

The Pensions
Regulator 

Corporate plan

2007-2010

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Foreword

We are pleased to present the Pensions Regulator's Corporate plan for the period 2007-2010.

The Pensions Regulator ('the regulator') started work in April 2005, and our first two years of operation have given us a strong basis for our further development.

Over the last twenty-four months we have focused on building and developing the organisation, its systems, culture and business processes. At the same time, we have also delivered the regulatory framework required of us by the Pensions Act 2004.

We set out our view of the pensions environment, and the key challenges facing the regulator in its first three years, in our Medium term strategy published in April 2006. This document showed how those challenges relate to our statutory objectives and explained the outcomes towards which we are working. Those challenges remain, and will continue as our core themes for the period of this Corporate plan.

However, there are some new challenges. These include providing credible responses to the various external reviews being undertaken into pensions institutions, pensions simplification and pensions regulation, and providing input to proposals for legislation in the UK and EU. In particular we need to work with the Department for Work and Pensions (DWP) to define and implement the regulator's role in relation to the government's introduction of 'personal accounts'. We also have a key role to play in the government's new commitment to reduce the time that schemes take to wind up.

As ever, our overriding goal is to meet our statutory objectives, working efficiently and in partnership with the regulated community, government and representative bodies.



David Norgrove
chair, the Pensions Regulator



Tony Hobman
chief executive, the Pensions Regulator

Introduction

The Pensions Regulator

The Pensions Regulator ('the regulator') is the regulator of work-based pensions. It was established, under the Pensions Act 2004, as an executive non-departmental public body, accountable to the Secretary of State for Work and Pensions.

The regulator commenced operations in April 2005, superseding the Occupational Pensions Regulatory Authority (Opra). The regulator is funded by grant-in-aid from the DWP, and our running costs are recovered through the general levy on pension schemes.

The Corporate plan

This is our three-year Corporate plan which incorporates our business plan for the year 2007-2008. Its purpose is to set out our strategy, the outcomes we are aiming to achieve and how we will focus and deploy our resources over the next three years. These plans will enable us to deliver against our statutory objectives and the challenges set out in our Medium term strategy (MTS).¹

Our statutory objectives

(As established in the Pensions Act 2004)

- * to protect the benefits under occupational pension schemes of, or in respect of, members of such schemes;
- * to protect the benefits under personal pension schemes of, or in respect of, members of such schemes;²
- * to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF); and
- * to promote, and to improve understanding of, the good administration of work-based pension schemes.

¹ Our Medium term strategy is available at: www.thepensionsregulator.gov.uk/docs/medium-term-strategy-2006.pdf

² The members of personal pension schemes within this statutory objective are:
(a) the members who are employees in respect of whom direct payment arrangements exist; and
(b) where the scheme is a stakeholder pension scheme, any other members.

Our Medium term strategy

Context

The regulator’s statutory objectives in relation to work-based pensions can be summarised as:

- * promoting good administration of schemes;
- * protecting members’ benefits; and
- * reducing risks to the Pension Protection Fund.

The law provides the regulator with a governance framework and a wide range of discretionary powers, but it is our responsibility to identify key issues, set priorities and plan specific regulatory activities. The model below (see figure 1) shows the linkages between our MTS priorities and our statutory objectives.

Priorities

The MTS stated our strategic priorities to 2008-2009. These were to respond to the key challenges facing us:

- * strengthen **funding** of defined benefit (DB) schemes;
- * improve **governance** of work-based pension schemes;
- * reduce risks to members of work-based **defined contribution** (DC) schemes; and
- * deliver effective **risk-based regulation** relevant to our environment and stakeholders.

These themes continue to be relevant in enabling us to meet our statutory objectives, and underpin the activities and measures set out in this plan.

Figure 1

Our medium term strategic priorities and their link to our statutory objectives

	Statutory objectives		
	Promote good administration	Protect members’ benefits	Reduce risks to the PPF
Core themes		Strengthen DB scheme funding	
		Improve governance	
		Reduce DC risks	
		Deliver effective risk-based regulation	

Our core themes for the Corporate plan 2007-2010

The planning framework

The Medium term strategy sets out a framework for each year of the period it covered. In summary this is as follows:

2005-2006	2006-2007	2007-2008	2008-2009
Establishing the regulator	Addressing challenges	Sustaining progress	Review and look forward

It is against this framework that the Corporate plan for 2007-2010 has been developed. As an illustration, across each of the core themes our focus is changing as follows:

Core theme		Previous focus	2007-2010 focus
1	Strengthen DB scheme funding	Build systems and processes	Operate and share learning
2	Improve governance of work-based pensions	Build trustees and adviser understanding	Influence behaviours
3	Address risks to DC scheme members	Research and publish the DC consultative document	Implement consultation outcomes
4	Deliver effective risk-based regulation	Build relationships and the infrastructure for risk-based regulation	Sustain a continuous improvement culture

Our focus for the period of the Corporate plan is discussed in the following sections.

Strengthen DB scheme funding

The underfunding of DB schemes poses a risk to members' benefits, and the introduction of the 2004 Pensions Act requires schemes to address this issue.

The focus for us as the regulator is to ensure that the 2004 Pensions Act scheme funding requirements, and those in the associated code of practice we issued in 2006, are implemented effectively. This means that trustees must take advice from their actuaries and, in agreement with employers, establish a prudent valuation of their scheme's liabilities. If assets are insufficient to cover liabilities, the trustees must produce a realistic, affordable recovery plan to eliminate the shortfall.

We expect that in most cases implementing the Act will result in strengthened scheme funding. Schemes are required to implement the new legislation at their first valuation after September 2005 which, given that schemes are not required to undertake full valuations more often than every three years, means that it will not be fully implemented until the end of 2009. We therefore expect to see the strengthening of scheme funding phased in over the period to 2009. We expect, however, that increasing awareness of regulatory requirements will accelerate the strengthening of scheme funding. We are therefore aiming for the following key performance indicator (KPI) over the three-year period:

DB schemes will have completed scheme specific funding valuations and those with deficits will have agreed recovery plans. These will be based on:

- prudent assumptions for valuing the assets needed to cover the liabilities as they fall due; and
- appropriate recognition in the recovery plan of the risks to members, taking account of what is reasonably affordable for employers.

To help us achieve this measure, our activity in this area over the period of this Corporate plan will focus on the following:

- * continuing to promote understanding of responsibilities among trustees, advisers and employers. In May 2006, we published a clear statement of how we will regulate the new framework and what we expect of those involved. This includes how we will use 'triggers' to identify those schemes which we would want to look at more closely; and
- * implementing our approach to examining recovery plans and valuations as an increasing number of schemes undertake their first triennial valuations under the new rules. We will look at recovery plans that trigger and prioritise those that pose the greatest risk. We will challenge those arrangements where the technical provisions are not prudent or the recovery plan is inappropriate, bearing in mind affordability constraints on the sponsoring employer.

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Our core themes for the Corporate plan 2007-2010 *continued...*

Strengthen DB scheme funding *continued*

Strengthening scheme funding is the most important long term contribution we can make towards our objective of reducing the risk of calls on the Pension Protection Fund (PPF). We also, however, work with trustees to mitigate the increased risks to the PPF (and members) of employer insolvency arising from corporate transactions, usually in the context of giving clearance to these transactions. We also proactively seek to identify and take action in cases where employers have sought to avoid their pension liabilities. Where insolvency has occurred or is imminent we work with the PPF to ease the path through the PPF's assessment period while helping to secure the best deal for the PPF and its levy payers.

Focus 2007-2010

We have already put in place the organisational structure, processes and skills to support these activities, along with communications to the market on our approach and what we expect of trustees, employers and their advisers. We will, throughout the three-year period, sustain and enhance this infrastructure by:

- * **maintaining the resources and skill sets** allocated to examining valuations, recovery plans and corporate transactions, keeping our knowledge and expertise refreshed through the extensive use of secondees to supplement our permanent workforce. We will continuously monitor the overall level of resources allocated against the volume of cases. At an operational level, we will continue to review the scale and composition of resources we apply against each case. We will review and refine our approach and processes over the period of the Corporate plan as we gain more experience;
- * **analysing scheme funding trends** on the basis of the recovery plans and scheme returns we receive, and other forms of environmental scanning and intelligence. The next three years will be characterised by gaining data, experience and feedback as we move through the three-year valuation cycle. As a result, we anticipate that there will need to be frequent additions and revisions to our communications. In particular, we will provide updates to the pensions community, including extensive analyses in the '*Purple Book*', an annual joint publication by the Pensions Regulator and the Pension Protection Fund which sets out the DB pensions universe risk profile; and
- * **reviewing and refining our public communications** as a result of analysing feedback from recovery plans, scheme returns, environmental scanning and other market intelligence. For instance we have already issued guidance targeted at those types of case where employers may seek to avoid their liabilities by transferring them to a nominal employer.

