Spotlight

Hewitt

A retirement and investment update from Hewitt Ireland

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Changes to the requirements for funding proposals

Further to the announcement made by the Minister for Social and Family Affairs on 19 December, the Pensions Board has issued revised guidelines relating to applications for extended funding proposals.

The main change is that the Board will now consider approving periods of longer than 10 years "in appropriate circumstances" rather than "in exceptional cases" as previously. However, the maximum period granted will not normally exceed the average remaining working lifetime of the existing active membership. Where an existing extended funding proposal has gone "off-track", the Board will now permit the end date of the replacement funding proposal to be later than the end date of the previous proposal.

The guidelines largely codify existing practice with some additional requirements. The main logistical change is that the Board now requires applications to be submitted in a standard format, which should ensure that practitioners provide all the required information and that the Board can consider applications quickly. This will be very important given the likely large number of applications over the next year or so.

The additional requirements apply to all applications for an extended funding proposal period under section 49(3) of the Pensions Act (i.e. not just proposals for a period of more than 10 years). These include more detailed numerical information e.g. the annual development of the assets and liabilities over the projection period. In addition, the trustees will be required to sign a statement which:

- sets out the reasons for failure to meet the standard (which as previously will require actuarial certification)
- explains why an extended period is necessary and in the members' interests
- describes the alternative courses of action considered and sets out their view of the long term viability of the scheme
- confirms that they have considered carefully the impact of possible investment strategies or increases in liabilities
- confirms that members will be informed of the terms of the funding proposal

The guidelines also make specific comments on the importance of investment strategy. The Board reaffirms that setting the investment strategy is a matter for the trustees and that the Board's concern is in relation to regulatory compliance only. However, it also states that investment strategy will be taken into account by the Board in the decision to approve or otherwise an application. In particular, the trustees will be required to demonstrate that

- they "have considered the effect of potential investment losses under a number of scenarios .. on the security of member benefits" and
- the strategy "is grounded in sound risk management and investment principles". In this context, the Board identifies "the matching of liabilities with appropriate assets" as a key consideration.

The "existence and quality of any enforceable guarantees provided by the employer" would also be a factor which the Board will take into consideration in relation to applications for a period of more than 10 years.

The guidelines also set out the Board's requirements in relation to so-called "variable funding proposals" under which the employer undertakes at the outset to increase contributions if the funding proposal goes off-track, thereby avoiding the need for a further application to the Board and a revised funding proposal. Given the increased requirements in relation to applications, this approach may become more common going forward.

The Board requires that an application for an extended funding period be accompanied by the funding proposal, signed by the Scheme Actuary, and possibly by the employer and trustees as well. If the application is approved, the funding proposal becomes operative and there is no requirement set out in the guidelines to reconsider at that date whether the proposal still meets its objective.

We have sought clarification from the Pensions Board on the detailed operation of the guidelines and will provide a further update when this has been received.

Funding Proposals – possible change to transfer value basis

The Pensions Board has asked the Society of Actuaries in Ireland to advise Scheme Actuaries as follows:

"The Board notes that the Society of Actuaries in Ireland is currently in discussion with the Department of Social and Family Affairs about the mortality assumptions appropriate for use in the calculation of transfer values. Trustees should await the result of this discussion before submitting funding proposals to the Board."

The Society of Actuaries in Ireland has advised the Minister for Social and Family Affairs that the mortality assumptions adopted for the calculation of transfer values should be updated, which would lead to an increase in transfer values, particularly at the younger ages. If the Minister accepts this recommendation, the liabilities in respect of active and deferred members under the funding standard will be increased, and funding proposal calculations which assume a continuation of the current transfer value basis will need to be revised.

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