



## **UK Experience of Pension Scheme Governance**

Alistair Elliott, Regulatory Policy Team, The Pensions Regulator  
OECD/IOPS MENA Workshop on Pension Scheme Governance  
2 February 2009

# Framework

## Objectives

- Protect members' benefits – occupational and GPP
- Reduce risks to the Pension Protection Fund
- Promote good administration of work-based schemes
- Employer obligations from 2012

Vision to improve confidence in workplace pensions

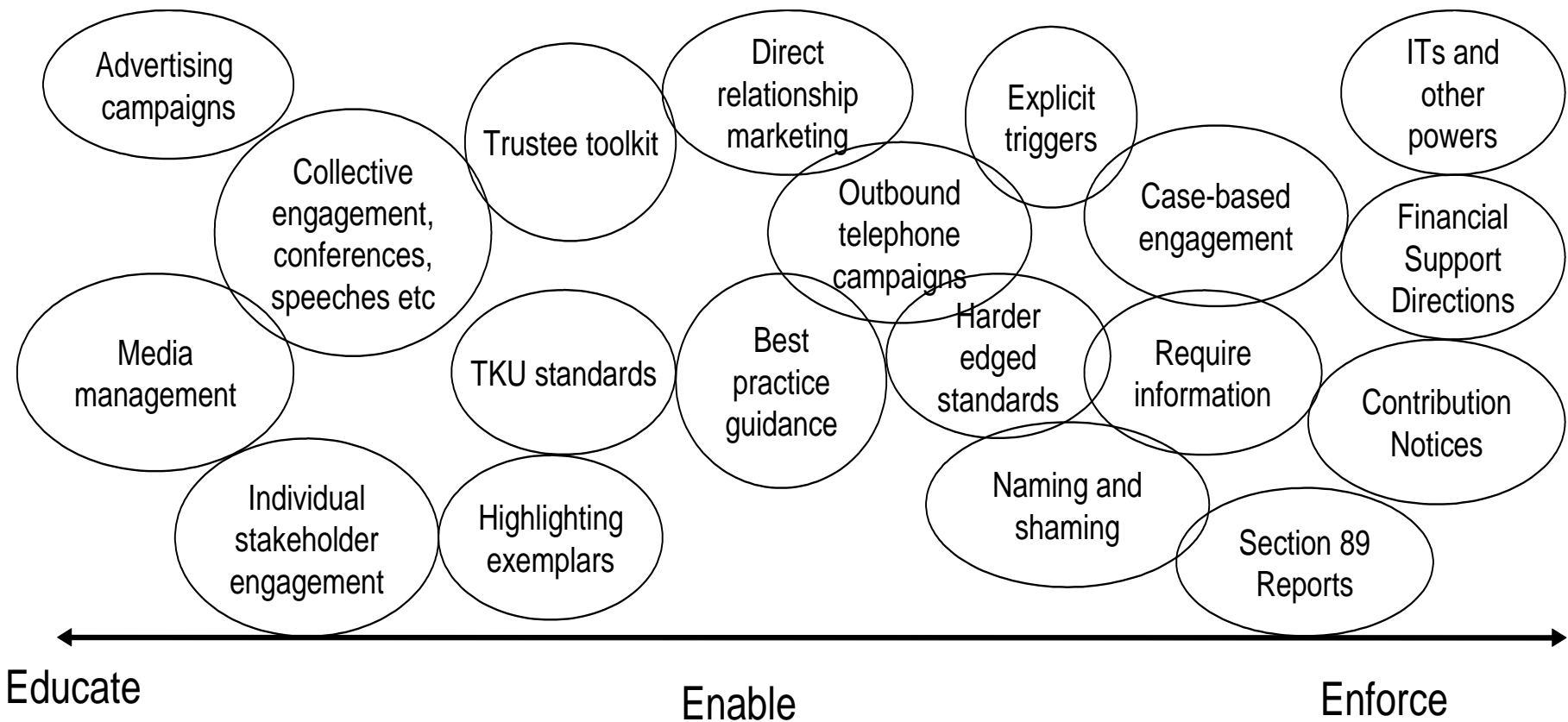
## Strategic themes

- Addressing Key DC risks
- Addressing Key DB risks
- Administration and governance
- Preparing for 2012

# Better Regulation Principles

- Proportionate
- Targeted
- Transparent
- Accountable
- Consistent
- Regulators' Compliance Code

# Regulatory Interventions



# Governance Survey

- Annual tracking survey
- 500 schemes
- Self-assessment
- Overall – good standards
- Key areas for improvement:
  - Smaller schemes
  - DC schemes
    - Eg documented internal controls
    - Addressing trustee learning gaps
    - Ensuring good member comms

