

**“Project to Integrate
Supervision of Financial Institutions
in Trinidad and Tobago:
Pension Plans”**

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INTRODUCTION

Background

- ❑ **Project Sponsor: Central Bank of T&T**
- ❑ **Project Consultants: Lawrie Savage & Ass**
- ❑ **Project Timeframe: Mar 2001 – Aug 2002**
- ❑ **Project Scope: To introduce risk-based supervision of**
 - **Life Insurance Companies,**
 - **General Insurance Companies,**
 - **Approved Private Employer-sponsored Pension Plans,****under the Central Bank of T&T.**

Project Objectives

- to diagnose current state of affairs
- to assess management of pension plans
- to introduce risk based supervision
- to train staff and facilitate integration
- to recommend revised legislation
- to recommend updated supervisory practices and procedures
- to consult with local experts on key issues

MAJOR FINDINGS

Major Findings

- ❑ with some exceptions, most defined-benefits plans are in good financial condition
- ❑ many plans have significant surplus
- ❑ high real rates of return have prevailed in recent years
- ❑ plans often grant benefit improvements and contribution holidays
- ❑ some problems in specific plans but not endemic

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Major Findings (cont'd)

- ❑ many plans do not have adequate levels of communication with plan members
- ❑ some examples where required filings of audit reports and actuary's reports are late, and do not deal with compliance
- ❑ concerns over maintenance and quality of plan data
- ❑ no minimum standards applicable to Trustee process, Management Committees, and Employers

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Major Findings (cont'd)

- ❑ auditors and actuaries have no fiduciary responsibility to the plan.
- ❑ legislation needs updating
- ❑ supervision is basically reactive focusing on compliance. The Supervisor has limited powers of intervention, and limited support for analytical work
- ❑ approval and registration takes too long
- ❑ backlog of request for approval of plan amendments
- ❑ no industry forum for information exchange and advocacy of Best Practices

PROPOSALS

Governance

Proposals for Legislation

Establishment of a network system to promote good governance, as follows

- ❑ Specific duties for system players: Employers, Trustees, Management Committees, Investment Managers, Auditors and Actuaries
- ❑ New Powers and Responsibilities for the Supervisor
- ❑ New approach to Investment Rules

Supervisor

- ❑ **New Powers of intervention and termination**
- ❑ **Approval and revocation of system player appointments by “fit and proper” criteria**
- ❑ **System of penalties and fines**
- ❑ **Levy fees to recover cost of supervision**
- ❑ **Impose penalties**
- ❑ **Risk-based focus on Supervision**

Employers

- ❑ Keep contributions separate
- ❑ Becomes trustee for contributions
- ❑ Remit contributions within 30 days
- ❑ Late contributions accrue interest
- ❑ Responsible for all plan data
- ❑ Provide actuary with data for valuation within 3 months of valuation date
- ❑ Complete an annual information return to the Supervisor
- ❑ Provide at least 60 days' notice of intention to terminate the plan

Trustees

- ❑ Subject to duty of prudence
- ❑ Avoid conflicts of interest
- ❑ Prepare financial statements of the plan
- ❑ Monitor contribution remittances from employer and report any material differences to the Supervisor
- ❑ Pay benefits in accordance with plan rules
- ❑ Submit an annual information return to the Supervisor
- ❑ Blow the whistle!

Management Committees

- ❑ Subject to duty of prudence
- ❑ Avoid conflicts of interest
- ❑ Approve the plan's Investment Policy
- ❑ Approve the Administrative Practices
- ❑ Meet at least annually with Trustees
- ❑ Notify members if contributions in arrears
- ❑ Notify members of their benefits
- ❑ Submit an annual information return to the Supervisor
- ❑ Blow the whistle!

Plan Auditors

- Audit financial statements annually
- Perform any additional audits as required by the Supervisor
- Blow the whistle!

Plan Actuaries

- ❑ Advise on the funding of the plan benefits
- ❑ Perform statutory actuarial investigations
- ❑ Advise the Investment Manager of matters relating to the plan's liability profile
- ❑ Blow the whistle!

Investment Managers

Each Plan must formally identify the person given responsibility for investment under the plan rules. This “Investment Manager” must:

- ❑ Avoid conflicts of interest
- ❑ Develop and review annually an Investment Policy for the plan
- ❑ Manage the investments in accordance with the Investment Policy
- ❑ Ensure compliance with Investment Rules established in legislation.
- ❑ Produce quarterly performance reports and discuss with Trustees and Management Committee as appropriate

PROPOSALS

Investments

Investment Distribution

	\$Bn.	%
■ Bonds & Debentures	4.529	33.6
■ Equities	3.441	25.5
■ Cash & fixed deposits	1.810	13.4
■ Foreign investments	1.344	10.0
■ Pooled funds	0.896	6.6
■ Other	1.476	11.0
TOTAL	\$13.498Bn	

Investments

- Second Schedule of IA 1980 discarded
- Law will require prudent person investing approach
- Each plan to write its own Investment Policy
- Investment portfolio limits
- Restrictions on related party investing and transactions

Investments (cont'd)

Investment Policy to cover:

- Asset/Liability matching
- Authorized and prohibited investments
- Portfolio Limits
- Selection criteria for particular issues
- Risk tolerance factors
- Investment Return objectives
- Portfolio diversification
- Foreign investment criteria

Investments (cont'd)

Portfolio Limits

- ❑ Assets in Trinidad and Tobago > 80%
- ❑ Cannot own > 30% of voting shares of any corporation
- ❑ Cannot invest > 10% in any given investment, 5% for real estate
- ❑ Aggregate exposure to real estate < 25%
- ❑ Aggregate exposure to real estate and mortgages < 50%
- ❑ Aggregate exposure to equities, real estate and mortgages < 75%
- ❑ Mortgage loan < 80% value of property

Investments (cont'd)

Related Party Investing

- ❑ Plan sponsor, affiliates, shareholders, directors, managers, employees, plan members and beneficiaries are all related parties
- ❑ Generally prohibited, with exceptions
- ❑ Loans fully secured by GOTT are exempted
- ❑ Securities traded in a public, active market are exempted
- ❑ Mortgages to members at better than market terms and conditions are restricted:
 - Current loans grandfathered
 - No further loans 5 years following the effective date of the legislation

THANK YOU

for your attention!