

The Pensions  
Regulator 

# Corporate plan

2008-2011

April 2008

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# Foreword

We are pleased to present the Pensions Regulator's *Corporate plan* for the period 2008-2011.

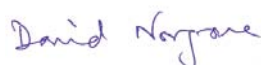
Over the course of our first three years, we have taken forward the necessary work, in consultation with the industry and key stakeholders, to put in place the regulatory framework required of us by the Pensions Act 2004. We have also built and developed our organisation, systems, culture and processes. This work is now largely completed and the necessary operational capacity is in place.

Our *Medium term strategy*,<sup>1</sup> published in April 2006, set out our views on the pensions landscape and the key regulatory challenges we faced. We were pleased to have our progress in this acknowledged by the National Audit Office (NAO) and the House of Commons Public Accounts Committee.

During the next three years, our overriding goal of course remains to meet our continuing statutory objectives, working efficiently and in partnership with the regulated community, Government and other key stakeholders. But we also need to plan to meet new and emerging challenges arising from changes in the pensions landscape to ensure that our overall approach remains fit for purpose.

We also recognise that we are likely to have an important part to play in the Government's pensions reform agenda. The proposals set out in the current Pensions Bill aim to increase private pension saving in the UK. Within the legislation, Government proposes that we should take on the role of maximising employer compliance with wider reforms. A key challenge over the next period is therefore likely to be the design and development of our new role whilst ensuring that we continue to build on everything we have achieved over the past three years.

We will also continue to be fully engaged at a European level on key pensions and regulatory issues.



**David Norgrove**  
*Chair, the Pensions Regulator*



**Tony Hobman**  
*Chief Executive, the Pensions Regulator*

<sup>1</sup> Our *Medium term strategy* is available at: [www.thepensionsregulator.gov.uk/pdf/mediumTermStrategy.pdf](http://www.thepensionsregulator.gov.uk/pdf/mediumTermStrategy.pdf)

# Introduction

## The Pensions Regulator

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

## The Corporate plan

This is our second three-year *Corporate plan*, covering the period 2008-2011. Its purpose is to set out our view of the pensions landscape and to share our strategic direction and the outcomes we aim to achieve. The plan also describes how we intend to focus and deploy resources over the next three years. Incorporated in this three-year view is a more detailed annual *Business plan* for the year 2008-2009. These plans enable us to deliver against our statutory objectives, the challenges set out in our *Medium term strategy*<sup>2</sup> and our longer-term strategic thinking.

## Our statutory objectives

Our objectives, as established in the Pensions Act 2004, are to:

- \* Protect the benefits under occupational pension schemes of, or in respect of, members of such schemes, and protect the benefits under personal pension schemes of, or in respect of, members of such schemes;<sup>3</sup>
- \* Reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF); and
- \* Promote, and improve understanding of, the good administration of work-based pension schemes.

<sup>2</sup> Our *Medium term strategy* is available at: [www.thepensionsregulator.gov.uk/pdf/mediumTermStrategy.pdf](http://www.thepensionsregulator.gov.uk/pdf/mediumTermStrategy.pdf)

<sup>3</sup> 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.

# Regulatory performance

We believe the structures put in place by the Pensions Act 2004, the powers contained within it, and our risk-based approach to regulation are beginning to deliver outcomes that place occupational pensions in a stronger position. Our view remains that the threat or potential use of our powers serves as a useful instrument in driving market behaviour to the benefit of pension scheme members, and we have dealt with a significant number of cases where this has been evident.

As a regulator we are prepared to and will use our powers where it is appropriate and proportionate to do so using our risk-based approach. Our use of powers in respect of the *Ericsson*, *Sea Containers* and *Telent* cases has sent strong and clear signals to the market.

We have introduced our new scheme funding approach, with the first recovery plans received during 2007-2008. The evidence from our analysis of the first tranche of recovery plans has been encouraging in terms of the impact this approach appears to be having on how schemes set targets and agree recovery periods with employers.

