

Reporting to the UK Pensions Regulator

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IOPS Workshop on pension supervision

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Dakar, SENEGAL

Reporting to the UK Pensions Regulator (TPR)

- Context
- The information TPR needs
- The five main types of report
 - Scheme return
 - Surveys
 - Recovery plans
 - Notifiable events
 - Whistle-blowing reports
- Using the information (summary)

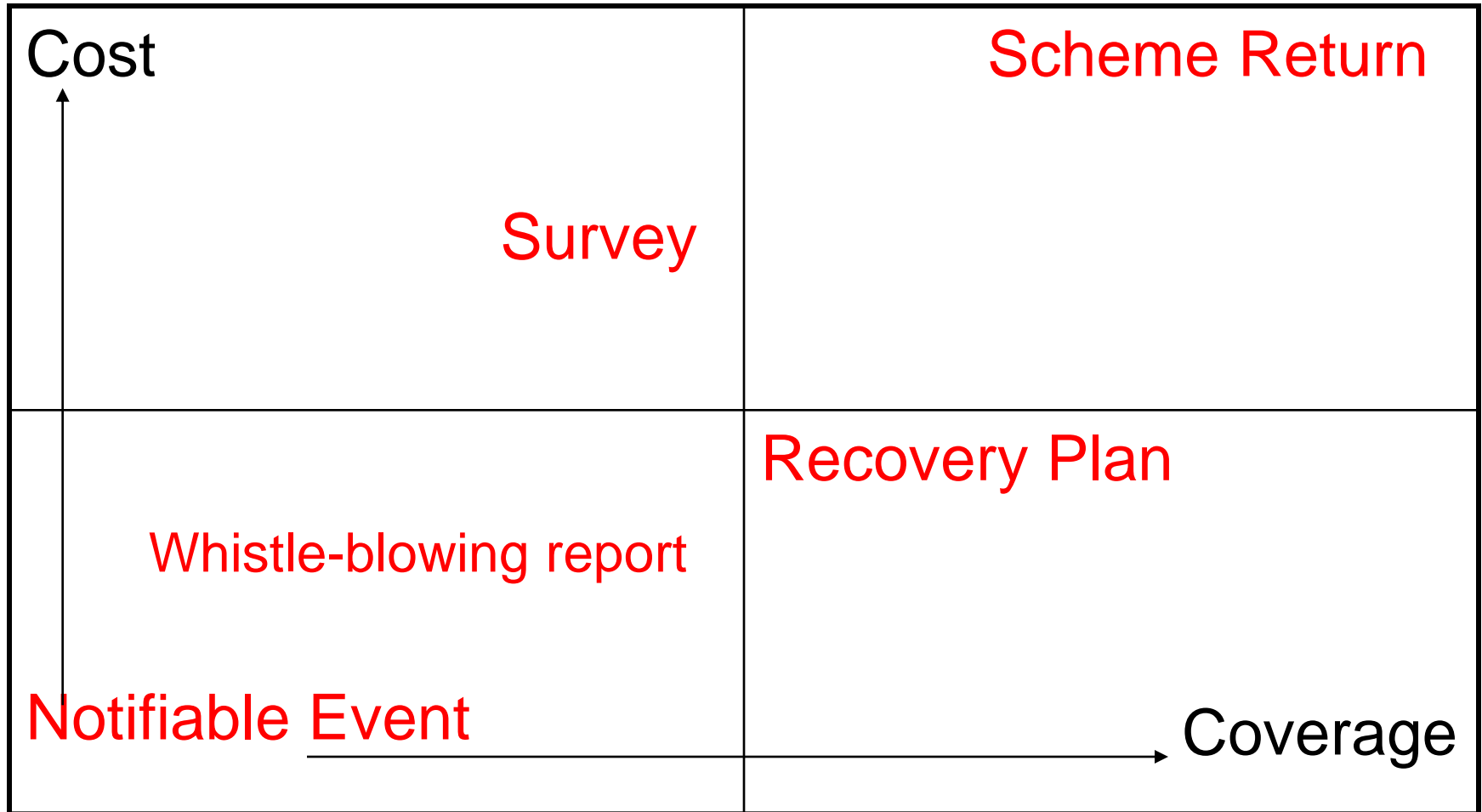
Context

- 84,000 schemes with 17 million members and assets of \$2,000 billion
- Trust-based with fiduciary responsibilities
- Risk-based regulator (since April 2005)
- 3E's approach (educate, enable, enforce)
- Enforcement focused on funding and employer support for DB schemes (and related governance issues)

