

2nd Public Pension Fund Management Conference

PUBLIC PENSION FUNDS ACCOUNTABILITY: THE CASE OF IRELAND



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Public Pension Funds Accountability: The Case for Ireland

Agenda

- ✦ Background to the Irish Fund
- ✦ Progress of the Fund since establishment
- ✦ Accountability – requirements and practice
- ✦ Conclusion

Background

The Fund was recommended by:

- ✦ Commission on Public Service Pensions
 - Interim Report August 1997; Final Report November 2000

- ✦ The Pensions Board National Pensions Policy Initiative (NPPI)
 - Report May 1998

- ✦ Department of Finance Budget Strategy for Ageing Group (BSTAG)
 - Report May 1999

Background

Fund establishment

- ✦ July 1999: Minister for Finance announced Government decision
 - To prefund part of pension costs by setting aside 1% of GNP
 - That NTMA would be empowered to manage and invest long term funds where Minister/Trustees so required
- ✦ December 1999:
 - Temporary Holding Fund for Superannuation Liabilities Act, 1999
- ✦ February 2000
 - National Pensions Reserve Fund Act, 2000
- ✦ April 2001
 - Establishment Day – 2 April, 2001
 - Official Appointment of Commissioners (7)

Background

National Pensions Reserve Fund Act, 2000

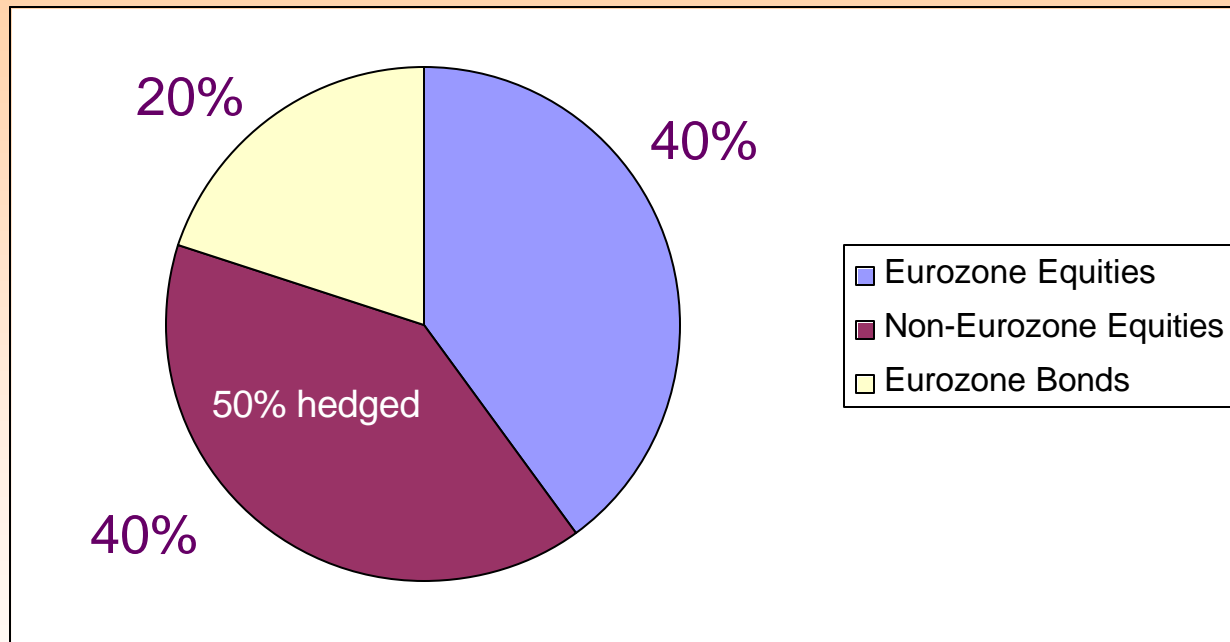
- ✦ Fund to be controlled, managed and invested by National Pensions Reserve Fund Commission
- ✦ Independent of Government
- ✦ Fund to receive annual Exchequer contribution of 1% GNP
- ✦ Commission mandate: to generate commercial return
- ✦ NTMA to be Manager for 10 years
- ✦ Payments from Fund to Exchequer from 2025

Progress

- ✦ Started with clear objective and agreed Mission Statement
- ✦ Decision on investment strategy and portfolio construction
- ✦ Appointment of service providers
 - Competition
 - Selection process
- ✦ Decision on market entry strategy
- ✦ Market entry and subsequent performance