In 2009 we will be in a position to review our experience of how the scheme funding approach has worked over the first three-year valuation cycle. This will be a major milestone and will inform our operational and communications approach thereafter.

Improve the governance of work-based pensions

Good scheme governance is a factor in the achievement of all of our statutory objectives. Our objective of promoting good administration, for example, is put at risk if trustees are unaware of their duties, or ignore communications from the regulator and other authorities; and our objectives of protecting members' benefits and reducing risks to the Pension Protection Fund are put at risk if trustees fail to address conflicts of interest or to take independent advice where appropriate.

Whatever its size or type, a well-governed scheme is likely to be better administered, to demonstrate a greater awareness of risk, and to act more effectively in members' interests. The outcome we therefore aspire to is that trustees should be well informed, capable and should be aware of potential risks, acting at all times in the best interests of their members. Our KPI over the three-year period is that:

There will be year-on-year improvement in the extent to which trustees demonstrate knowledge and understanding of the governance requirements for their schemes, as evidenced by surveys of knowledge, understanding and key aspects of governance.

Focus 2007-2010

During our first two years we have provided trustees and their advisers with extensive guidance and training on a range of governance issues through codes of practice, other guidance and a free e-learning programme for trustees, the 'Trustee toolkit'. Over the period of the plan we will continue to build upon our approach to regulated community learning.

The Trustee Knowledge and Understanding framework (code, scope and syllabus) has established the principle of active participation in learning. We will build on what we have already achieved and seek to influence the delivery of effective learning provision for trustees, tied into national learning and qualification frameworks. The online Trustee toolkit has received widespread praise and recognition. It fills a gap in the marketplace by targeting trustees, particularly in smaller schemes, with easily accessible information to better enable good governance of their scheme. We will ensure that the toolkit remains fit for purpose by maintaining and refining existing toolkit modules as appropriate, considering adding further modules as required, and actively seeking to increase take-up across the regulated community.

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Our core themes for the Corporate plan 2007-2010 *continued...*

We will continue to build on these firm foundations throughout the three-year period by:

- * **issuing a consultation paper on our approach to governance** in April 2007 which sets out how we see our education and guidance activity evolving further as well as our priorities for intervention. These initiatives will evolve further over the period as we obtain feedback from surveys, our own experience and a wide range of other sources;
- * **completing and embedding our Administration and Governance regulatory practice**, the organisational function that leads on interventions with schemes and others in the pensions community;
- * **building trustee awareness, skills and behaviours** through working in partnership with other bodies in the pensions community, on the basis of the foundations provided by the core scope of trustee knowledge and understanding to date. We will promote and provide future updates to the Trustee toolkit. Consequently, there should be ready access to a diverse range of training provision;
- * **working with professionals involved in pension scheme wind-ups** with the aim of reducing the time taken to wind up schemes. We will set a target of two years to complete the main procedures in scheme wind-ups and monitor the achievement of this target; and
- * **refining the education, guidance and support we provide to trustees** by keeping abreast of developments in legislation and the market and assessing the implications for pension scheme governance.

Address the risks to DC scheme members

We have identified five key risks common across DC schemes that can have a direct impact on the level of benefits following retirement:

* **Administration**

Contributions must be paid and allocated accurately and on time, and high standards of record-keeping are essential;

* **Investment**

Inappropriate investment choices, or failure to monitor investment performance, can have a significant impact on a member's pension fund;

* **Charges**

A DC scheme may incur a range of charges and fees. There is a danger that these charges are not transparent and hence that trustees and members cannot judge whether they are proportionate to the benefits received;

* **Retirement choices**

On retirement, members may fail to choose a suitable type of annuity. As a result, they may not get the best value for the fund they have built up; and

* **Member understanding**

Members need to be equipped with the right level of information and understanding to enable them to make appropriate decisions about crucial aspects of their pensions.

In the DC area, the focus for the regulator is to raise awareness of potential risks to members, and to ensure that those responsible for running DC schemes take action through sound administration and good communications. Our key performance indicator over the next three years is therefore that:

Trustees and others involved in running DC schemes (such as providers, administrators and employers) will have a clear understanding of the significant risks inherent in such arrangements, especially in relation to administration, member awareness and investment, and how they should be mitigating them.

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Our core themes for the Corporate plan 2007-2010 *continued...*

Our approach was set out in the consultation document issued in November 2006, and involves activities under three key headings:

* **Education and guidance**

Providing information and practical guidance to help those running and providing DC pension schemes to understand and address the risks to members;

* **Partnership working**

The regulator is not the only body providing initiatives for better run DC schemes, and we want to continue to build on our partnership with other parts of government and the industry to provide workable solutions; and

* **Intervention**

As a last resort, where there are serious risks to members. This includes working with individual scheme trustees and public reporting of third parties where appropriate.

As education is such a key focus of our approach, we do not believe that our proposals will increase regulatory burdens, nor create new costs for business.

Focus 2007-2010

We will continue to develop the infrastructure needed to help us deliver on this theme, paying particular attention to the responses to the consultation exercise, an analysis of which we have published in April 2007. In particular, this will highlight our priorities for issuing guidance, building partnerships and tackling issues through other forms of intervention. We will implement these priority actions in conjunction with developing our operational capability.

As we move towards 2012, we expect to be increasingly involved in helping with the development of Personal Accounts and considering how their implementation will change the dynamics of the DC market and the risks facing members. Our aim is that the improvements we have pursued in the DC market will provide a sound foundation for the introduction of Personal Accounts.

Deliver effective risk-based regulation

Our risk-based approach to regulation requires us to be proactive and flexible. We prioritise and target our resources according to risk, and do not devote resources unnecessarily to 'tick box' supervision.

The rationale for this risk-based approach relates to the demography of the pensions landscape. There are around 91,000 private sector occupational pension schemes. Whilst the 1,800 largest schemes (1,000+ members) comprise fewer than 2% of the total number of schemes they contain over 85% of scheme members.³ This means that we have a relatively small number of schemes with the bulk of scheme members, and a long tail of much smaller schemes. This informs our decisions on how we regulate, for example by proactively targeting the biggest schemes and focusing more on education and support for the smallest schemes to promote high standards and to prevent problems from developing.

The delivery of effective regulation demands that we work proactively to gather data about schemes, and take appropriate and proportionate action to mitigate risks. We both work with others and undertake our own research to help us identify developing trends and their implications for pension schemes.

In order to use our resources effectively we categorise the schemes we regulate according to the risks they pose to members and the types of intervention that will be appropriate and practicable. The model we have developed for this purpose is the 'risk and intervention' model (see figure 2). This takes into account our assessment of both the level of risk posed by a scheme and the potential impact on scheme members should the risk materialise.

In support of the risk and intervention model we have also developed our key risks landscape model as a means of categorising risk types in line with our strategic themes. The various risks are mapped against our regulatory response and policy developments then prioritised according to our intervention model guidelines. Our interventions take an educative, enabling or enforcing nature.

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³ Internal figures based on scheme returns and registry data as at 1 April 2007

Our core themes for the Corporate plan 2007-2010 *continued...*

* **Education**

We work to develop an understanding of how we expect trustees, employers and their advisers to mitigate the risks through codes of practice, specific good practice guidance, our e-learning Trustee toolkit and communication campaigns including road shows. To ensure the effectiveness of our educational work, we work hard to maximise its credibility and uptake through extensive research and consultation and by using a variety of channels;

* **Enabling**

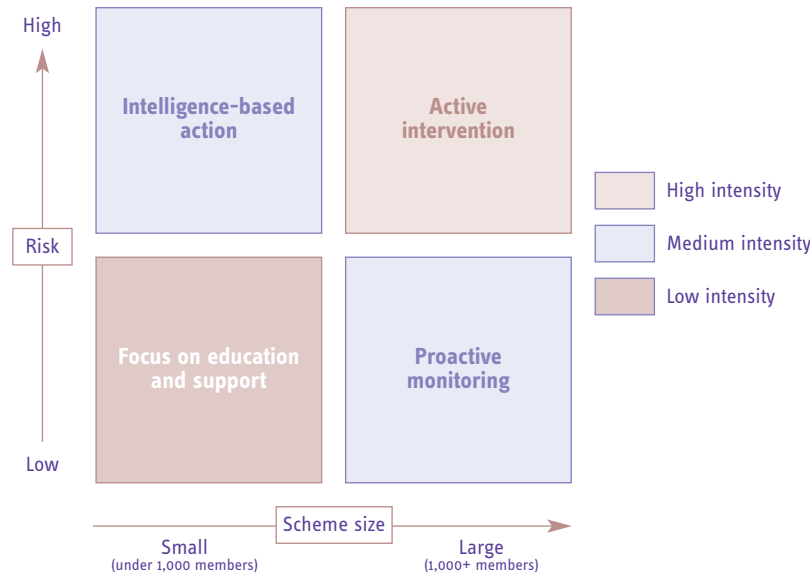
We help trustees and others to manage scheme specific risks through our customer support function, proactive communication with targeted schemes and service providers, and the strengthening of trustee capacity in negotiations with employers. To ensure the effectiveness of enabling activity we therefore work hard to deliver a responsive and professional customer experience; and

* **Enforcement**

We engage actively in cases where serious risks are apparent, using our powers (or the threat of them) to change behaviour or secure redress, but usually as a last resort. We seek to ensure that there is good awareness of when we will consider acting in this way. We have processes in place to ensure that our approach and enforcement is consistent, proportionate and targeted.

