Spotlight

Hewitt

A retirement and investment update from Hewitt Ireland

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Recent Government Announcements

This issue of Spotlight outlines two recent announcements by Government designed to provide some temporary respite for pension scheme members, Trustees and employers affected by the significant recent falls in asset values, and provides details of some amendments to the disclosure regulations.

Funding Proposals

On Friday 19 December 2008, the Minister for Social and Family Affairs announced some further changes to the approach to be taken by the Pensions Board in dealing with funding proposals submitted by Trustees of defined benefit pension schemes. This follows on from the extension of the period for submission of such proposals which she announced in October (see Spotlight 13). She has now announced that the Pensions Board will

- Allow periods of greater than 10 years for recovery to a fully funded position "in appropriate circumstances".
- Allow the end date of a replacement funding proposal to be later than the end date of an existing extended funding proposal which has gone off-track "due to investment losses".
- Take into account a voluntary employer guarantee.
- Reject recovery plans "which fail to demonstrate an appropriate investment approach".

Details of how these changes will operate in practice will be issued by the Pensions Board in early January, and we will comment further on them when these details are available. The first three items set out above will provide some additional flexibility for Trustees and Employers who are unable to agree a funding proposal under the current requirements, although it is not clear at this stage how the voluntary employer guarantee will be taken into account. In the current economic circumstances, it will be important for the Trustees and the Pensions Board to assess the value of the employer guarantee in agreeing an extended funding proposal. The final point noted above is presumably intended to prohibit Employers and Trustees from agreeing a more risky investment approach to enable a funding proposal to be signed off with a lower required rate of contribution. It is an unfortunate feature of the current regime that by anticipating outperformance of equity assets over the period of the funding proposal, a lower rate of contribution emerges than where the scheme's assets are invested in bonds. However, for immature schemes it may be reasonable to adopt a relatively aggressive investment approach, and it is to be hoped that the Pensions Board will not inhibit the power of the Trustees to determine investment strategy appropriate to their liabilities.

Deferral of Annuity Purchase

The Minister for Finance recently announced as a temporary measure that members of defined contribution occupational pension schemes will not have to purchase an annuity on retirement (after taking any tax free lump sum) as is required under current legislation. Members retiring in the period 4 December 2008 to 31 December 2010 will have the option of taking a tax free lump sum immediately and deferring the purchase of an annuity up to and including 31 December 2010. This means that members do not have to realise their investments at their current depressed values, or to purchase an annuity at rates which are historically high. The Trustees of a scheme do not have to introduce this concession, although it seems likely that they will wish to do so, and it may be necessary to make amendments to the scheme documentation to permit deferral. The Revenue Commissioners have confirmed that any such alterations will not impact existing approval of the scheme.

It should be made clear to members that deferring the purchase of an annuity may not be in their best interests, as investment values may fall further, and annuity prices may continue to rise. The Pensions Board has recommended that members are required to sign a declaration confirming that they wish to avail of the option and that they recognise the risks outlined. It is recommended that members take independent financial advice before making a decision on deferral.

While this additional flexibility is welcome, an alternative approach which would have provided a more permanent solution to the issue of annuity purchase at the point of retirement would have been to extend the ARF option to members of defined contribution occupational pension schemes.

The difficulties being faced by members of defined contribution arrangements who have remained invested in equity and property assets as they approach retirement highlight the importance of members aligning their investment strategy with their retirement plans. In particular, a lifestyling approach which transfers assets from equities and property into bonds and cash as members approach retirement will help to remove the impact of stock market volatility and annuity prices. It would be opportune for Trustees of defined contribution occupational pension schemes to review the investment options made available to members and the steps taken to ensure that members approaching retirement review their strategy on a regular basis.

Amendment to Disclosure Regulations

The Pensions Act 1990 (Disclosure of Information) (Amendment) Regulations 2008 were laid on 11 December 2008. In summary, these provide for

- A deferral of the requirement to issue Statements of Reasonable Projection for members of DC Schemes until 1 July 2009.
- Amendments to the requirements for these statements.
- A requirement on Registered Administrators to provide information as required by Eurostat within 9 months of the end of each Scheme year commencing on or after 1 January 2008.
- A requirement to confirm in the Annual Report that Trustees have received training as required by Section 59AA of the Pensions Act (when this has come into effect).

In relation to the Statements of Reasonable Projection, the Regulations provide that these should show the member's normal pensionable age, the amount of regular contributions being paid by the Employer and Member and the projected values of the fund based on contributions paid to date, and also allowing for future contributions at the current rate up to normal pensionable age. It will also be necessary to show the amount of pension which could be purchased on a single life basis and to show both the fund values and the pensions which can be secured in current money terms. The Statements will also set out the main assumptions adopted and the effect of charges. The Regulations provide that the Statements should be prepared in accordance with guidance issued by the Society of Actuaries in Ireland except where the structure of the Scheme is such that this is not feasible. This guidance is expected to be issued early In the New Year.

The Disclosure Regulations have also been amended to remove the requirement for actuarial statements in the Annual Reports for small schemes (i.e. less than 100 members) which are in wind-up and the requirement for an Actuarial Funding Certificate in such circumstances has also been removed by separate regulations also laid on 11 December 2008

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