LOCKTON®

www.global.lockton.com

Clarity on IORPs II requirements for pension schemes emerges

The impacts of the IORP II legislation have become clear following the publication of the final Code of Practices by the Pension Authority on Thursday 18th November.

This directive will significantly impact how occupational pension benefits are managed in Ireland with the Pension Regulator Brendan Kennedy describing the changes as "the most significant changes in at least a generation".

What do the IORPS II regulations mean?

It is clear there will need to be significant changes to how the vast majority of occupational pension schemes operate. It was originally expected that there may be some level of proportionality applied to smaller schemes, however the Authority has clearly stated that, "no exemption from any obligations of the act" will apply irrespective of your size, nature, scale and complexity. This means that stricter governance and risk control measures will now be required for all schemes.

Compliance with the regulation is expected as a minimum starting point for pension schemes when establishing their governance process. This can be seen as a positive for pension scheme members but it does come at a small price to sponsoring employers for what are employer benefits.

For almost every scheme in the country there will be a long, potentially expensive, journey if they wish to comply with the directive. Work will need to commence immediately if schemes are to meet the deadline of 1st January 2023.

What should companies and trustees be doing?

It is unlikely that there will be a simplification of the regulations around the wind up and bulk transfer of member assets. Therefore before implementing any changes, many employers will want to explore the options they have available to them, including the provision of benefits through Personal Retirement Savings Accounts (PRSAs) and master trusts. Both options will provide a streamlined way to provide benefits but it might be necessary to wind up your current arrangement should you choose an alternative model going forward.

Master trusts are likely to be popular for employers who feel that the burden of the new regulations is either too costly or time consuming. Moving to a master trust is a major decision for any organisation and employers need to exercise caution in advance of any move, particularly as a number of master trust providers have in-house consulting teams leading to potential conflict.

What will we see in the market?

After reviewing the Final Codes of Practice and statements from the Pension Authority, it is clear that most employers will not continue to run their own, single trust, pension schemes. Instead, it is likely that there will be a shift towards the master trust alternative throughout 2022 now that the regulatory expectations are clear. The Final Codes of Practice provides additional guidance on how master trusts should operate, setting a new minimum standard for master trusts operating in the market and highlighting the key role the Pension Authority will play in the future.

It is likely that many existing pension scheme advisors are also providers of master trusts. We believe it is vital that employers seek truly impartial advice in advance of making any changes. Any decision taken will impact employees options at retirement and it is therefore crucial that the right advice is taken at this important crossroads.

For more information

If you'd like any more information please get in touch using the contact detrails below.

Ray McKenna

Partner
Employee Benefits
ray.mckenna@ie.lockton.com
00 353 (0) 863888875
global.lockton.com

Mark Ruddy

Head of Client Management
Employee Benefits
mark.ruddy@ie.lockton.com
00 353 (0) 18585247
global.lockton.com