

Good governance – keeping pensions safe

A statement by the Pensions Regulator to scheme trustees

Good governance matters because pension scheme members entrust their savings into the hands of others. And it matters because UK occupational pension schemes hold more than an estimated £1 trillion in assets.

Trustees responsible for running pension schemes need to be sure that:

- * They have the right skills, and they get the right people to help them run their pension scheme; and
- * They have the right processes in place to manage scheme risks.

Today we are announcing the start of a Pensions Regulator campaign on improving governance and administration. Governance has always been important, and will only become more so as we approach the 2012 reforms. Our statement today continues our goal of working openly with our regulated community.

We are clear that the vast majority of schemes are run by dedicated and hard-working individuals. Our latest governance survey – released today – shows many positive aspects: increases in those schemes where the trustees have reviewed the sponsoring employer's business plans and who strongly agree that the trustee board is able to conduct effective negotiations with the employer.

There are also increases in the proportion strongly agreeing that the trustee board has appropriate processes in place to manage conflicts of interest and that they actively monitor and manage service providers and professional advisers, both areas on which we produced guidance last year.

But gaps persist. Even where there has been significant improvement substantial numbers are not displaying these good governance behaviours:

- * On training – whilst large schemes perform well, two thirds of small DC schemes and half of small DB scheme do not provide any training;
- * Less than half of schemes are very confident that they have appropriate internal controls to mitigate the risks from inappropriate investment strategies or errors in scheme administration;
- * Not enough schemes are aware of the regulator's guidance on record-keeping; and
- * Only six out of ten trustees describe their boards' collective understanding as very good on the fundamental matters of how the scheme's assets are invested and how to assess the employer covenant.

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What do we want people running pension schemes to do?

The trustees of trust-based pension schemes should:

- * Ensure all trustees meet the requirements for trustee knowledge and understanding, including those parts which have been recently updated, and use the *Trustee toolkit* unless they have an equivalent way to access appropriate training.
- * Ensure adequate internal controls including documentation of risks to the scheme and what they are doing to mitigate and monitor them.
- * Know the quality of their scheme records and, where improvement is needed, have a concrete plan in place.
- * Remember they are accountable for the services provided by advisers, administrators and others, have a formal process for their appointment, and know the activities they performing for trustees.
- * And if their scheme is winding up to do so within the two year framework set by the Pensions Regulator.

While this statement is directed at trustees, the insurers and administrators of pension schemes should also understand the quality of their scheme records and if necessary have concrete plans to improve them, including working with employers and scheme members to secure this outcome.

All those involved in pension schemes must bring examples of poor governance to our attention. There is a statutory requirement to whistleblow breaches of the law.

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What is the Pensions Regulator doing to help?

Over the next few months we will be helping those who run schemes by:

- * Publishing a revised code and scope guidance for trustee knowledge and understanding and updating our *Trustee toolkit*.
- * Providing updated guidance on internal controls. Consultation will start shortly. Aimed in particular at small and medium schemes, it will provide practical tools for risk management. We will be providing a *bite-sized e-learning module* to enable the key messages to be absorbed quickly, and as a taster for those who have not previously accessed the toolkit or a refresher for those who have.
- * Consulting in the next few months on new proposals for record-keeping. DWP has recently finished consulting on the requirements in the Pensions Act 2008 to keep certain records. These records will help ensure compliance with the employer duties being introduced. The Pensions Regulator's consultation will include standards for the accuracy of data in light of these new requirements.
- * Updating our guidance on the winding up of pension schemes.

Professionals and advisers play a central role in occupational pensions, and are particularly important for small schemes. We will continue to work with the industry to ensure that the high standards we expect in all areas of advisory work are delivered.

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