Progress

Strategy



Progress

Portfolio Construction

Asset Class	Investment Style	Alpha	Tracking Error
Eurozone Equity X2	Passive	0.00%	0.10%
Pan-European Equity X3	Active-Core	0.75%	5.00%
US Equity	Passive	0.00%	0.10%
US Equity	Enhanced	0.25%	1.50%
US Equity X2 (Value & Growth)	Active	0.90%	6.00%
Japanese Equity X2	Active	1.00%	6.00%
Pacific Basin Equity	Active	1.00%	6.00%
Global Equity X2	Active-Core	0.90%	6.00%
Long Euro Bonds	Passive	0.00%	0.05%
Long Euro Bonds	Active	0.30%	2.00%

Progress

Competition for Service Providers

Restricted Procedure under Public Services Directive 92/50/EEC

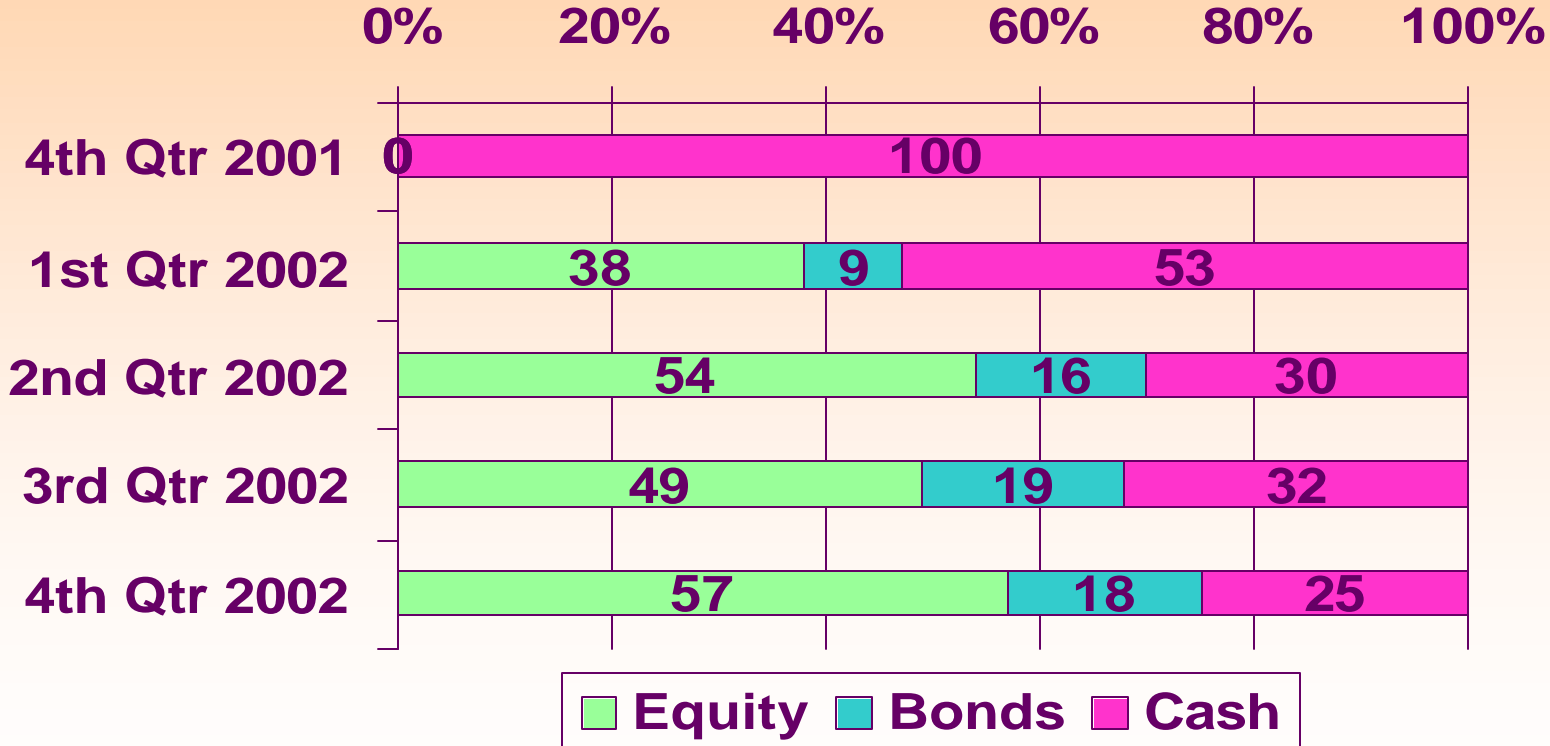
Phase I: Notice published in the Official Journal of the EU inviting service providers to submit request to participate in tendering process and allow 37 days.