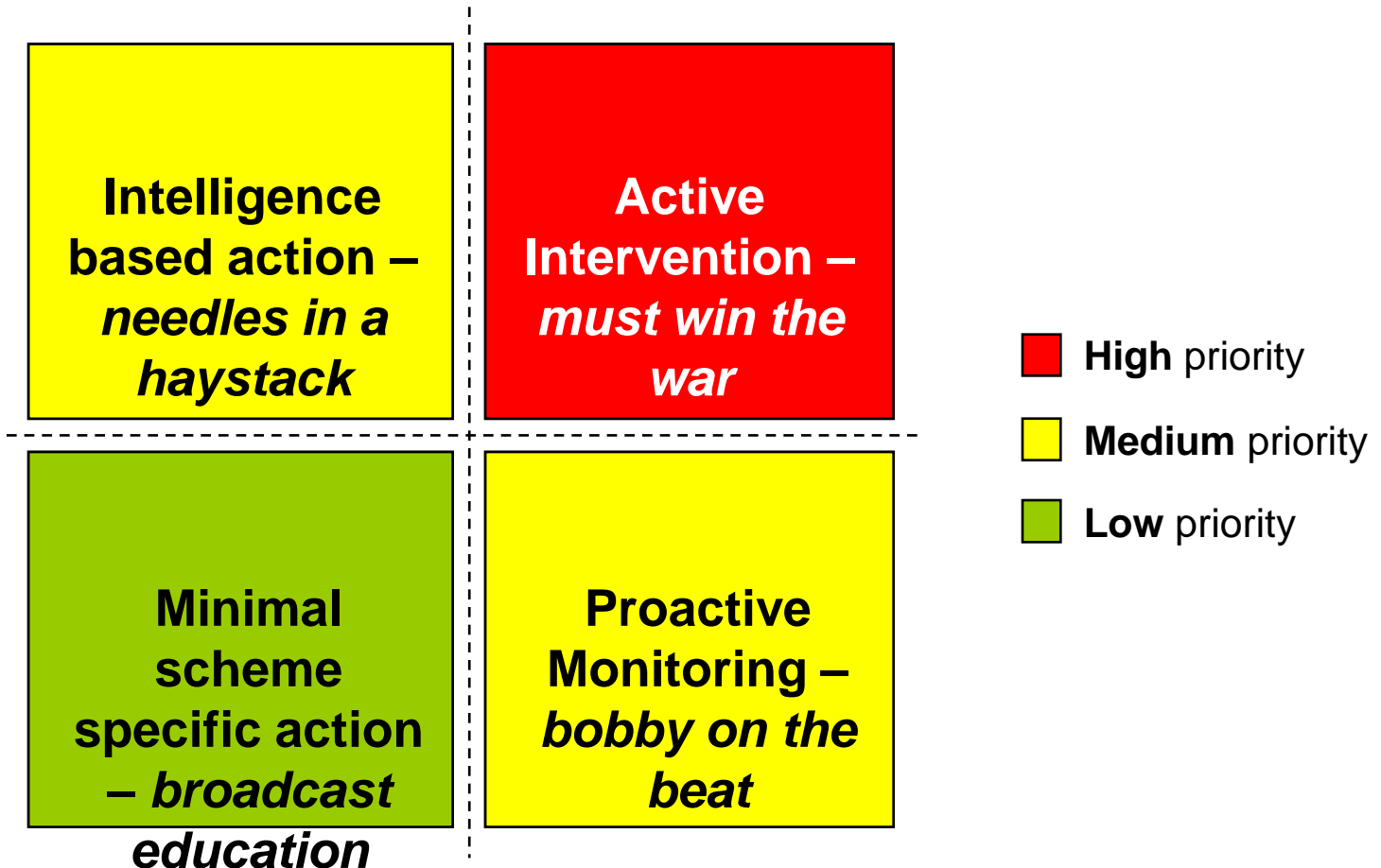
The information TPR needs

- Basic statutory data
- Data to identify scale and nature of risks
- for proactive enforcement:
 - DB funding data
 - Data on risks of employer avoidance
- Data to influence behaviour
- Whistle-blowing reports for reactive enforcement
- Third party intelligence to drive proactive investigation
- But need for information must be balanced with the cost

