will continue to monitor.

3. Master trusts

The Authority engaged with all master trusts in 2024, either through the SRP or more general engagement activities. These included meetings, data requests and a round-table discussion with master trust independent chairpersons.

In response to the transposition of the IORP II Directive, many one-member arrangements (OMAs) have now been transitioned to master trusts. It is concerning to note that there have been minimal efforts made by trustees or founders to rationalise the various fund choices and charging structures and the OMAs are essentially continuing to exist within a different legal structure. This structure does not align with the Authority's expectation of efficient and well-run master trusts which offer benefits of scale to members, and the Authority will continue to closely monitor master trusts that are comprised primarily of former OMAs.

4. Defined benefit and defined contribution schemes

Separate to SRP activity, the Authority also held more general engagement meetings with the trustee boards of six other large DB and DC schemes. While these engagements mainly focused on the risk areas identified above, they did not involve the same level of scrutiny as applies under the SRP. The Authority was largely satisfied that the trustee boards it met with had an effective system of governance in place and were adequately managing the risks in the selected areas. However, there were instances where the ORA produced by trustees did not reflect all the risks that the scheme is exposed to and did not include quantitative measures, which is a matter of serious concern. In addition, some trustee boards lacked adequate succession planning to mitigate risks in the event that there is an unforeseen resignation of a member of a trustee board. The Authority expects trustees to consider how to maintain the required skills, knowledge and experience of the trustee board.

5. Occupational pension scheme audits

The Authority carried out three theme-based audits of occupational pension scheme compliance with the following specific requirements set out in the Act:

1. Section 26T which requires trustees to prepare an annual compliance statement (ACS) not later than 31 January each year for the preceding year for the purposes of prudential supervision.
2. Section 64AH which requires trustees to put in place a risk management function and an internal audit function. Trustees are required to appoint key function holders (KFHs) for these functions.
3. Section 64AL which requires trustees to carry out and document an ORA in accordance with this section. Trustees were required to carry out the first ORA no later than 22 April 2024.

A total of 466 schemes were audited, which are categorised in the table provided.

Audit type	Number of schemes		Totals
	DB	DC	
ACS (26T)	100	88	188
KFH (64AH)	21	63	84
ORA (64AL)	100	94	194
Total	221	245	466

A large majority of the DB schemes audited for ACS completion were compliant. This was in contrast with the DC audit findings, where many schemes were found to be non-compliant, primarily because most were in the process of winding-up and transferring to a master trust or other pension arrangement. Where non-compliance was identified the Authority instructed trustees to address these matters.

All DB schemes were found to have prepared the ACS while approximately 20% of DC schemes failed to provide an ACS due to their being wound-up or intending to wind-up. Approximately 50% of DC schemes that did prepare an ACS provided one or more negative responses to a number of the ACS questions, again on the basis of their intention to wind-up.

Findings were similar for KFH and ORA compliance with a majority of DB schemes being compliant with a small number failing to have notified the Authority of their KFH appointments. In contrast, a majority of DC schemes had failed to appoint KFHs or prepare an ORA on the basis that they intended to wind-up. This reflects the ongoing transfer of smaller DC schemes into other arrangements such as master trusts and PRSAs as part of scheme consolidation. However, the Authority again reminds trustees that until such time as schemes are wound-up the requirement to appoint a KFH and prepare an ORA remains.

The Authority's interaction with these schemes resulted in many updating their status on PDR to indicate they had wound-up or were in wind-up: however, it is of concern to the Authority that this occurred only as a result of audit activity.

6. PRSA provider audit

The Authority conducted an audit of compliance with the obligation on PRSA providers to ensure that occupational pension scheme members have been provided with a certificate of benefits comparison and also a written statement (except in certain circumstances) of the reasons why such a transfer is, or is not, in the interest of the person wishing to make such a transfer. 15 PRSA providers were audited and there were no material issues of non-compliance found.

7. Registered administrators

Section 59(1)(f) of the Act requires pension scheme trustees to appoint a registered administrator (RA) to undertake specified core administration functions on their behalf including preparation of trustee annual reports, pension benefit statements, maintenance of records and submission of annual scheme information. The Authority engaged with several RAs in 2024, and two engagements identified significant issues and resulted in supervision plans being implemented.

In one case, the Authority identified an RA's failure to prepare accurate statutory information for members, which caused the trustees to breach statutory deadlines for the provision of information to members. Following an inspection of the RA and its schemes, a supervisory programme was put in place which included a meeting with the managing director and putting in place a detailed monitoring plan to ensure the RA addressed the failings identified.

The Authority also identified issues with the services provided by a second RA which included several instances of process failures, resulting in failures to prepare statutory

information for trustees to issue to members. There were also weaknesses in systems supporting the remittance and processing of pension contributions, which could potentially impact the accuracy of member contribution records. A supervisory programme was prepared which included monthly meetings with senior management and a detailed plan to bring this RA back to compliance. An onsite inspection at the RA's offices will also take place in 2025.

The Authority has enforcement powers to remove or restrict the RA status of providers and may do so if concerns are not resolved within agreed timeframes.

8. Professional trustee inspections

The Authority conducted an on-site inspection of a professional trustee company which included a review of scheme records, general information on how the trustee business is run, and a meeting with the board of directors at their offices.

The main findings were that clearly recorded regular trustee meetings were not taking place for all schemes; trustee minutes were in some cases high level in nature and focused on recording decisions rather than demonstrating an in-depth discussion on topics. There was also evidence of a standardised approach to policy wordings with identical wording across schemes, indicating that trustees had not considered the specifics of individual schemes when drafting policies.

The Authority also conducted an inspection of 25 schemes of another professional trustee company to assess whether the trustee was meeting its obligations under the Act including the preparation of ACSs, trustee annual reports, member benefit statements and the appointment of KFJs. Following an inspection of the documentation received, significant concerns were identified. A programme of close supervision is underway to ensure that these concerns are addressed in the best interests of the members.

Professional trustee companies who provide services to multiple schemes must ensure that their structure and resources are sufficient so that each scheme they are appointed to receives the necessary attention to meet the full requirements of the Act. These include detailed procedures for the exercise of trustee discretions, regular trustee meetings, active monitoring of compliance (including the remittance of contributions) and clear protocols for reporting compliance breaches to the Authority.

9. Conclusion

The introduction of the SRP is a milestone development in the Authority's approach to supervision and the areas of concern identified in findings from SRPs and other supervisory activities in 2024 will inform the Authority's focus in future years. There will be a significant increase in the number of schemes selected for the SRP in 2025 and beyond.

The SRP findings for master trusts indicate that trustees are meeting many of the requirements of the Act and Code. However, there are areas that require further attention as set out in this report. The Authority expects any findings issued to trustees are dealt with in a timely manner and also that trustees continue to develop a forward-looking risk-based culture to their management of schemes which is focused on the best interests of members.

Across all scheme types there is a need for a robust risk management framework and for trustees to recognise the centrality of the ORA process to managing risks.

Trustees of standalone DB and DC schemes must be satisfied that they have the capacity to meet the requirements of the Act and where this is not possible, they should engage with the sponsoring employer to discuss the future of their schemes. Where a decision has been made to wind-up a scheme this must be reported to the Authority promptly and concluded without undue delay.

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.