Phase II: Limited number of applicants invited to reply to request proposal ('RFP') within 40 days; site visits by Agency; presentations ('beauty parade') by further short list.

Award Criteria: The most economically advantageous tender.

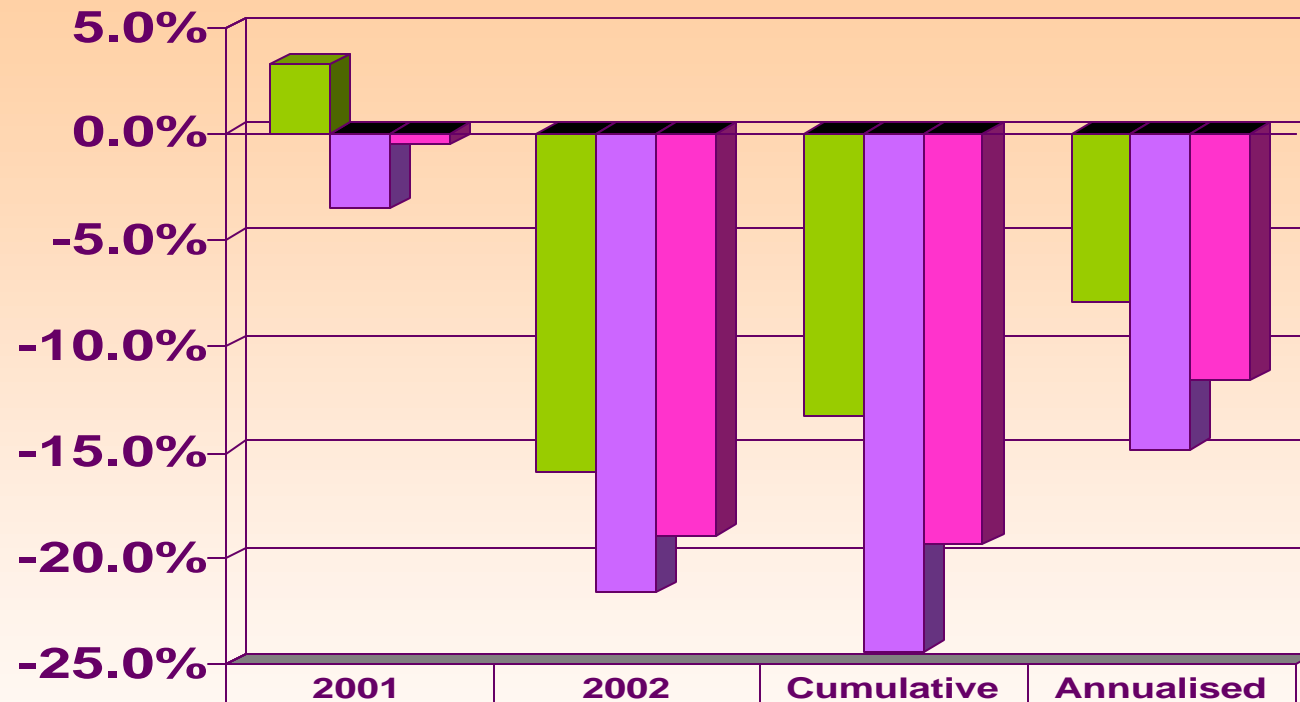
Progress

Market Entry Strategy – ‘Averaging In’ Asset Allocation



Progress

Performance



■ National Pensions Reserve Fund	3.3%	-16.0%	-13.3%	-7.9%
■ Long Term Strategic Benchmark	-3.5%	-21.6%	-24.4%	-14.9%
■ Average Irish Managed Fund	-0.5%	-18.9%	-19.3%	-11.6%

Accountability

Responsible party

- ✦ Commission consisting of Chairperson and 6 Commissioners
- ✦ Commission is body corporate who can sue and be sued
- ✦ Eligibility requirements
- ✦ Disclosure of interest requirements
- ✦ Commission control, manage and invest Fund
- ✦ Commission accountable to Parliament