The cost/coverage trade-off



The UK risk and intervention model



The scheme return - purpose

- Comply with the Pensions Act 2004
- Obtain basic scheme data, e.g who runs the scheme, address etc
- Obtain basic risk data, e.g size
- Obtain basic landscape data, e.g total membership and assets in different types of scheme
- Enable calculation and collection of levies, including risk-based PPF levy
- Help pinpoint high risks, e.g under-funding

Scheme return – the challenges

- Could not start incurring costs until November 2004
- Needed DB data quickly for PPF risk-based levy, from 8-12,000 DB schemes
- Chicken and egg – needed the scheme return to tell us who should receive scheme returns
- Originally believed scheme return data could drive the risk model
- How to reach over 60,000 small schemes (under 12 members)
- Limited scope for enforcement action
- Huge reputational risk

Scheme return – the paper versions

- On-line solution not practicable in original timescale
- Focused on the DB schemes
- Asked for substantial numeric data, e.g assets and liabilities
- Contractor could not deliver processing quality
- Substantial data cleansing needed
- Large number of complaints
- Poor response rates
- Originally over 50 pages – then halved in size

Scheme return – the on-line version

Driven by:

- Need to replace contractor
- Data quality
- User-friendliness
- Compatibility with other systems
- Potential improvement in timeliness
- Longer term cost savings

The on-line scheme return

- Designed in consultation with users
- Focused on essential information only
- Pre-populated with previous data
- Easy to use system
- Fully trained in-house staff to help guide users by telephone or email
- Users given longer to complete the return
- Starting to act against schemes that fail to complete a return

Number of members as at 01 April 2006**The Pensions Regulator requires to know the number of members present at the scheme year-end between the dates 1 April 2006 and 31 March 2007.**

Membership type	DC	DB	Partial DB	Grand total
Active members		19		
Deferred members		0		
Pensioner members		0		
Total of members	0	19	0	19

Membership details**The Pensions Regulator would like to know the number of members present at the scheme year-end between the dates 1 April 2007 and 31 March 2008.**

Membership type	DC	DB	Partial DB	Grand total
Active members				
Deferred members				
Pensioner members				
Total of members				

Whistle-blowing reports

- Duty to report a **breach of law** that may be of material significance to TPR
- From 1995 Act applied only to auditors and actuaries
- 2004 Act extended to trustees and all service providers (including lawyers!)
- Originally 11,000 reports a year due to failure to define materiality
- Reporting Breaches Code of Practice sets out a traffic light approach
- Now around 1,200 reports a year
- Plus 12,000 late payment reports

The Traffic Light approach

Red breach situations are always of material significance to TPR and should be reported.

Green breach situations are not of material significance and do not have to be reported (but should be recorded).

Amber breach situations are less clear cut; a reporter must take into account the context of the breach in order to decide whether it is of material significance and should be reported.



Purpose of this form

Use this form to tell us about a breach of the law that you consider to be of material significance in relation to a pension scheme.

Please complete the form in dark ink and write in BLOCK CAPITALS.

1 Urgency

Tick the box if the breach of law requires
urgent attention

(as referred to in the Reporting breaches code of practice)

2 Scheme details

2.1 Pension scheme name

2.2 Pension scheme address

Postcode

2.3 Pension scheme registration number

Surveys

- Essential with 84,000 schemes
- In-house research team commissioning from the market
- Key surveys:
 - Annual scheme governance
 - Stakeholder perceptions
 - DC qualitative
- Usually published

Recovery plans (valuation reports)

- Required from all schemes in deficit (most DB schemes) – over 2,000 a year
- (Fairly) timely for intervention purposes
- Reliable as actuary certified
- Enables a risk-assessment
- Further data still needed in some cases

Notifiable events

- 13 non-breach events that may indicate risk, to the Pension Protection Fund (PPF) or a DB scheme from:
 - **The scheme itself**, i.e rapid post-holder change, waiving a debt, large transfer payments, favourable or large discretionary benefits; or
 - **The sponsoring employer**, i.e rapid post-holder change, reneging on a debt, moving out of UK, wrongful trading, breach of banking covenant, change in credit rating, change of control, criminal convictions.
- Reporting can be waived by Regulator's Directions
- Balance between picking up risks and swamping TPR
- Timely information (code of practice defines)
- 640 reports in 06/07 - of variable value in practice