Further information on our view of risks can be found in Appendix 1 on page 47.

Figure 2
The risk and intervention model



Large schemes (around 1,600 DB and hybrid, 220 DC)

There are likely to be a few hundred schemes in active intervention, having individual case management.

Whilst the immediate risk is seen to be acceptable, it is prudent to proactively monitor these large schemes.

Small schemes (around 8,800 DB and hybrid, 80,800 DC)

For low risk small schemes the emphasis is education and support.

Intelligence-based action is taken where we believe that scheme specific intervention is advisable, examples being fraud, gross mismanagement or generic problems with an individual trustee.

Focus 2007-2010

Over the next two years there will be significant levels of activity associated with recovery plan receipt and the subsequent follow-up actions. This has the impact of increasing our resource requirements. However, we look to a gradual decline in resources overall, everything else being equal, as we embed the change programme from our legacy organisation Opra, complete the programme of explaining our approach, and clarify our expectations to the marketplace.

In practice, the pensions market is fast-moving and can be expected to respond to our regulatory efforts in a variety of ways, some of which may have the potential to increase rather than decrease risks to members' benefits (for instance through identifying new ways of avoiding liabilities). Legislation will also evolve, at the very least through the introduction of Personal Accounts. As a result, the balance and nature of our activities may also change during the period. During 2007-2008, the culture change initiative that enabled us to effectively transform from our legacy organisation will be complete. During the Corporate plan period, we will move towards embedding continuous improvement into our business plans, through which we will look to serve our customers increasingly effectively and economically.

Looking ahead: the pensions landscape

Types of pension provision

Our view of the pensions landscape was set out in detail in our Medium term strategy. The key elements are summarised below.

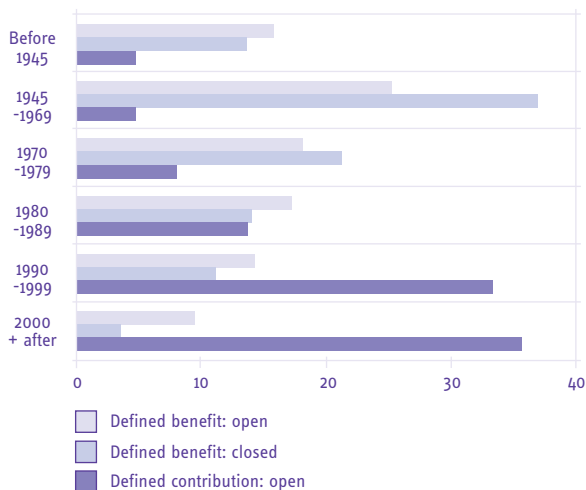
The shift away from DB

Increasing longevity combined with changed market conditions and revised accounting requirements has substantially increased the cost of DB provision and the impact of those costs on employers. Consequently many employers have shifted away from DB, as shown in figure 3 below, and over 58%⁴ of schemes have now closed to new members.

The pressures driving scheme closure are unlikely to lessen significantly in the coming years. While some employers may wind up their schemes altogether, the costs of doing so are such that most employers are likely to continue to run on 'legacy' DB schemes. Consequently the DB private sector, which currently has nearly 15 million members and assets of over £800bn,⁵ will continue to be a significant feature of the pensions landscape.

Figure 3

Foundation dates of private sector occupational pension schemes¹ by status and benefit structure²



¹ Schemes with 12 or more members only.

² Data for closed defined contribution schemes are not considered reliable enough to publish.

Source: ONS Pensions Trends Survey 2005

⁴ Data source: *The Purple Book - DB pensions universe risk profile 2006*
A joint study by the Pensions Regulator and Pension Protection Fund focusing on risks faced by DB pension schemes, predominantly in the private sector. This is based on a data set of around 5,800 schemes, representing over 50% of the likely schemes in the DB universe, but over 85% of the membership and pension fund liabilities given the inclusion of nearly all large schemes

⁵ Data source: *The Purple Book - DB pensions universe risk profile 2006*

The shift to DC (and hybrid arrangements)

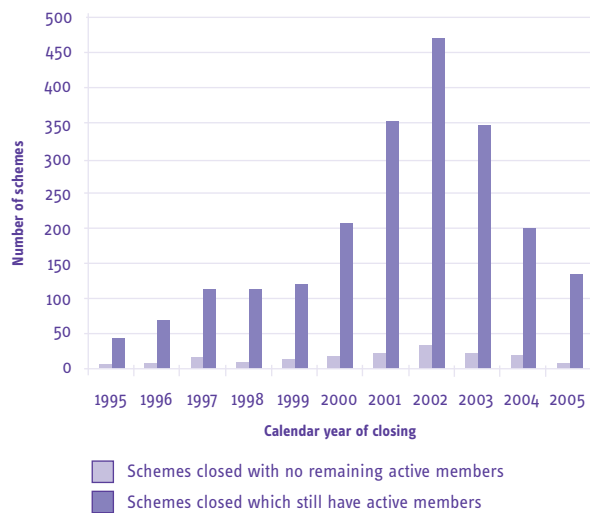
The majority of employers closing DB schemes are replacing them with DC schemes. There are already over 5 million DC members in the private sector, and the number of active DC members is now on the way to exceeding the number of active private sector DB members.⁶

The key implication for trustees and members is that DC schemes have different risks to DB schemes. One such difference relates to the quality of administration:

- * this can involve complex banking and accounting processes, where the timeliness and accuracy of the payment and allocation of contributions is essential in order to ensure that the correct fund value is attributed to individual members; and
- * if there are administrative errors, they have the potential for being very costly and time consuming to rectify, especially if the error has persisted for some time and many members are involved.

The rates of scheme closures are shown in figure 4 below.

Figure 4
Number of schemes in sample closing by year



Note: chart only includes schemes that are completely closed. It excludes around 600 schemes in the scheme return that are part closed. The return provides insufficient information to establish year of part closure and whether it is closed to DB or DC.

⁶ Predictions based on a flat rate shift from DB to DC show equal numbers by 2012, although in reality the trend is increasing

Our core themes for the Corporate plan 2007-2010 *continued...*

The shift from trust-based to contract-based

There is evidence of a trend for employers, particularly smaller to medium sized firms, to switch from trust-based arrangements to contract-based personal pensions and stakeholder pensions. This trend is still in its infancy but contract-based arrangements appear set to be an increasingly important element within the work-based pensions environment. For example, new group personal pensions sales grew by 32% from Q3 in 2005 to Q3 in 2006.⁷ Many regulatory responsibilities for personal pensions fall to the FSA, but there is a role for the Pensions Regulator as well. The two organisations will continue discussions with the aim of meeting their respective objectives.

The development of a national pensions saving scheme (Personal Accounts)

A major challenge for government is that over 40% of the working population⁸ do not participate in a work-based pension scheme at all. The planned introduction, from 2012, of Personal Accounts is intended to address this gap.

For example, many very small employers not currently engaged with pensions will need to offer pensions to their staff for the first time and will be required to make a mandatory employer contribution. The requirements to automatically enrol all employees and pay a minimum employer contribution will also apply to existing pension schemes. The Pensions Regulator is in dialogue with DWP regarding the regulatory implications of the proposed scheme of Personal Accounts.

⁷ Data source: ABI press release, 24 November 2006

⁸ Data source: Turner report on pension provision, 2006

Scheme funding issues

Scheme deficits

Scheme underfunding can put members' benefits at risk. It also leads to increased costs for schemes through PPF levies and presents a systemic risk to the PPF itself. The scheme specific funding requirements in the Pensions Act 2004 place much greater demands on trustees and employers, requiring them to make a prudent valuation of their deficits and to address them.

Although deficits have reduced due to substantial increases in employer contributions and improved market conditions, they are still substantial. The level of funding was discussed in the *Purple Book*, and figure 5 summarises overall funding levels against s179, FRS17 and full buy-out levels.

Figure 5
Overall funding levels

	s179	FRS17	Full buy-out
Total schemes	5,772	5,772	5,772
Total assets £bn	635.5	635.5	635.5
Total liabilities £bn	669.2	724	1,075.8
Aggregate deficits £bn	-33.8	-88.6	-440.4
Total deficits for schemes in deficit £bn	-76.3	-110.6	-440.6
Total surpluses for schemes in surplus £bn	42.6	22.1	0.3

The schemes in the above sample comprise over 85% of private sector DB schemes by membership (as at 31 March 2006). In general, schemes included in the data set are larger than those that are not.

