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Directing Irish pension schemes through 2018

With a number of policy and regulatory changes on the agenda, it is likely that 2018 will be a busy year for Irish pension schemes. At a minimum, the European pensions directive, IORP II, needs to be transposed into Irish law by 13 January 2019, and this will require legislation in 2018. In addition, the Irish government has been long promising comprehensive proposals to reform the Irish pensions system and bring in auto-enrolment.

The IORP II Directive was finally agreed in December 2016, following years of debate in Europe. Much of the initial focus was on solvency requirements, with a strong push to have pension schemes subject to the same Solvency II requirements as insurers. There was a strong resistance to this, headed by PensionsEurope, and the solvency aspects were eventually dropped from the directive. Instead, the directive focuses on cross-border pension schemes, governance and communication.

FROM THE IMPLEMENTATION OF IORP II, TO GETTING THE BALL ROLLING WITH AUTO-ENROLMENT, 2018 IS SET TO BE A BUSY YEAR FOR IRISH PENSION SCHEMES, JERRY MORIARTY REVEALS

IAPF CEO Jerry Moriarty

Cross-border pension schemes have not taken off in the way envisaged in the first directive. Differing tax rules means there often isn't a significant enough benefit to setting up one up. Nonetheless, there has been some interest, although it is not clear that the provisions of IORP II will make the process any smoother.

The governance and communication requirements are, to a large extent, what most well run schemes will be doing in any case. However, there are a number of areas that will require changes. One of those is that schemes will need to consider ESG factors in the governance and investment decisions and report on this. While it doesn't require schemes to incorporate ESG factors, they would be required to say that they considered it and decided not to.

There will also be requirements for written policies for risk management, internal audit and any outsourced functions. There will be a 'fit and proper' requirement for those running the scheme. Schemes will have a remuneration policy in place, as well as key functions such as risk management, internal audit and, for DB schemes, an actuarial function.

Many of the documents schemes prepare, such as annual reports and accounts, will have to be made publicly available.

New members to a scheme must be given information about past fund performance and benefit statements will have to also include projections, including on an unfavourable basis. Benefit statements will also have to be provided to deferred members.

The directive does say that the implementation of many of the requirements shall be "proportionate to the size, nature, scale and complexity of the activities of the scheme". This is intended to acknowledge that schemes across Europe can be very different and provide scope to implement requirements to reflect this. The Irish regulator, the Pensions Authority, has already conducted a limited consultation process on the key function holder requirements and we would expect more consultation during the year as the legislation is being drafted and policy decisions are made. In general, the provisions of the directive are designed to enhance governance, which is welcome, and they should be introduced in a pragmatic way.

The Pensions Authority had previously initiated a consultation on reform and simplification. One of the aims is to improve governance by reducing the number of schemes with greater use of master trusts. It should also reduce the number of arrangements and products that can be used and simplify the tax rules that apply across arrangements.

The final piece in the domestic jigsaw is the Irish government's plans to introduce auto-enrolment. This had been well flagged and a consultation paper with an indication of how the system would work is expected. 2021 has been suggested as the year contributions to the system would commence.

With over half the workforce making no retirement savings it is important that, as a country, this is addressed.

The Irish state pension is unfunded and will only be sustainable with difficult choices around funding and levels of social insurance contributions. It is therefore even more important that people have additional retirement savings if we want to ensure people can live a dignified and rewarding retirement. ■