Accountability

The National Pensions Reserve Fund Act, 2000 provides for:

- ✦ Preparation of accounts and audit by the Comptroller & Auditor General (senior auditor in State) of the accounts
- ✦ The publication by the Commission of an annual report of its activities and of the audited accounts of the Fund
- ✦ The chairperson of the Commission to appear before and give evidence to the Committee of Public Accounts on the policies of the Commission in relation to the Fund
- ✦ The chief executive officer of the Fund Manager to give evidence to the Committee of Public Accounts on the regularity and propriety of all transactions on the Fund and on the economy and efficiency of the Commission and the Manager in regard to the expenses of operation of the Fund

Accountability

Accounts and Audits

- ✦ Must keep all proper and usual accounts of moneys and other assets
- ✦ Must include separate account of administration fees and expenses incurred by Commission
- ✦ Audited Accounts of NTMA (the Fund Manager) must note record of expenses incurred by NTMA as Fund Manager
- ✦ Accounts signed by CEO of Fund Manager and a Commissioner must be formally adopted by the Commission and submitted to Comptroller & Auditor General for audit not later than 4 months from end of financial year
- ✦ Copy of audited account must go to Minister and be laid before each House of Parliament

Accountability

Report and Information to Minister

- ✦ Not later than 6 months after end of financial year
Commission must make report to Minister of its activities for the year
- ✦ This report must be laid before each House of Parliament
- ✦ Each report must include:
 - Information on investment strategy
 - Report on investment return
 - Valuation of net assets and detailed list of assets
 - Information about investment management and custodianship
 - Information on fees, commission and other expenses incurred by Commission and Fund Manager
- ✦ Report shall also include any other information the Minister may direct

Accountability

Chairperson of Commission to appear before Committee of Public Accounts (PAC)

- ✦ PAC is parliamentary committee responsible for examining and reporting on departmental expenditure
- ✦ PAC holds public hearings and conducts tough examinations
- ✦ Chairperson of Commission must appear before and give evidence to PAC at such times as PAC reasonably requests
- ✦ Evidence given relates to policies of Commission, subject to confidentiality of commercially sensitive information

Accountability

CEO of Fund Manager to appear before Committee of Public Accounts (PAC)

- ✦ CEO must give evidence to PAC on
 - Regularity and propriety of transactions recorded in any record subject to audit
 - Economy and efficiency of Commission and Fund Manager
 - Systems, procedures and practices employed by Commission to evaluate its effectiveness
 - Any matter affecting the Commission referred to in any report of Controller & Auditor General
- ✦ CEO must not question or express opinions on policy of Commission

Accountability

Other Requirements for Accountability

- ✦ Minister may appoint person to examine any aspect of Fund and Commission - Fund Manager must assist this and give access to all records
- ✦ Independent valuations of assets
- ✦ Independent assessment of investment performance
- ✦ Public Procurement procedures must be used for appointment of all service providers including EU Procedures under Public Services Directive 92/50/EEC
- ✦ Appointment of custodians
- ✦ Commitment to open and transparent reporting subject to preserving confidentiality on commercially sensitive information

Accountability

Other ways of accounting to public

- ✦ Fund Manager website www.ntma.ie
- ✦ Press briefings
- ✦ Conference presentations

Accountability

In practice

- ✦ National Pensions Reserve Fund Commission Report and Financial Statements for the period 2 April 2001 to 31 December 2001 prepared and published as required
- ✦ Public procurement procedures strictly followed for appointment of service providers
- ✦ Chairperson or CEO have not yet been before Committee on Public Accounts
- ✦ Website in place
- ✦ A few press briefings held, for example at end 2002
- ✦ A few Conference presentations made

Accountability

Public reaction

- ✦ Poor level of public understanding
- ✦ Questioning by politicians and economists of merits of:
 - Payments to Fund during economic downturn
 - Having such Fund at all
- ✦ Varied political proposals during Election 2002 campaign
- ✦ No strong sense of 'people's fund'

Accountability

Should the Pension Fund be retired?

**Pension
money for
health –
Quinn**

**Economists question wisdom of
bolstering national pension fund**

CONCLUSION

I believe that Public Fund

- ✦ accountability is a vital ingredient
- ✦ accountability must not only exist but must be seen to exist by the public

In the case of Ireland

- ✦ we have the right legislative requirements
- ✦ we need to work harder at making them be 'seen' to work in practice