Analysis suggests that smaller schemes generally have lower funding levels (see figure 6).

Figure 6
s179 funding levels at 31 March 2006 by scheme size

Scheme size measured by number of members	Schemes in sample	Market value of assets £bn	Total s179 liabilities £bn	Surplus /deficit £bn	Aggregate funding level	Average funding level
5 to 99 members	1,812	6.2	7.7	-1.4	81%	81%
100 to 999 members	2,799	53.2	65.8	-12.6	81%	78%
1,000 to 4,999 members	756	87.0	101.9	-14.9	85%	83%
5,000 to 9,999 members	175	60.0	67.0	-7.0	90%	89%
10,000+ members	230	429.0	426.9	2.1	100%	96%
Total	5,772	635.5	669.2	-33.8	95%	80%

Note: the data is based on GAD estimates of scheme assets and liabilities based on MFR data for a majority of the schemes in the sample.

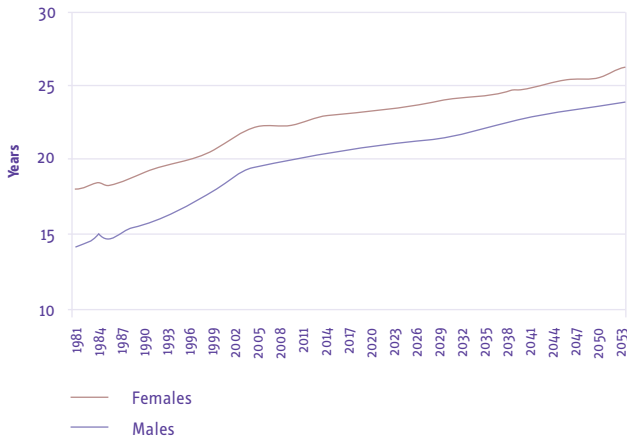
Average s179 funding levels fall from 96% for schemes with more than 10,000 members to 78% for schemes with between 100 and 999 members.

Our core themes for the Corporate plan 2007-2010 *continued...*

Increased longevity

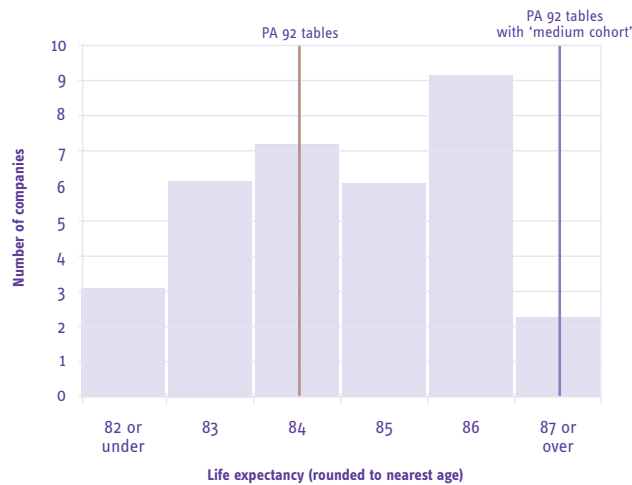
Increasing life expectancy continues to be a key driver in increasing the liabilities for schemes. Each year's increase in longevity can add 3-4% to scheme liabilities⁹ and therefore has a very significant effect on deficits. In the past, increased longevity has tended to be understated by schemes (see figures 7 and 8) and this can represent a risk to members' benefits.

Figure 7
United Kingdom cohort life expectancy for males and females at 65



Source: GAD

Figure 8
Life expectancy assumptions used by FTSE 100 companies



Source: Lane Clark & Peacock - Accounting for pensions 2006

The PA 92 mortality assumptions are prepared by the Continuous Mortality Investigation Board of the Institute and Faculty of Actuaries. The medium cohort assumptions take into account the observation that the biggest improvements in mortality in recent years have occurred for those born between around 1925 and around 1945.

⁹ Data source: *The Purple Book - DB pensions universe risk profile 2006*

The high level of corporate change

Merger and acquisition (M&A) activity, and other forms of corporate restructuring, are at a historically high level. For companies with a DB pension scheme such transactions may reduce the ability of the scheme sponsor to make good any pensions deficit or to meet its obligations if the scheme winds up. The regulator has extensive powers to act in such cases.

Research by Accenture and the Economist Intelligence Unit suggests that the level of M&A activity will continue at a high level, with a prediction by a third of respondents that such activity will account for over 20% of revenue growth over the next three years.¹⁰

Risk transference

The burden and risks on employers of supporting DB schemes provide an incentive for new products and developments to reduce risk or volatility by transferring risk (at a price) to a third party. Many of these should be welcomed as positive for scheme members and the PPF but there are potential risks, especially if they result in the employer abandoning its liabilities. The trustee role in protecting members' interests is key.

¹⁰ Data source: Accenture and Economist intelligence Unit, 2006 Global M&A Survey

Scheme governance and wind-up

Governance

In view of the importance of scheme governance to our objectives we are tracking changes in governance standards through our annual survey of trustees. The survey in 2006¹¹ showed there is a strong correlation between better governance and trustee training provision. For example, there was a 43 percentage point difference between schemes whose trustees had had advanced training (84%), compared with those who had not (41%), who strongly agreed with the statement that ‘the trustee board regularly reviews its investment strategy’.

The survey also concluded that there are significant gaps in the governance arrangements of some, especially smaller, schemes.

Wind-up

Winding up a scheme is complex, and in many cases has been a lengthy process. Protracted wind-up adds to the risks to members’ benefits, especially where members are eligible for the Financial Assistance Scheme. The DWP has been in discussion with the industry and other parts of government, including the regulator, and has proposed a target wind-up timeframe of two years. We will be playing a full part in ensuring that schemes meet this target.

¹¹ Data source: The Pensions Regulator’s Occupational pension scheme governance survey, September 2006

Government and legislative developments

Regulatory impact

The Government, employers and trustees are understandably concerned that the costs of complying with pensions legislation are not disproportionate to the benefits. We are committed to taking forward the Hampton review, seeking to regulate more efficiently and to reduce the burden on the regulated community. Wherever possible, we have embedded the five principles of better regulation (being proportionate, accountable, transparent, consistent and targeted) in our business plan.

New legislation

Pensions Bills in 2007 and 2008, associated with Personal Accounts, will provide DWP and the regulator with the opportunity for other legislative changes, necessitating significant regulatory input. In particular, the DWP deregulatory review will provide the opportunity to streamline regulation and reduce regulatory burdens.

European developments

EU legislation has already had a substantial impact through the implementation of the Institutions for Occupational Retirement Provision directive. The European Commission, and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) that it sponsors (on which the Pensions Regulator sits), will be reviewing how the directive is being implemented and looking for further means of harmonisation, both through the directive itself and through a proposed new Portability directive.

Regulatory performance

Overview of achievements in the first two years of operation

The Pensions Regulator has been in operation for two years and has delivered the key achievements described below.

2005-2006

The first year of operation was characterised by the dual requirement of providing an effective operational capability from day one, while developing appropriate plans and processes for the future. We took over from Opra, and were faced with the challenge of reshaping the old organisation into one with a more proactive and risk-based role. There was a significant programme of investment to help deliver the objectives that Parliament had set us.

A particular challenge was to provide, from day one, arrangements for providing timely clearance to corporate transactions where we might otherwise use our new anti-avoidance powers. In our first year we granted clearance in almost 150 cases and refused it in only two. There were also many hundreds of enquiries and exploratory cases considering the nature and materiality of transactions and whether they fell within the scope of the clearance process. Our customer surveys have since shown a high level of user satisfaction with our professionalism and our responsiveness in providing clearance.

We launched the first modules of the Trustee toolkit e-learning programme for trustees which have been very well received by the pensions industry. At the end of our first year it was pleasing to see that research¹² confirmed broad satisfaction amongst the regulated community with the way the regulator has developed, with, for instance:

- * 70% of respondents rating their understanding of our role as good; and
- * 78% of respondents agreeing that we are a trusted source of information.

It was equally gratifying to see the extent to which our workforce had risen to the challenge of new roles and new ways of working.

2006-2007

2006-2007 has been a year of addressing the challenges we face as a risk-based regulator. Here we summarise our achievements during the period, a more detailed analysis being found in our annual report and accounts.

Strengthen DB scheme funding

We have made significant progress by:

- * influencing, guiding and educating trustees, employers and their advisers through a series of road shows and speaking engagements, so that they are better able to implement the new funding framework;
- * developing our approach and processes for filtering incoming recovery plans, with an emphasis on highlighting those schemes needing attention; and
- * proactively establishing contact with FTSE100 company schemes which have imminent valuations.