The introduction of our online scheme return has made it easier for schemes to interact with us and has reduced the administrative burden involved. We have also successfully delivered the final core modules of the *Trustee toolkit*. This has provided all trustees with a free, flexible and high quality means of acquiring the basic knowledge and understanding required of them.

We have continued to work more efficiently, in line with our published plans, demonstrating our continuing commitment to providing good value to levy payers.

We are also committed to being as transparent as we can within the constraints placed upon us by legislation and the need to maintain commercial confidentiality. For example, we publish the *Purple Book*<sup>4</sup> jointly with the Pension Protection Fund (PPF) on an annual basis. Already, this publication has achieved the reputation of being an essential reference point for anyone requiring DB data. The first edition has been downloaded more than 150,000 times from our website. We have also adopted a policy that presumes that we will publish the reasons for all formal decisions in relation to cases that go before our Determinations Panel unless there is a good reason not to do so.

In October 2007 the National Audit Office report, *The Pensions Regulator: Progress in establishing its new regulatory approach*,<sup>5</sup> stated that:

*“...The Pensions Regulator has made good progress in establishing a risk-based approach to regulation. It has focused on those areas that currently appear to present the greatest systematic risks to pension scheme members and the Pension Protection Fund. This stands in contrast to Opra, which had not distinguished adequately between trivial and high risks. The Pensions Regulator has also developed an appropriate regulatory approach which focuses on influencing those actors who make decisions on pensions such as scheme trustees and professional advisers...”*

Whilst being proud of these achievements, we are conscious that in the long term our success will be judged by how effectively we are delivering against our objectives.

<sup>4</sup> *The Purple Book (DB Pensions Universe Risk Profile)*: [www.thepensionsregulator.gov.uk/pdf/purpleBook2007.pdf](http://www.thepensionsregulator.gov.uk/pdf/purpleBook2007.pdf)

<sup>5</sup> Source: National Audit Office *Value for Money Report - The Pensions Regulator: Progressing in establishing its new regulatory approach (2007)*: [www.nao.org.uk/publications/nao\\_reports/06-07/06071035.pdf](http://www.nao.org.uk/publications/nao_reports/06-07/06071035.pdf)

## Regulatory impact

We apply a risk-based approach to our regulatory activities. This means that we are better able to direct our resources and regulatory focus to the areas that pose the greatest risk to our statutory objectives and to take actions that are proportionate to these risks. Our operational approach can be best summarised as **'Educate, Enable, Enforce'**. We will use our powers where appropriate to do so, but only as a last resort. Our experience over the past three years confirms that the existence of our powers, and their potential use, is often effective in delivering successful outcomes. We have seen evidence of this in our experience involving the handling of many hundreds of clearance cases, enquiries and in discussions with trustees, employers and advisers on recovery plans.

### Educate

- \* The *Trustee toolkit* has been widely welcomed by the industry and has received praise from users. There are now over 23,000 registered users of the *toolkit*. Our latest research found that 95% rated the *toolkit* as *'good/very good'*.<sup>6</sup> (Research, together with the latest *Governance survey*, has shown a clear link between use of the *toolkit* and improved standards of scheme governance.)
- \* Our website is highly rated and popular, receiving 80,000 visits per month. We make all our codes and guidance available on our website, and our research indicates how highly these are rated across the regulated community: 92% of *Perceptions tracker survey* respondents were *'satisfied or very satisfied'* with our guidance.
- \* We run scheme funding workshops for practitioners. These are hugely popular and highly rated by the many hundreds of participants who have attended. This ensures we are having a positive impact on the understanding of the scheme funding regime.

### Enable

- \* We seek to be as open and approachable as possible. We handle around 100 clearance enquiries every month. Evidence suggests that in more straightforward cases, and where applicants have previous experience, the system is becoming largely self-regulating.
- \* Through proactive contact with schemes, we can help them handle scheme specific risks and ensure they are able to comply with regulatory duties efficiently and effectively (for example on recovery plans and scheme returns). We regularly make over 1,000 telephone calls a month as part of our outbound contact campaigns.