# Knowledge gaps/lack of confidence in small schemes

- Many either volunteer for the role or accept nominations and consequently enter into the role with a minimal level of background / contextual pension scheme knowledge
- Lack of time in the day job means pension duties often marginalised
- Lack of depth of involvement with the scheme which leads to a lack of momentum leaving many trustees finding it hard to accumulate increased knowledge and expertise
- Individuals often have multiple roles or roles within the scheme become blurred

*"I'm not entirely comfortable. I would've hoped to feel more confident on the finance and pension regulation side than I am and I think that's purely due to not doing it enough"*

**Trustee**



The Pensions  
Regulator 

The Pensions Regulator

Pensionwise

Welcome to your Pensionwise homepage

▼ Topics to do

- Administration
- Member communications
- Retirement choices
- Charges
- Investment choices
- Exchange (levy and scheme return)

▼ Topics done

- About the Pensions Regulator
- Your role as an employer
- Working with trustees
- Useful links
- My homepage

My profile Logout

My Pensionwise homepage

Please select the first topic you would like to work through from the links below or on the left hand menu. Each topic takes less than 10 minutes to read.

Once you've finished, click on the 'Add to my done list' button (bottom of each topic page). Completed topics will move from the 'Topics to do' list to the 'Topics done' list to help you keep track of your progress.

Administration  
 Good administration is the key to a well run pension scheme. Here you'll learn about your role in the lifecycle of the pension.

Member communications  
 Many important decisions in DC schemes are made by the members. Clear, simple communication will ensure smooth running of the scheme.

Retirement choices  
 Members need to be able to make the right choices on retirement. Here's how you can help people make the right decisions.

Charges  
 Make sure your scheme's charges are clear and cost effective.

Investment choices  
 Find out who is responsible for investment strategy and the funds offered by your scheme and understand the roles of the trustees and members.

Exchange (levy and scheme return)  
 Get an overview of your trustees' responsibilities and how our new online system - *Exchange* - can help.

## •DIRECT RELATIONSHIP MARKETING

•Initial programme for employers, trust based DC schemes

•Quick and easy to use

•Clear and jargon free

•Up to date and relevant

# Governance risk: our regulatory priorities

Risks vary – research and evidence has identified the following priorities to be business critical.

Aspect of governing body	Priority
Knowledge and understanding	<ul style="list-style-type: none"><li>• Trustee Knowledge and Understanding (TKU)</li></ul>
Relationships	<ul style="list-style-type: none"><li>• Conflicts of interest</li><li>• Monitoring of employer covenant</li><li>• Relations with advisers</li></ul>
Procedures	<ul style="list-style-type: none"><li>• Administration</li><li>• Processes for investment choice</li><li>• Governance during wind-up</li></ul>



# Trustee knowledge and understanding (TKU)

- Cornerstone
- Link between knowledge and governance
- DB, large schemes better
- *WWW.trusteetoolkit.com – on-line, free*
- *Codes of Practice*
- *Direct relationship marketing*

# Conflicts of Interest

- Legal duty to act in members' interest
- MNTs minimum 1/3
- Low proportions of schemes have policy
- *Guidance issued:*
  - *Identify*
  - *Monitor*
  - *Manage*

# Employer covenant

- DB schemes
- Willingness and ability to fund scheme
- *Scheme funding guidance*
- *Voluntary clearance process*
- *Monitor employer covenant*

# Relations with advisers

- Expert advice essential
- Adviser conflict
- Trustees not understand
- *Questions to ask advisers issued*

# Administration

- Specific statutory objective
- Benefit payments/information not timely or accurate
- DB and DC
- *Guidance on record-keeping*

# Investment

- Poor processes can reduce returns
- DB – underfunding
- DC – poor member retirement income
- *Investment Governance Group (IGG)*
- *Trustee toolkit*

# Wind-up

- Delays in wind-up
- Inaccurate benefits
- Costs of wind-up
- *Guidelines issued*
- *Two year limit*
- *Monitoring top administrators*
- *League tables*

# Preparing for 2012

- New employer obligations
  - Registration
  - Auto-enrolment
  - Mandatory employer contribution
- Requires new application of risk-based approach
- Importance of technology
- Comms strategy for employers and employees
- Increase importance of governance
- New government-sponsored scheme –  
Personal Accounts



# In summary...

- Governance is one of our 4 strategic themes
- Key aims are to **educate** and **enable**
- Enforce as a last resort
- Working in **partnership** with:
  - government and regulatory organisations
  - industry bodies
  - the pensions community as a whole

Impact of 2012

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)