¹² Data source: The Pensions Regulator's Perceptions tracker survey, March 2006

Improve governance of work-based pension schemes

Our aim in 2006-2007 has been to bring together all the strands impacting the governance of pensions and then to take forward the high priority elements. We have sought to deepen our own and the pension community's understanding of governance issues, through an annual survey of governance designed in consultation with experts in the field. Our first Governance Survey was published in September 2006 along with our analysis of its implications for our regulatory approach.

One of our most important achievements has been to put in place the bulk of our Trustee toolkit e-learning programme, by publishing eight modules. We have built on this initiative through partnerships with education bodies and the pensions industry to improve trustee skills and knowledge.

In specific cases, where required, we set out to appoint independent trustees; to date we have appointed 36 independent trustees. We can also prohibit trustees where appropriate.

Reduce risks to DC scheme members

2006-2007 objectives were to undertake research to identify and quantify the risks facing DC schemes, to issue a consultation paper on our strategy for addressing these risks, and to work with DWP to help inform the design of new pension arrangements.

Following our research, we published the consultation document in November 2006, and set up a DC industry working group to help take forward agreed actions during consultation. We have actively contributed to DWP's consultations on the design and delivery of Personal Accounts and exemptions for existing schemes.

Deliver effective risk-based regulation

Our objectives for the year focused on building relationships with our stakeholders and customers, informing the pensions community on key issues and mitigating risks for work-based pensions. In particular, we have developed the regulatory framework for DB scheme funding and embedded our 'triage' function for risk-assessing incoming data and reports. During the year we have further developed key strategic relations across the pensions community and with representative bodies and other regulators. Our survey of stakeholders during 2006 showed that most key stakeholders are satisfied with these relationships.

Outside the UK we have played a full part in CEIOPS and its Occupational Pensions Committee as well as the International Organisation of Pension Supervisors (IOPS) which we currently chair.

We have been active in informing the pensions community; for example, we published ten statutory codes of practice, held road shows, spoke at conferences, published research-backed publications and chaired liaison meetings. We also worked with the Pension Protection Fund in publishing, in December 2006, the '*Purple Book*' which sets out the DB universe risk profile. This was the first such publication, and had over 95,000 downloads in the first three months.

Business plan 2007-2008

Set out below are the key business plan objectives, aligned to our Medium term strategy themes, and the associated corporate performance measures for 2007-2008.

The objectives for the year have been derived from our three-year key performance indicators which were set out in the MTS. Performance measures have been established for each objective. These measures drive performance reporting across the organisation for the year. A summary of activities is also included to demonstrate how we will manage the achievement of the objectives.

How we measure our performance

Our aim is to measure, so far as practicable, the outcomes of our regulation, both in terms of what we have achieved (themes 1-3) and how our stakeholders perceive our performance (theme 4). Measuring achievement, especially over a one-year time frame, is not straightforward. For example, it is impractical to measure the precise regulatory role in achieving the ultimate outcome of protecting members' benefits, because:

- * pensions are a long term investment, and it may be decades before it becomes clear whether members have received their full benefits; and
- * other factors over which we have no or minimal impact will strongly influence the outcome, for instance, in relation to market movements or corporate insolvencies.

Instead we measure more intermediate outcomes that we believe will impact positively on the ultimate outcome. In particular we believe that:

- * ensuring that schemes are funded more strongly, in accordance with legislation, will reduce the vulnerability of members and the PPF to adverse changes to the sponsoring employer;
- * promoting better governance will reduce the likelihood of schemes being underfunded or of administrative failings that impact on members' benefits; and
- * increasing understanding of the risks to DC schemes, and how to manage them, will reduce the likelihood that such risks will materialise.

As there is a time-lag between our actions and these intermediate outcomes becoming apparent, we also measure some key enablers of our ability to deliver these outcomes. In particular, we measure the delivery of key outputs and the credibility of the regulator, as we believe that these should help enable the outcomes we seek to achieve.

Further details of the business plan are shown in the following tables.

Theme 1: Strengthen DB scheme funding
<i>Objective for 2007-2008</i>
The regulator ensures that the valuation process is adopted and completed in line with legislative and code requirements and that trustees fulfil their role in this process.
<i>Performance indicator</i>
Trustees, employers and their advisers understand the scheme funding arrangements.
<i>How we will measure performance (Corporate)</i>
<p>Results of the annual Perceptions Tracker Survey on ‘understanding of the new DB scheme funding arrangements’ show increased percentage of positive responses for the following audiences:</p> <ul style="list-style-type: none"> * Lay trustee: increase from 61% to 70% * Professional trustee: increase from 76% to 90% * Employers: increase from 63% to 75% * Pension scheme actuaries: remains at over 98%
<i>Key activities</i>
<ul style="list-style-type: none"> * Deliver communications to key target groups, specifically trustees, members, advisers and employers, which raise awareness and understanding of DB funding arrangements. Embrace all communication channels, including media, web, direct communications, stakeholder briefings and events. * Underpin communication activities with environmental scanning of how the market is responding to scheme funding challenges, delivering consistent messages on those issues where problems are becoming apparent. * Produce and update policies and guidance aimed at strengthening DB funding, in a way that reflects the practical learning in the first two years of the regulator’s operation, and communicate guidance effectively to the appropriate stakeholders. * With the PPF, produce the <i>Purple Book</i> which informs the development of regulatory responses and how they should be communicated, as well as improving understanding within the pensions community and wider marketplace. * Improve the way that the regulator handles contact with trustees. Monitor effectiveness through survey material.

Theme 1: Strengthen DB scheme funding *continued...*

Objective for 2007-2008

The regulator ensures that the valuation process is adopted and completed in line with legislative and code requirements and that trustees fulfil their role in this process.

Performance indicator

All schemes due to have completed the valuation process have done so in line with requirements and put in place recovery plans where appropriate.

How we will measure performance (Corporate)

100% of the schemes we expect to submit a recovery plan are made aware of funding and code requirements.

Key activities

- * Conduct proactive campaigns to inform and remind scheme trustees and their advisers of their responsibilities in completing the valuation process and the need to submit a recovery plan where appropriate.
- * Proactively monitor the completion of valuations and the recovery plan process to ensure the expected returns are received by the statutory deadline. This will encompass the identification of recovery plans due and not received for follow-up. Action will be taken as appropriate.
- * Assess the recovery plans received using a mixture of qualitative and quantitative techniques to assess their appropriateness in the individual scheme circumstances and pursue further proportionate action as appropriate.

Theme 1: Strengthen DB scheme funding <i>continued...</i>
<i>Objective for 2007-2008</i>
The regulator ensures that scheme specific technical provisions are calculated in a prudent manner and recovery plans are appropriate.
<i>Performance indicator</i>
Scheme returns show an aggregate increase in scheme funding.
<i>How we will measure performance (Corporate)</i>
Annual review based on scheme returns submitted, comparing the aggregate funding of those schemes having been through the scheme funding process against those yet to submit.
<i>Key activities</i>
<ul style="list-style-type: none"> * Analyse recovery plans received to identify those which merit further scrutiny taking account of published statements on the regulatory approach. Where concerns are identified, seek more information on the trustees' justification for funding objectives or recovery plan form and duration, so as to influence the level of contributions proposed. If necessary justify the use of regulatory powers to secure an outcome that better protects members' benefits and the PPF. * Update and refine regulatory approaches to DB scheme funding in the light of experience of market developments from environmental scanning and other sources. * Provide input into reviews undertaken by other regulatory bodies in the UK and EU, including the ASB review of FRS17. Ensure that developments in accounting and European standards support the goal of providing clarity on scheme assets and liabilities in a way that drives positive behaviour from stakeholders while reflecting the support that schemes and members receive from employers and the PPF.

Theme 1: Strengthen DB scheme funding *continued...*

Objective for 2007-2008

The regulator ensures that appropriate mitigation is offered to minimise detriment to schemes involved in corporate transactions.

Trustees:

- * negotiate with employers; and
- * take and act upon professional advice.

Performance indicator

The market increasingly values the pensions creditor and understands the role of the regulator in corporate transactions.

How we will measure performance (Corporate)

- * For all clearance applications, scheme trustees and other stakeholders understand the corporate transaction, and have received and adopted professional advice where appropriate.
- * Follow up a minimum of 90% of proactive referrals, up to a maximum of 100 per quarter, to ensure that trustees and stakeholders are aware of their obligations.
- * Results of the annual Perceptions tracker survey on 'industry understanding of the regulator's powers and our role in relation to clearance' show increased percentage of positive responses for the following audiences:
 - * Lay trustee: increase from 55% to 65%
 - * Professional trustee: increase from 79% to 85%
 - * Employers: increase from 52% to 65%
 - * Pension scheme actuaries: increase from 69% to 75%
- * Results of Corporate risk management satisfaction survey: overall satisfaction results for 'the service you received' increases by 0.4 to 8.5 in total (maximum score is 10)

Theme 1: Strengthen DB scheme funding *continued...*

Key activities

- * Work with the main stakeholders, for corporate transactions that come for clearance, to ensure that the trustees recognise the importance of the pensions creditor and obtain appropriate mitigation. Encourage parties in corporate transactions to apply for clearance where appropriate (and signalled as such in guidance) through delivering added value in a professional and timely manner so that the clearance process is not seen as an undue hindrance.
- * Seek to identify cases where steps may have been taken to avoid the pensions creditor, and which may be subject to regulatory powers. Consider whether action would be appropriate from a risk-based perspective and take such action to prevent and deter avoidance.
- * Ensure that trustees, employers, advisers and other market participants are clear about the approach that the regulator takes to clearing corporate transactions and taking anti-avoidance action, through the preparation and dissemination of information and messages through appropriate channels, in particular by issuing revised clearance guidance.

