



PENSION PLAN MANAGEMENT - Explained

Introduction

Pension Plan Management has always been an important matter but has never enjoyed the attention, in Jamaica, which it truly deserves. However, many **recent developments** coupled with the **Pension Reform** highlight the absolute necessity for **all** Pension Plans to be effectively managed.

The comments below are intended to demonstrate why a Pension Plan may need a Consultant, part of whose duty is to appropriately advise the Trustees on a range of very important issues on a continuous basis. Such a Consultant could be considered as an Executive Trustee or a Pension Plan Manager.

ACTMAN International is the only company in Jamaica that offers this comprehensive service to Trustees.

At present, we carry out the function for some large Pension Plans including Alcoa/Jamalco, Alpart and Kaiser Jamaica/St. Ann Bauxite, Rural Agricultural Development Authority, Jamaica Money Market Brokers, Jamaica Co-operative Credit Union League, Digicel.

We provide a document entitled **Pension Plan Management** which details

- qualifications and experience necessary to do this job
- the full range of tasks that the job entails
- the list of all parties with a vested interest in the Pension Plan

1. **Board of Trustees**

The Board of Trustees is like a Board of Directors for a normal company. Legally, they have total responsibility for all aspects of the Pension Plan and must ensure that all areas of the Plan are being managed properly. The new Pensions Act holds Trustees accountable and can impose heavy sanctions for breaches.

Trustees must meet regularly (at least quarterly) to review the operations of The Pension Plan and assure themselves of the soundness of such operations.

2. **Pension Plan**

A Pension Plan is a complicated and multi-faceted entity. Some Trustees do not understand their role and responsibilities and may not possess the requisite knowledge to make a substantial input to the management of the Pension Plan.

3. **Changes in Board of Trustees/Management Personnel**

Members of a Board of Trustees tend to change somewhat frequently since, among other reasons, they resign as they change their jobs. Thus, continuity tends to be a problem. This is also true for Senior Managers who monitor Pension Plans on behalf of their Company.

These changes could cause the Decision Making Process in Pension Plan Management to be very tardy and important decisions could “fall through the cracks” and cause major problems. The Consultant provides continuity/institutional memory and a burning desire to speed-up the decision-making process.

4. **Administration**

Trustees must choose an Administrator for the Plan.

There are many **criteria** used in choosing an Administrator, thus making this a complex issue.

The Administrator has to be monitored for performance and may have to be changed from time to time.

Under the Pension Legislation, the Administrator will have to be Approved by the Financial Services Commission. They must satisfy and continue to satisfy certain stated criteria in order to retain the Approved status.

5. **Investment Policy (SIPPS)**

The writing of an Investment Policy to guide the Trustees is of critical importance. Such a Policy must cover areas such as:

- ❖ Criteria for choosing Investment Managers
- ❖ Asset Mix
- ❖ Allowable Assets
- ❖ Non-allowable Assets
- ❖ Risk Management
- ❖ Long term rate of return
- ❖ Others

The SIPPS is included in the Pension Legislation.

6. **Investment Managers**

Trustees have to choose Investment Managers. A large Pension Plan may have multiple (2,3,4,5, etc) Investment Managers. Choosing Investment Managers and Investment Funds are complex issues.

All Investment Managers have to be monitored for performance and for solvency and compared with the others in the market place on a continuous basis. Investment Managers may have to be changed from time to time.

The level of investment return on the Plan's assets has a significant impact on the amount of pension and pension increases paid to the members.

Under the Pension Legislation, each Investment Manager has to be Approved by the Financial Services Commission. They must satisfy and continue to satisfy certain stated criteria in order to retain the Approved status.

7. **Information Flow to Members**

Trustees must ensure that all relevant information flow to the members accurately and on a timely basis. This is covered under the Pension Legislation. **Members can report Trustees to The Financial Services Commission for breaches.**

8. **Compliance with Plan Rules and Legislation**

This is a major area of concern for Trustees. They must operate the Plan according to the Trust Deed and Rules and the Legislation under which the Plan was Approved.

9. **Member Education**

Members should understand clearly what the Pension Plan provides and what type of retirement income they can expect.

This information will ensure that they do not have false expectations of the retirement income and can make suitable "top up" plans, if necessary.

10. **Actuarial Valuations**

Trustees have to understand the results of Actuarial Valuations and to decide on the "best ways" to implement certain recommendations. Trustees must also understand the financial implications if certain recommendations are not implemented on a timely basis.

11. **Modifications to Pension Plan**

Developments at the workplace, in the economy or in Legislation may create a need for the modification of the scale and scope of the benefits of a Pension Plan. Trustees need to be made aware of the developments together with their implications in order that they may be pro-active rather than re-active.

12. **Management of Relationship between Trustees and Employer**

A Board of Trustees normally consists of persons chosen from many different constituencies (e.g. employer, employee, union, outsider, etc.)

Although, in theory, a Trustee does not represent any particular constituency, in practice, a Trustee tends to become very sensitive to issues/decisions perceived not to be in the best interest of his constituents.

These issues turn up fairly regularly throughout the lifetime of a Pension Plan. Experience has shown that a Consultant, with no vested interest, who can explain the issues and make recommendations in the best interest of all can go a far way in the smooth handling of these situations.

13. **Pensioners**

The primary objective of a Pension Plan is to provide the best possible pension to the Pensioners. Hence, the Pensioners are the most important members of the Plan. Yet, more often than not, they become the “forgotten” members of the Plan.

Constant evaluation of their benefits need to be carried out and creative, equitable and affordable suggestions made to improve their financial condition where appropriate. This is a major function of the Trustees.

14. **Other Areas**

There are other areas which could be included but these can be filled in during discussions.

Conclusion

The contents of this Paper detail the scale and scope of the responsibilities of the Trustees. These are persons normally in full time employment and who are **not** pension professionals and so may have very limited time to spend on pension matters. **The Board of Trustees, therefore, needs a Consultant to advise them and to co-ordinate all the activities outlined herein.**

We provide continuous professional advice at an affordable cost.

We would welcome the opportunity to discuss this matter in more detail.

Pension Plan Management

Qualifications/Qualities/Characteristics required for the job.

- Advanced knowledge and qualifications in Actuarial Science (FIA, FSA, EA or FFA).
- Advanced knowledge in:
 - Pensions

- Pension Fund Investment
- Pension Administration
- Pensions Legislation
- Ability to interpret Actuarial Reports
- Very good communication skills (written and oral)
- Very good interpersonal skills
- Extensive knowledge of the local Pension Market
- A healthy respect by the major players in the local Pension Market (Investment Managers, Administrators, Actuaries, Government Agencies, Unions, Members of Pension Plans, Pensioners, Employers etc.)
- Ability to reduce complex language and entities into a readily understandable form.
- Significant analytical skills
- Advanced knowledge in Risk Management
- Advanced knowledge in Personal Financial Planning
- Practical experience in managing a Pensions Portfolio