### Enforce

- \* We are prepared to use our powers where appropriate.
- \* We have been involved in the appointment of 42 Independent trustees and 540 third party appointments using our statutory powers.
- \* In the past year, we have issued two Financial Support Directions and appointed Independent trustees with exclusive voting rights to a pension scheme going through buy-out with a private equity company.
- \* At any one time, we may be considering use of our powers in a number of cases; however, in most of these cases the potential use of our powers is sufficient to secure a satisfactory outcome.

<sup>6</sup> 95% figure relates to 2008 *Perceptions tracker survey*

We are aware of the need to demonstrate that we operate effectively against the better regulation principles. We use our annual *Perceptions tracker survey* to track our performance in this regard. Our latest survey results, shown in Table 1 below, show how we were rated by our customers and stakeholders:

**Table 1**  
Proportion of stakeholders who strongly agree or agree with the following statements about the Pensions Regulator

	2006	2007
Trusted source of information	78%	84%
Actions are proportionate to risk	43%	52%
Focused on most important risks	61%	63%
Explains clearly why decisions have been made	49%	49%
Consistent in our approach	51%	58%
Proactive in reducing risks	55%	57%

*Base excludes those who don't know.*

Further evidence of this came in the positive reports from the House of Commons Public Accounts Committee, the NAO and in being shortlisted as a finalist for the Better Regulation Executive-sponsored *Better Regulation Award* at the 2007 *National Business Awards*.

# Our Medium term strategy (MTS)

## 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 (PPF).

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.

## Strategic priorities

Our *Medium term strategy* stated our strategic priorities from 2005-2006 to 2008-2009.

The regulator has reviewed this strategy annually and believes that the priorities and key challenges set out in our four strategic themes outlined below remain fit for purpose and appropriate for this final year of its remit. These challenges are to:

- \* 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.

The following diagram (Figure 1) illustrates how our *Medium term strategy* themes support and link to our statutory objectives.

Figure 1

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

### Review of existing *Medium term strategy*

Each year of our *Medium term strategy* can be summarised by a defined, specific aim for establishing and developing our capabilities to meet our statutory objectives. Our key aims each year have been as follows:

- \* Establish the regulator (2005-2006)
- \* Address the challenges (2006-2007)
- \* Sustain progress (2007-2008)
- \* Review and look forward (2008-2009)

This *Corporate plan* sees the fulfilment of our existing *Medium term strategy*: however, the MTS themes continue to be relevant in enabling us to meet our statutory objectives during the final year of our current plan. The themes continue to underpin our more detailed activities and measures as set out within our 2008-2009 *Business plan*.

# Strategic alignment

Throughout this document reference is made to a number of planning documents. Figure 2 below illustrates how our planning and reporting processes are organised from our statutory objectives, through to personal objectives at operational level.

## The *Medium term strategy*

Our *Medium term strategy* set out our priorities for the first three years of operation, and we are now entering the final year of that strategy.