Theme 2: Improve governance of work-based pensions

Objective for 2007-2008

The regulator promotes good governance of schemes by encouraging improvement of the knowledge and understanding of trustees, employers and their advisers and its translation into behaviours.

Performance indicator

Improvements in the governance of schemes, as measured by the annual governance survey.

How we will measure performance (Corporate)

Results of the annual governance survey on 'self-assessment of the trustee board's performance' show increased percentage of 'strongly agree' responses for the following:

- * **Trustee confidence**
Trustee understanding of roles and responsibilities (all schemes):
increase from 70% to 75%
- * **Managing conflicts**
Have appropriate processes in place to manage conflict of interests:
increase from 46% to 60% minimum
- * **Monitoring administration**
Manage the scheme's administration to ensure an acceptable level of service:
increase from 65% to 75%
- * **Risk management and internal controls**
Have effective, appropriate internal controls to manage risks:
increase from 51% to 65%

Theme 2: Improve governance of work-based pensions *continued...*

Key activities

- * Publish and implement the regulator's approach to governance, ensuring that it addresses all the key areas of risk identified from environmental scanning and pensions community feedback and that it reaches its targeted audiences.
- * Publish and publicise the results of the 2006-2007 Governance Survey in a way that highlights and communicates key learning for the regulator and the pensions community, and build on this survey in commissioning the 2007-2008 survey, in consultation with key stakeholders.
- * Complete and embed our Administration and Governance practice. This will ensure we are better placed to initiate and follow through education, enabling and enforcement actions targeted at identified risks to good governance and administration.
- * Ensure that enforcement action is taken in a way that is proportionate to the risks identified and is targeted at serious risks within the pensions environment.
- * Design and deliver targeted outbound communication campaigns that inform trustees and their advisers of their responsibilities, and better enable them to perform their role in line with legislation and the regulator's expectations.
- * Build partnerships with other pensions bodies and regulators to develop, communicate and implement initiatives to improve governance across areas of common responsibility.
- * Conduct further scanning and research to ensure that the regulator's strategy and guidance remains fit for purpose.
- * Support DWP in developing a revised legislative regime for disclosure that balances improvements in governance with reductions in burdens on business.

Theme 2: Improve governance of work-based pensions <i>continued...</i>
<i>Objective for 2007-2008</i>
The regulator promotes good governance of schemes by encouraging improvement of the knowledge and understanding of trustees, employers and their advisers and its translation into behaviours.
<i>Performance indicator</i>
The extent to which trustees and others value and use the Trustee toolkit.
<i>How we will measure performance (Corporate)</i>
<ul style="list-style-type: none"> * Establish standards of performance for trustees to feed into National Occupation Standards: scope and syllabus complete by Q2 2007. * Take-up target rises by 20% minimum year-on-year
<i>Key activities</i>
<ul style="list-style-type: none"> * Put together standards of performance for trustee learning to enable the Skills Council to take forward a co-ordinated approach to pensions skills learning, and use and communicate these as a means of encouraging the development of good practice in governance. * Maintain relationships with other agencies delivering governance learning to ensure there is a consistent message in the Trustee toolkit. * Develop and refine the regulator’s Trustee toolkit programme to ensure that it meets stakeholder needs, adding modules as required during the year, for example understanding the role of the PPF, responsibility during wind-ups, and the implications for trustees of new policies. * Publicise the Trustee toolkit on the regulator’s website, in press articles, features and other appropriate media in a way that encourages trustees to improve their knowledge and understanding. * For the use of the Trustee toolkit, establish a benchmark through the 2007 governance survey. The aim is to significantly improve the extent to which the Trustee toolkit is used by trustees in the 2008 survey results.

Theme 2: Improve governance of work-based pensions <i>continued...</i>
<i>Objective for 2007-2008</i>
The regulator reduces the time schemes take to wind up.
<i>Performance indicator</i>
There will be a 10% reduction, by April 2008, in the number of schemes in wind-up. (An initial tranche of 400 schemes will be used as a baseline. This covers all DB schemes that commenced wind-up before 1 Jan 2000.)
<i>How we will measure performance (Corporate)</i>
The regulator's wind-up casework statistics will show: <ul style="list-style-type: none"> * Number of visits to targeted administrators (to discuss action plans and issues) exceed 30 by April 2008; and * Number of other schemes in wind-up, of the targeted population, will have made significant progress towards winding up.
<i>Performance indicator</i>
All DB schemes commencing wind-up will have established a maximum two-year plan for wind-up.
<i>How we will measure performance (Corporate)</i>
The regulator's wind-up casework statistics.
<i>Key activities</i>
<ul style="list-style-type: none"> * Develop and deliver a communications strategy targeted at key audience segments that raises awareness of, and buying into, the regulator's expectations for timeliness of the wind-up process. * Agree processes with HMRC, DWP, NISPI and external providers to identify and track progress of schemes in wind-up. * Identify and target, in a risk-based manner, schemes in wind-up over two years so as to obtain and agree action plans for faster closure, paying particular attention to working with those professionals who would be most influential in enabling faster wind-up, and taking appropriate action where there is insufficient co-operation.

Theme 3: Address risks to DC scheme members
<i>Objective for 2007-2008</i>
Provide further education and guidance, developed in partnership with the industry and other regulatory bodies, to cover the five key risks, tailored to the relevant audiences.
<i>Performance indicator</i>
Improvement in trustee understanding and action to address key risks as measured by the governance survey and DC research
<i>How we will measure performance (Corporate)</i>
<p>Results of the annual governance survey show an increase in positive responses for the following:</p> <ul style="list-style-type: none"> * Overall ‘How do you rate your understanding of the risks to DC schemes?’: increase result from 70% to 80% * Administration practices ‘The board of trustees manages the scheme’s administration to ensure an acceptable level of service’: maintain ‘agree’ results during our educational activities at over 95%. Improve the proportion of schemes having formal reviews at least every three years in relation to: <ul style="list-style-type: none"> - Appropriateness of investment choices offered to members: improve result from 71% to 80% - Level of fund charges: improve result from 74% to 80% - Performance of investment funds offered to members: maintain result at 85% * Member understanding We will work to explore, with other partner organisations, how we can establish a suitable baseline measure of member understanding. A new DC specific survey, to be undertaken in 2007, will provide baseline performance measures across all areas of DC risk.
<i>Performance indicator</i>
Achievement of education and guidance to address the key risks across each audience segment.
<i>How we will measure performance (Corporate)</i>
Delivery of the focused DC education and guidance as set out in the DC consultation exercise.

Theme 3: Address risks to DC scheme members *continued...*

Key activities

- * Develop and publish best practice guidance to help trustees, employers and their advisers to address the risks to DC schemes effectively. Ensure that this guidance and other key messages are communicated effectively to target audiences through a range of channels.
- * Finalise the approach to regulating DC schemes, publishing an analysis of consultation responses and a further update later in the year which also draws on environmental scanning and research into the prevalence of risks and ways in which they can be effectively addressed.
- * Work closely with other regulators and bodies in the pensions community to ensure a coherent overall approach to tackling DC risks, including continuing to lead the DC consultation working group.
- * Design and implement proactive approaches and supporting policies to address DC risks at scheme and provider level.
- * Continue to work closely with the FSA to develop and implement an approach in relation to contract-based schemes.
- * Develop and commission a DC governance survey so as to fill gaps in the regulatory and industry knowledge base on DC and to enable performance to be measured.
- * Deliver a customer-focused DC communications campaign based around publication of good practice guidance, and development of policies around the use of powers and interventions in DC schemes. Monitor progress across the key areas of risk.

Theme 4: Deliver effective risk-based regulation

Objective for 2007-2008

The regulator further enhances and strengthens its position as an authoritative and proportionate risk-based regulator.

Performance indicator

The regulator is seen to be authoritative and demonstrates improvements in the five principles of good regulation, as evidenced by media tracking, reputation research, qualitative research and brand awareness.