Purpose of this form

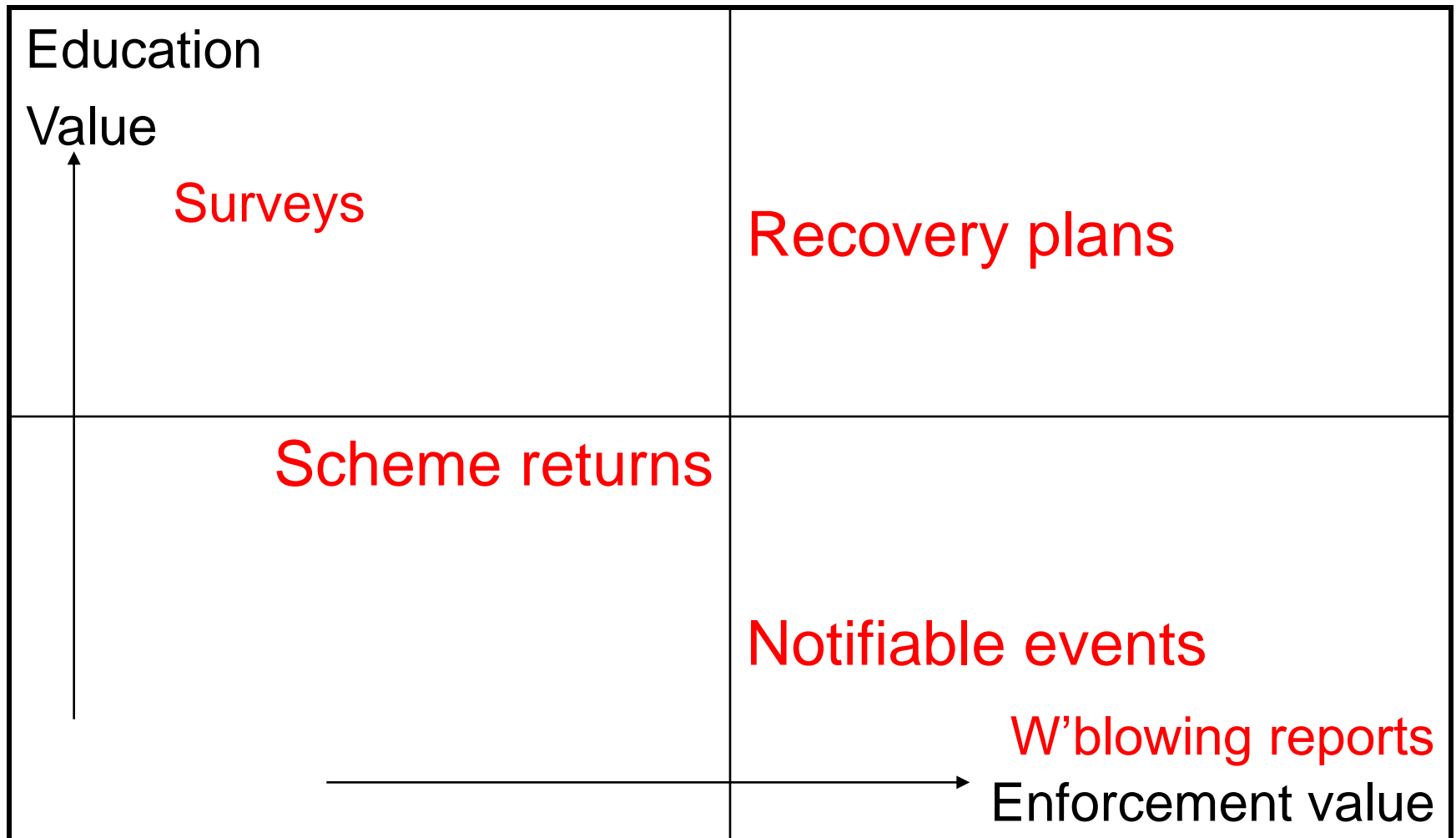
Use this form to tell us about a notifiable event.

Please complete the form in dark ink and write in BLOCK CAPITALS.

