

Ministers Speeches



Launch of the second edition of the

***Pensions Board Trustee Handbook
and Codes of Practise,***

together with the information booklet

"So you're a Pension Scheme Trustee?"

Pensions Board.

22nd November 2004

Speech by

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Firstly, I would like to thank Michael Mc Nulty and Anne Maher of the Pensions Board for inviting me here today to launch these extremely important publications – The Pensions Board Trustee Handbook and Codes of Practice and an updated version of the information booklet “So you’re a Pension Scheme Trustee?”

This is the second edition of these publications and they have come at a very opportune time. As well as providing for PRSAs and the Pensions Ombudsman, the Pensions (Amendment) Act 2002 introduced many new provisions in relation to the regulation of occupational pension funds.

Trustees have the main responsibility for the administration of occupational pension schemes and so it is important that they have up to date information and guidance on what they must do to ensure compliance with legislation. These publications are a clear recognition of the central role trustees have in ensuring that occupational pension schemes are properly administered, that scheme members’ pension rights are fully safeguarded, and that they and their dependants ultimately receive the pensions which they have earned. Trustees are effectively the bedrock of the occupational pensions system and our legislation is designed to provide a framework within which they can discharge their responsibilities in relation to their pension schemes, with minimal recourse to the Pensions Board.

There are, of course, professional trustees but generally speaking trustees are drawn from the ranks of company managers and employees - educated laypersons who do not necessarily have the in depth knowledge to run a pension scheme. They often employ investment managers, actuaries and other professionals to deal with the day to day running of schemes. However, at the end of the day the buck stops with the scheme trustees. They are required to operate the scheme on the “prudent person” principle and this requires that they are able to make decisions in the best interests of their members.

As I already said, they do employ professionals to help in administering schemes, but they cannot abdicate their responsibilities as ultimately they must make the decisions that affect their scheme. Pensions are a complex business and in order

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that trustees can discharge their central legal role, they must be able to interact with and question the work of advisers in a the professional manner. This, in my view, requires training.

These trustee booklets will make a great contribution but there is no substitute for formal training and, in this regard, I am aware that the Pensions Board has developed a scheme in conjunction with the IAPF which is underway and which is very well subscribed. I would urge all trustees to consider undertaking formal training as it will help them greatly in ensuring they discharge their duties in an effective manner.

Indeed, my Department is currently working with the Pensions Board on the transposing of an EU occupational pensions directive, known IORPS. As part of this Directive, Member States are required to ensure that those who run pension schemes are, firstly, of good repute and, secondly, have the necessary qualifications and experience.

I know this is a very trying time for trustees. Pension schemes in general have been through a very difficult period in recent years and, I have no doubt, that this has placed great demands on trustees. At this stage it is important to ensure that schemes that are in difficulty get back on track as soon as possible.

The Pensions Board is taking a sympathetic approach to schemes seeking concessions in accordance with the flexibilities around the Funding Standard introduced by my predecessor. However, submissions to the Pensions Board do not just happen and I have no doubt that the difficulties being experienced and the need to put together funding proposals must be putting great pressure on the trustees of schemes. Their work in this regard is appreciated by the Pensions Board and, indeed, hopefully by the scheme members whose interests they are trying to represent.

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As you know the Pensions Board is examining the Funding Standard for defined benefit schemes to see if a more appropriate system should be devised, which would strike a reasonable balance between all interested parties namely, employees, employers and pensioners, and which does not put undue pressure on the ability of employers to maintain these schemes. I am aware that there are conflicting issues here in that the Funding Standard, and indeed accounting practises, requires a short-term outlook to be taken to what is, in most cases, a long-term investment arrangement.

For the future I consider that trustees need to be engaged actively in the investment decisions of their schemes and ensure that they understand the investment strategy being adopted and, more importantly, the risk and return underlying that strategy – after all, as I said earlier, the ultimate responsibility for these decisions lies with them. Actuaries, investment managers and analysts have an important role but as the people who bear ultimate responsibility for the operation of schemes I think trustees must drive this process and, in a nutshell, understand both their scheme’s assets and liabilities position.

In conclusion, I would like to complement the Pensions Board on the layout of the handbook and information booklets. Pensions are a complex issue but they have managed to deal with this complexity in a straightforward and easily understood manner. In this regard, I would like to complement Mary Hutch and her team for the tremendous work in developing the content and presentation of the material and, indeed, for her ongoing enthusiasm for this area of work. I hope that trustees will find the material a great help to them and that they will actively use it to identify their role and responsibilities in the running of their schemes.

As you know, we are constantly reviewing our pension system to ensure that it meets the needs of the active members and pensioners. This applies equally to the structures we have in place to support and run the system. As I already said, trustees have an important role to play and it is necessary that we look at the trustee system from time to time to ensure it remains relevant and effective. I

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understand that The Pensions Board will be undertaking a review of the trustee system in early 2005, including looking in more detail at the issue of trustee training, and I look forward to receiving a full report in due course.

ENDS