How we will measure performance (Corporate)

Results of annual Perceptions tracker survey show an increase in positive responses for the following:

* **Overall**

'The regulator is a trusted source of information'
- increase from 78% to 85%

* **Proportionate**

'The regulator's actions are proportionate to the risk posed'
- increase from 43% to 55% minimum
'The regulator is focused on the most important risks to members'
- increase from 61% to 70%

* **Accountable & transparent**

'The regulator explains clearly why decisions have been made'
- increase from 49% to 60%

* **Consistent**

'The regulator is consistent in its approach to enforcing regulations'
- increase from 51% to 60%

* **Targeted**

'The regulator is proactive in reducing risks to members benefits'
- increase from 55% to 65%

Theme 4: Deliver effective risk-based regulation *continued...*

Key activities

- * Apply the risk and intervention model in line with agreed policies, processes and business rules throughout the regulator so as to be able to demonstrate that regulatory intervention is consistent and proportionate. Refine the model as appropriate.
- * Deliver a programme of research and environmental scanning that ensures that the regulator is fully abreast with trends and developments in pensions and can adapt its risk model and communications accordingly.
- * Play a full part in supporting developments in government pensions legislation and policies, especially in relation to deregulation, so as to help streamline and improve the overall regulatory framework in a way that is consistent with the regulator's statutory objectives.
- * Strengthen the regulator's capability to play its part in influencing developments in the EU and other international forums so that these have a positive impact on the ability of the UK private sector to deliver pensions.

Theme 4: Deliver effective risk-based regulation <i>continued...</i>
<i>Objective for 2007-2008</i>
The regulator further enhances and strengthens its position as an authoritative and proportionate risk-based regulator.
<i>Performance indicator</i>
The delivery of an over-arching communications approach which reaches the required target audience.
<i>How we will measure performance (Corporate)</i>
<p>Measure improvements in knowledge, behaviour and audience perceptions through:</p> <ul style="list-style-type: none"> * media tracking * use of existing surveys and research * communications campaign effectiveness * internal MI, eg Triage and Customer support monitoring * website monitoring <p>Measurement across all Corporate plan themes.</p>
<i>Performance indicator</i>
The delivery of the 2007-2008 programme of projects to embed and enhance operational capability.
<i>How we will measure performance (Corporate)</i>
<p>The status of each project is monitored by a 'RAG' status report with status maintained or improved. These projects are:</p> <ul style="list-style-type: none"> * the publication of education and guidance materials we have committed to produce * culture change programme enabling the organisation, its systems and processes to move to a risk-based approach * smaller projects as appropriate
<i>Performance indicator</i>
The delivery of service level standards in our interaction with external customers.
<i>How we will measure performance (Corporate)</i>
Customer satisfaction survey results will be baselined and service level standards set in 2007.

Theme 4: Deliver effective risk-based regulation *continued...*

Key activities

- * Develop and deliver a communications strategy that is focused on disseminating key messages to targeted audiences. Refine the approach on the basis of feedback from surveys and the outcome of campaigns.
- * Complete the final stages of large scale systems and process building and monitor delivery of the systems to ensure that they deliver their objectives and the planned benefits.
- * Ensure that departmental and individual objectives remain aligned to corporate objectives, and that they are reviewed regularly.
- * Continue to enhance and improve the customer support function so as to manage reactive enquiries for customers and intelligence requests in line with agreed service standards.

Theme 4: Deliver effective risk-based regulation <i>continued...</i>
<i>Objective for 2007-2008</i>
The regulator reduces the regulatory burden by demonstrating value for money.
<i>Performance indicator</i>
The business delivers continuous performance improvements in key business processes; it establishes and delivers improvement objectives and measures, and reports outcomes to agreed time, cost and quality measures.
<i>How we will measure performance (Corporate)</i>
Delivery of a performance improvement infrastructure which results in continuous improvement targets being set and achieved.
<i>Performance indicator</i>
The administrative burdens of scheme returns and paying levies are reduced.
<i>How we will measure performance (Corporate)</i>
<ul style="list-style-type: none"> * Regulator's cost per scheme return reduced from £85 to £50 * Scheme returns completed on time increases from 57% to 70% (covering 90% of membership) * Regulator's cost per levy invoice reduced from £12 to £10 * Regulator's cost per £1,000 collected reduced from £24 to £20. * Reduce the frequency of credit notes by 25% * The average number of data items per scheme return is reduced from 90 to 50 (DC schemes only). * All scheme returns will be submitted via self-service web-based forms. * 100% of levy collected by 31 March 2008. * There will be a 15% reduction in levy average debtor days.
<i>Performance indicator</i>
Workforce competencies and behaviours enable delivery in line with business objectives as measured by results and engagement.
<i>How we will measure performance (Corporate)</i>
Results measure - staff in leadership roles have 95% of the competencies specified as measured with 360 degree feedback process
Engagement - maintain the level of staff satisfaction at no less than 60% as measured by the annual staff survey

Theme 4: Deliver effective risk-based regulation *continued...*

Key activities

- * Embed continuous improvement throughout the regulator and monitor progress towards achieving improvements to customer service and efficiency.
- * Implement key improvements to the processes for collecting scheme returns by delivering the scheme returns and levy project to agreed outcomes.
- * Refine and deliver the HR strategy, in particular to support sustaining the flexible resourcing model, succession planning and investment in developing the skills and knowledge needed by the business.
- * Continue to develop the performance of staff through the performance development approach, supplemented by the introduction of 360 degree feedback during 2007.

Resource summary

Financials

Levy

The Department for Work and Pensions (DWP) funds the Pensions Regulator by a levy payable by pension schemes. The regulator collects various levies on behalf of the Secretary of State for Work and Pensions and the Pension Protection Fund (PPF). The general levy covers the running costs and capital expenditure of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman. The PPF administration levy covers the running costs and capital expenditure of the PPF.

The Pensions Regulator will continue to collect any levies due in previous years which were outstanding on 31 March 2007.

Culture change programme

The change from compliance-based regulation in Opra to risk-based regulation in the Pensions Regulator has necessitated development of new systems, processes and ways of working. This has been, and continues to be, achieved through the implementation of the culture change programme. Expenditure of up to £2.1m in 2007-2008 will be for the residual work outstanding at the end of 2006-2007 and is included in the budget below.

Projected budget for 2007-2010

The following budget includes estimates of efficiency savings through the planned reduction in resourcing and shows an overall slight decline in resource requirements over the period.

Figs in £,000	2007-2008	2008-2009	2009-2010
Staff costs	20,570	18,873	18,333
Non-staff costs	10,485	10,004	10,192
Capital expenditure	1,520	900	900
Total requirement	32,575	29,777	29,425

Staff costs include salaries, training, travel and other personnel costs. A detailed budget of 2007-2008 established during operational planning is given at Appendix 2 on page 51. This is in line with the GIA submission.

Human resources

Our HR strategy

Our HR strategy enables us to deliver a flexible, mixed resourcing model to support our risk-based approach to regulation:

Flexible resourcing allows us to allocate resources readily to target the greatest risks

Mixed resourcing means our core permanent workforce is supported by secondees from other regulators and the pensions industry, along with specialists for specific initiatives

Our flexible resource approach

Our people model allows the organisation to optimise and develop our core workforce. People are deployed where the operational need is greatest and their development is enhanced by working alongside industry and subject matter specialists.

We anticipate a reduction to 267 FTE by April 2010, as shown in figure 9 below. This will be achieved by reducing staff numbers in 2008-2010 through efficiency gains, mainly by improving processes and introducing best practice, and by potential outsourcing arrangements, together with planned resource re-profiling between teams. However, there are a number of challenges ahead and the pensions regulatory landscape could change over the period of this plan. We believe that our flexible and mixed resourcing model is best placed to respond to this potential changing environment.

Figure 9

The Pensions Regulator's workforce profile 2007-2010



Resource summary *continued...*

Workload assumptions

The figures in the table below are the estimated workload volumes for the key activities undertaken by the regulator. In delivering these key activities our service standards for Customer support are to:

- * Answer 80% of incoming calls in less than 20 seconds;
- * Have lower than 5% abandoned call rate;
- * Respond to 90% of emails and written correspondence for general enquiries within five working days of receipt; and
- * Respond to 90% of more detailed technical emails and written correspondence within 20 working days of receipt.

