PENBOX

FSC's Quarterly Pensions Newsletter

MAIN FEATURE

STATUTORY DUTIES OF TRUSTEES

by Jemar Bartley

One of the most critical responsibilities of trustees is their fiduciary duty. Trustees must place the interests of their members first and should ensure that their decisions are not driven by personal interest. The fiduciary duty of trustees obligates them to observe all the general guidelines outlined in the Pensions (Superannuation funds and retirement schemes) (Governance) Regulation 7.

We have highlighted below a few of the key statutory duties that Trustees are entrusted with in their role:

- **Governance**: Trustees should ensure that the proper governance of the fund is enforced. That is, they should schedule regular meetings to make decisions regarding the long-term investment strategy of the fund, the fund's ability to meet short term obligations as well as any other concern faced. As stated in the Pensions (Superannuation funds and Retirement schemes) (Governance) Regulation 7, trustees are required to meet at least annually. They should ensure that the written governance policies and procedures that are established, are indeed observed with the aim of maintaining best practice standards across the board, particularly among the appointed agents.

- **Financial Prudence**: The assets of the fund should be invested with duty of care after obtaining professional advice, which should be adequately documented. This will involve an assessment of the assets the fund will invest in with careful consideration being given to how the investment portfolio will be diversified to manage market risk. Trustees should seek to preserve the investment returns of their respective plans, limiting plan expenditure where possible and reducing the risk of unauthorized payments. They should also ensure that adequate and timely information is presented in management reports, actuarial valuations and other reports, to support prudent decision making.

- **Performance Reviews**: Trustees should ensure that regular reviews are conducted on the performance of appointed agents and advisors and should set benchmarks or standards for performance in the management contracts, Service Level Agreements, and other written agreements between themselves and agents. The Statement of Investment Policies and Principles (SIPP), Actuarial Valuation reports and Audit reports, amongst others, should be reviewed at least annually, and used to monitor the activities of fund managers and other agents.

- **Benefit Payments**: Trustees should ensure that effective and reliable mechanisms are put in place to guarantee that benefit payments are made in a timely manner. Effective communication must be maintained between the trustees, plan members and their respective human resource departments, and trustees should ensure that all stakeholders understand the benefit payment process. Trustees should also ensure that due process is followed regarding the payment of benefits to minors and to persons diagnosed as mentally incapacitated.

- **Appointment of Plan Agents**: In the case of the termination or resignation of an actuary or auditor, trustees should take the necessary steps to have a replacement actuary or auditor appointed for the fund or scheme no later than sixty days of the termination or resignation.

- **Record Keeping**: Trustees should ensure accurate and complete records are kept for member contributions, benefit payments, beneficiary information and general membership data. Trustees should also ensure that complete records are kept of trustees' meetings, advice provided by their agents, and decisions taken.

Trustees should consider all duties and responsibilities outlined by the pensions legislation, policy agreements as well as the Trust Deed and Rules of their respective plans, to provide for the members' best interests.

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SENIOR DIRECTOR'S MESSAGE

Cornelia Harper Peck
Senior Director
Pensions Division

REFLECTION ON SESSION 1 OF THE FSC PENSIONS WEBINAR SERIES

We are happy that many of you were able to attend the inaugural webinar in the FSC Pensions Webinar series, which was themed: **Implications of Current Geopolitical Events on Pension Portfolios & Risk Mitigation Strategies**. Once again, we partnered with CFA Society Jamaica, which shared technical insight into current economic and political world events and their impact on strategic planning for the pensions industry.

Given the widescale impact of the Russia-Ukraine conflict, as the regulator for Jamaica's private pensions industry, we felt obliged to lead fact-based dialogue on the potential risks and opportunities for pension asset management. I certainly hope that the engagement provided you with practical, real-world information for decision-making, planning, and implementation of the risk management strategies that best suit your respective pension plans.

We look forward to seeing you at the second webinar in our series, which promises to be equally informative and enlightening. You will be apprised of the relevant details in the upcoming weeks.

We also encourage you to continue to keep your eyes on this space for relevant and informative articles. We also welcome your feedback.

FINANCIAL SERVICES COMMISSION

PENSION GROWTH IN AN INFLATIONARY CLIMATE

by Joedon Cox

WHAT DOES IT MEAN FOR ANNUITY PRICING AND FOR PENSION PAYMENTS FOR PERSONS RETIRING SOON?

Pension arrangements have long term investment horizons and high increases in inflation over a protracted period have a significant impact on these arrangements. If high levels of inflation are sustained, pension plan trustees and agents need to consider how they will go about making changes to their investment strategy to maximize returns, while strategically minimising market risk especially in light of the lingering effects of the COVID-19 pandemic which continue to affect the Jamaican economy.

Of note, inflation increased by approximately 55% between the periods December 2021 (7.31%) and March 2022 (11.31%). Meanwhile, total pension assets decreased by approximately $1 Billion JMD between December 2021 and March 2022.

Traditionally, pensioners who receive their pension payments from an annuity will have claim to a stream of income that is certain as agreed in the contract with the insurance company. However, due to rising inflation levels, the real value of this stream of income becomes less certain and pensioners may find themselves with less purchasing power over time. On the other hand, an inflationary climate will typically lead to increased interest rates. This can be of benefit to pensioners as the trustees may be able to purchase annuities for their retiring members at lower prices.

One way in which trustees can combat the effects of an increasing cost of living, is to purchase inflation-linked annuities for their retiring members, which will immunize the pensioner’s benefit against the effects of inflation. However, this comes at the cost of a potentially lower pension initially at retirement. Additionally, pensioners may choose to reinvest a greater portion of their lumpsum upon retirement to allow for additional growth of the funds. It is important to remember, however, that the best defense against an inflationary climate is a robust retirement plan which incorporates a combination of the investment strategies and products that best suit the member's investment objectives, goals and time horizon.

FREQUENTLY ASKED QUESTIONS

WHO CAN BE A BENEFICIARY?

A: All individuals enrolled in either a superannuation fund or retirement scheme have the option of appointing a beneficiary - that is, a named person or entity designated to receive a pension benefit in the event of death, subject to the Rules of the plan. In some cases, beneficiaries are designated by the Rules especially where a spousal benefit or dependents' benefit is provided for.

According to Pensions (Superannuation Funds and Retirement Schemes) (Governance) Regulation 2, a beneficiary may be categorized as:

(a) the person designated by a participant to benefit from his entitlement in the fund or scheme;
(b) the person who has a beneficial interest in the fund or scheme under the Last Will and Testament of the participant; or
(c) the person who has a beneficial interest in the fund or scheme under any enactment;

Where a minor is designated as a beneficiary, they will not be able to access the pension benefit until they are 18 years old without a trustee or custodian to manage the pension benefit on behalf of the child until he or she becomes an adult.

Where a beneficiary was not named by the member upon enrollment into the pension plan, but was named within the member's Last Will and Testament, the trustees of the pension plan will be forced to recognize the entitlements of that named beneficiary. Any legislation or court order that recognizes a person or entity as a pension beneficiary must also be upheld by the trustees of the relevant pension plan.