1 Scheme details						
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2 About the notifiable event					
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Different types of report have different value



How reports are used (summary)

- Emergency action (handful a year)
- Reactive intervention (e.g £1 million late payments recovered in 06/07)
- Proactive intervention (currently DB only)
- Targeting educational activity (by subject and audience)
- Helping to move the market
 - Purple Book
 - Recovery Plan publication
 - DC update
- *Information is necessary but not sufficient for risk-based regulation*

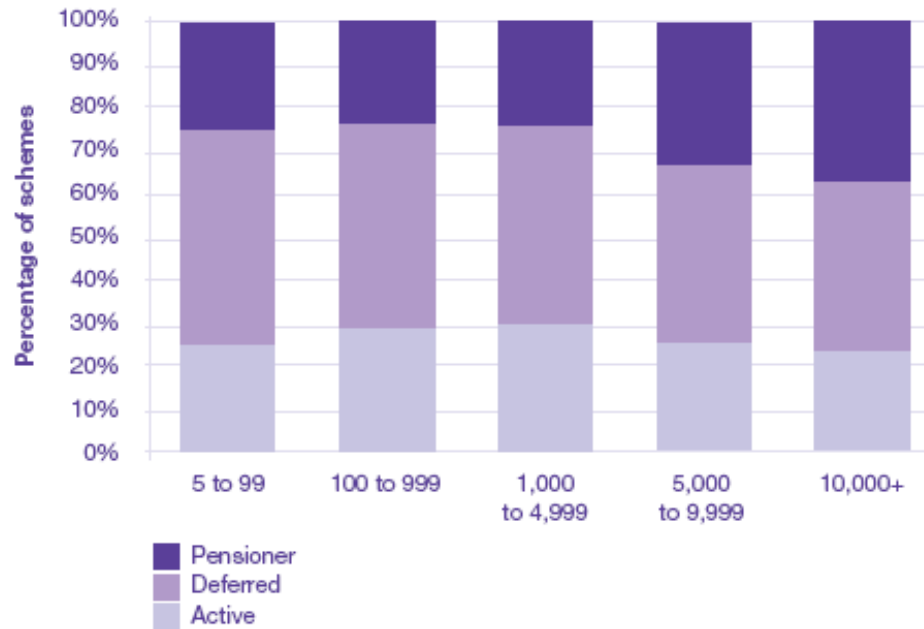
The PURPLE Book (December 2007)

Analysis of membership by scheme size

Larger schemes tend to have higher proportions of pensioner members (see chart 3.8).

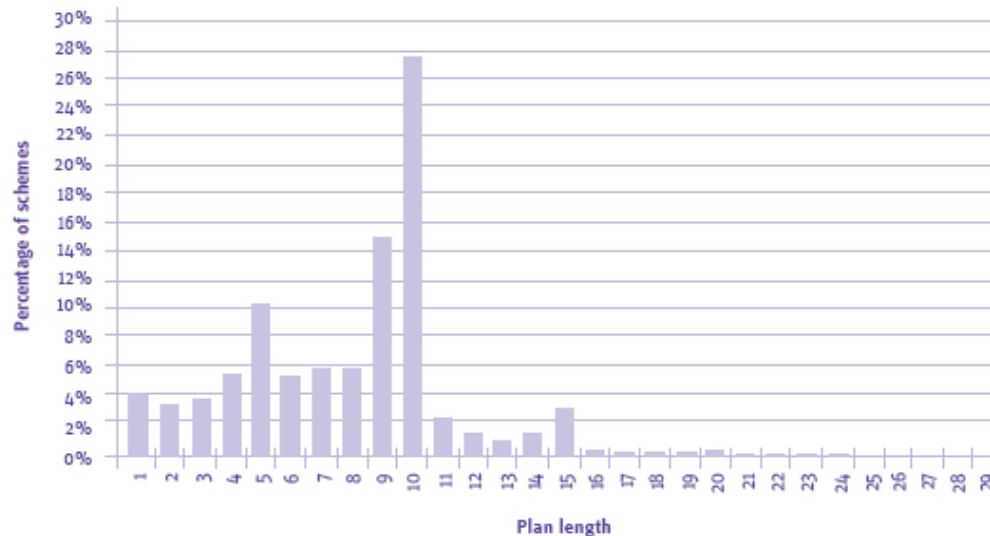
Chart 3.8

Percentage distribution of member types by scheme size (Purple 2007)



Summary of Recovery Plans – initial analysis (September 2007)

Distribution of recovery plan lengths



Base: 1,236 schemes as at 30 July 2007

It is important to note the recovery plan length graphs presented here are based on plan length data as initially submitted to the regulator. Where longer plan lengths have triggered, and in our view there is scope to reduce them, we have engaged with some schemes to action this. However, in other situations, after engagement, we may conclude that longer recovery plans are acceptable.

Any Questions?

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