Operational workload estimates

Type of work	Team/Practice*	Estimated volume April 2007-April 2008
Schemes due a valuation	SSF	2,700
Clearance applications anticipated	CRM	250
Proactive contacts	CRM and SSF	400
Withdrawal applications	CRM	50
Corporate risk management enquiries	CRM	1,000
Website views (non-TKU)	Communications	2,850,000
Trustee toolkit users	Communications	18,000
Number of wind-up schemes in system	PAG	400 (pre 2000) 1,100 (post 2000)
Customer contacts (DB and DC) excluding levy and scheme returns	Customer support	50,000 (Inbound) 30,000 (Outbound)
Codes published	Policy	2
Guidance published	Policy	20
Scheme returns	Scheme Return Services	90,000
Levy invoices	Levy/Registration	90,000

* Practices:

CRM = Corporate Risk Management

SSF = Scheme Specific Funding

PAG = Pensions Administration and Governance

Appendices

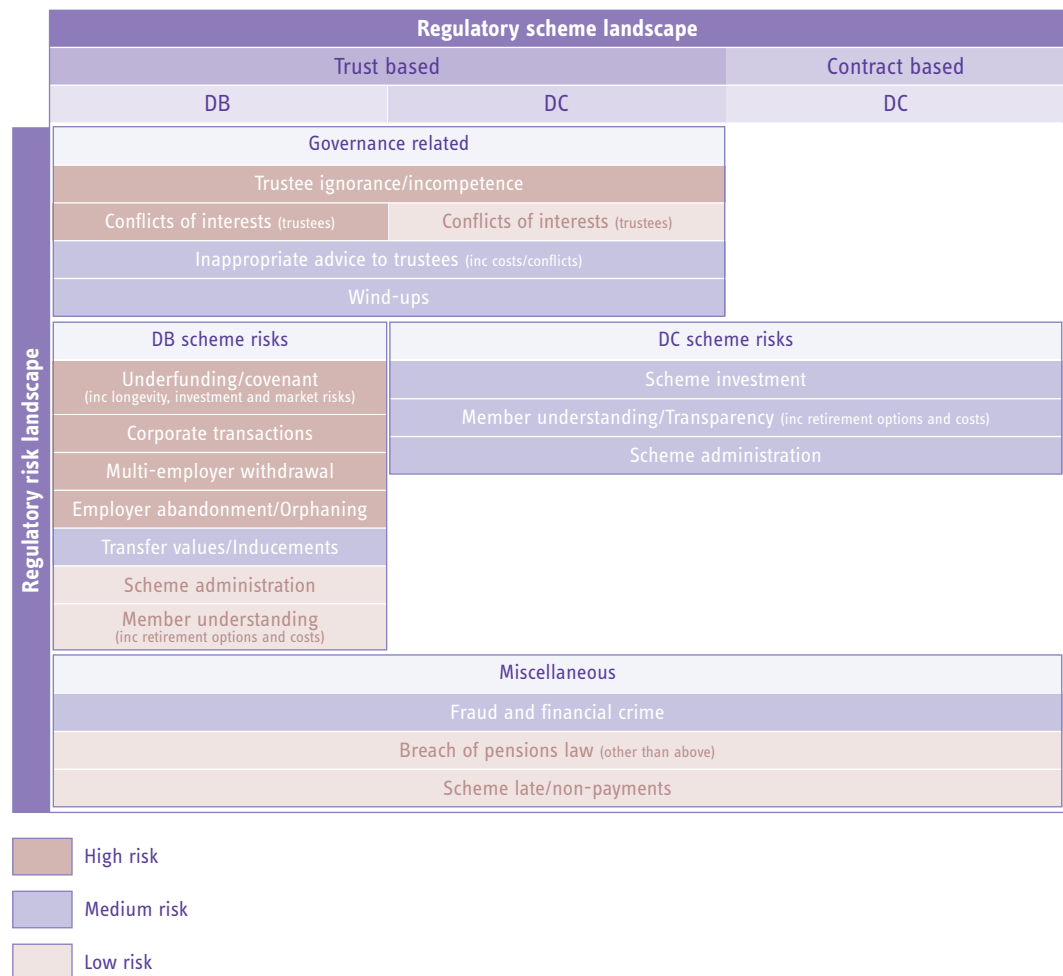
Appendix 1

Key regulatory risks landscape model and definitions

Eighteen types of risk have been captured in the model shown in figure 10 below: these affect all aspects of scheme administration and are relevant to DB, DC or both.

The risk landscape model reflects the landscape during our first 24 months of operation and allows us to prioritise our development work, inform our Corporate planning and resource deployment and help articulation of our regulatory strategies and responses.

Figure 10
The risk landscape model



Appendix 1 *continued...*

Risk definitions

Governance related

- **Trustee ignorance/incompetence**
The risk that trustees are incapable, through ignorance or incompetence, of running their scheme properly, with the impact that members' benefits are not adequately protected.
- **Conflicts of interest (trustees)**
The risk that trustees take actions (or fail to act) so as to advance the interest of the employer or sections of the membership, with the impact that the interests of the full membership are compromised.
- **Inappropriate advice to trustees**
The risk that the advice professional advisers give trustees is ill-informed, biased, conflicted or represents significantly poor value for money, with the impact that trustees take decisions that prejudice members' interests.
- **Wind-ups**
The risk that scheme winding-up takes longer than necessary owing to the inefficiency of the trustees and professionals involved, with the impact that members' benefits are unduly put at risk, winding-up costs eat excessively into those benefits, or payments to members (eg from FAS) are delayed.

DB related

- **Underfunding/covenant**
The risk that DB schemes are not prudently funded to meet liabilities as they fall due, taking account of the employer covenant, increasing longevity and the risks relating to the scheme's investments, with the impact that members' benefits will not be delivered, or the exposure of PPF is excessive with consequences for its levy.
- **Corporate transactions**
The risk that corporate transactions have the effect of increasing the likelihood that the scheme sponsor will avoid discharging its full pension liabilities, with the impact that members lose some of their pension entitlement or the exposure of the PPF is increased.
- **Multi-employer withdrawal**
The risk that an employer withdraws from a multi-employer scheme without effective arrangements being put in place to protect the pension scheme, with the impact that members lose some of their pension entitlement or the exposure of the PPF is increased.
- **Employer abandonment/orphaning**
The risk that a DB scheme ceases to be sponsored by an employer of substance, with the impact that there can be no call on an employer to make good any deficiencies that subsequently occur.

Risk definitions *continued...*

- **Transfer values/inducements**

The risk that members are induced to transfer out of a DB scheme without fully understanding the financial consequences, with the impact that they subsequently realise that their benefits have reduced or may reduce, and consider that the transfer has been mis-sold. (There is a related risk that were transfer values set too high, the impact would be to reduce the security of the benefits of members remaining in the scheme).

- **DB administration**

The risk that the administration of the scheme is not effectively undertaken such that member records are not kept up to date and accurate, with the impact that data on which funding decisions are based is unreliable, which may result in reduced ability to pay benefits as they fall due. Also, poor data quality may delay scheme wind-up.

- **DB member understanding**

The risk that trustees do too little to communicate to members the information they need to understand the nature of, and risks to, their benefits (including the impact where relevant of scheme costs) with the impact that members make ill-informed decisions.

DC related

- **Scheme administration**

The risk that the administration of the scheme is not effectively undertaken such that member records are not kept up to date and accurate, or necessary changes made (eg to investment choices) in a timely manner, with the impact that members lose benefits or in due course wind-up cannot be expedited.

- **Member understanding etc**

The risk that trustees or others do too little to promote transparency as to the costs and choices relating to the scheme, or fail to communicate to members the information they need to understand the nature of their benefits, the risks and the choices available to them, with the impact that members misunderstand the scale of their likely benefits, or lose out because they have made uninformed choices or because the scheme's costs are not controlled or taken into account.

- **DC scheme investment**

The risk that the assets of a DC scheme are invested without due care, taking account of members' circumstances, or that their performance is not effectively monitored, with the impact that the benefits payable when the member reaches retirement are materially reduced.

Appendix 1 *continued...***Miscellaneous**

- **Fraud and financial crime**

The risk that scheme assets are misappropriated or improperly diverted away from pensions (eg pensions liberation), or are used to facilitate financial crime, with the impact that members lose benefits or there are increased calls on the PPF.

- **Scheme late/non-payments**

The risk that employers do not pay over significant amounts of contributions to the scheme or do so very late, with the impact that the funding to meet liabilities is reduced or (for DC) no entitlement is established, and hence when the benefits crystallise or the scheme is wound up members lose benefits or calls on the PPF are increased.

- **Breaches of pensions law**

The risk that schemes do not comply with the requirements of pensions legislation (for instance there is no effective internal disputes resolution procedure, member nominated trustees are not elected, or accounts are not prepared or audited on time), with the impact that the protections that these provisions were intended to give are not effective.

Appendix 2

2007-2008 budget figures

The Pensions Regulator's budget for 2007-2008 is £32.6m, broken down as follows:

	£,000
Salaries	14,817
Temporary staff costs	4,100
Staff training	600
Staff travel	383
Board expenses	60
Other personnel costs	610
Staff costs	20,570
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Consultancy	1,446
Professional services	3,842
Rent and rates	905
Other property costs	1,086
Equipment hire and lease	36
Telecommunications	206
Printing and stationery	298
Postage	32
Computer maintenance	591
Other computer costs	217
Expensed capital expenditure	177
Depreciation	854
Information and intelligence	215
Marketing and publicity	474
Other expenses	70
Accounting officer reserve	162
Interest and other income	(126)
Non-staff costs	10,485
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Sub total	31,055
Capital	1,520
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Total	32,575
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