## The *Corporate plan*

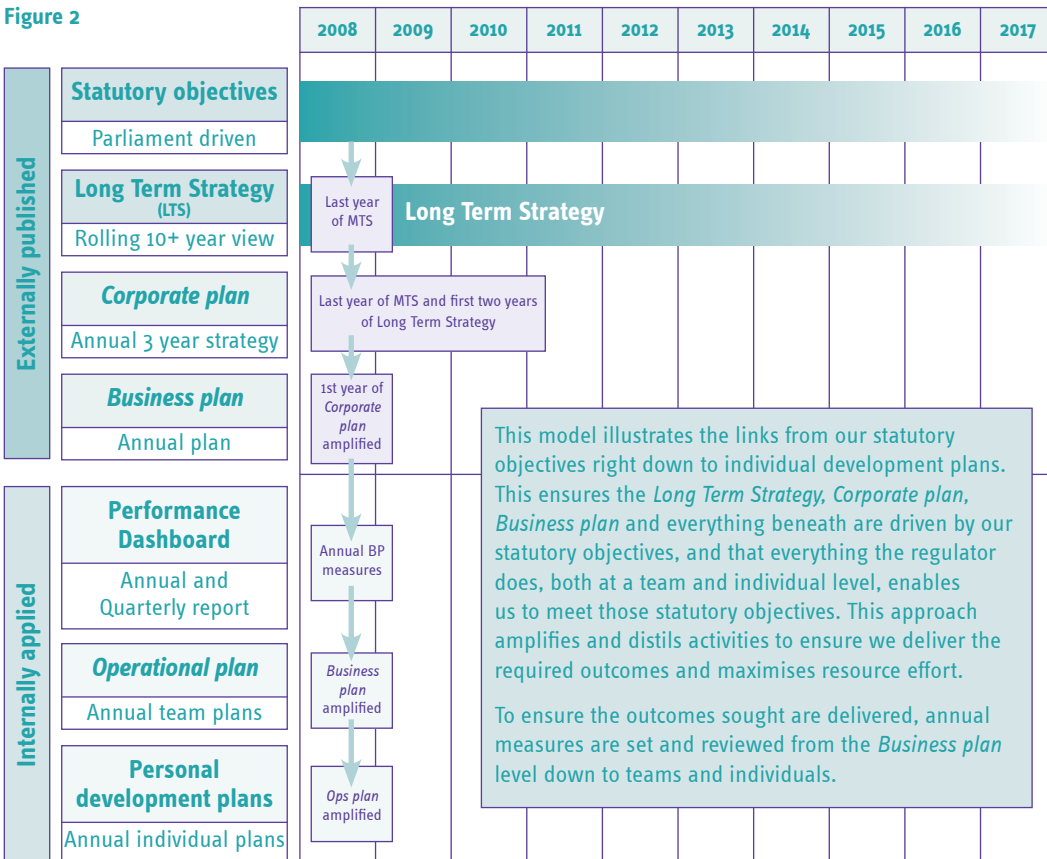
This document sets out our view of the pension landscape, and it describes our strategic direction and the outcomes we aim to achieve. The plan also describes how we intend to focus and deploy resources over the next three years.

## *Business plan*

Incorporated in this *Corporate plan* is a more detailed annual plan for 2008-2009. This plan is linked to our operational activities for the year, and describes how we will measure progress against our statutory objectives.

These plans enable us to deliver against our statutory objectives, the challenges set out in our *Medium term strategy* and our longer-term strategic thinking.

Figure 2



# Future strategic approach

As we enter the final year of our *Medium term strategy*, our 'review and look forward' stage, we now prepare to reassess our position, understand the progress we have made and turn our attention to our strategic objectives. Over the past few months we have been analysing the landscape and how it might alter to help us define whether and how our strategic priorities may need to change. We are currently producing a consultation document on our longer-term strategy, which we aim to consult on in the summer of 2008. We have therefore intentionally kept our focus for 2009-2011 high level to ensure the detail of the new strategy is shaped in consultation with our stakeholders.

As part of our goal to ensure that our regulatory approach keeps pace with market developments, and that the framework remains fit for purpose, we continue to engage in ongoing dialogue with the pensions industry in general and our stakeholders in particular, including our sponsors, the Department for Work and Pensions (DWP). This approach provides an invaluable platform for us to share our experiences with others. For example, the recent emergence of business models which challenge the traditional roles of employers and trustees could pose unacceptable levels of risk to pension scheme members and the PPF. The Government's proposals made in April 2008 for legislative changes in this area had resulted from key partnership working with the regulator. The Government's stated aim is that these proposals are designed to ensure that our powers remain appropriate and effective to enable us to continue to deliver our statutory objectives.

The regulator continues to work closely with DWP to ensure that any legislative changes will not only be operationally viable, but also strike the right degree of protection for members without diminishing confidence in the market or imposing undue regulatory burdens.

## Pensions Bill

The Government is taking forward legislation to increase private pension saving. The Pensions Act 2007 brought the first stage of these reforms into law, including establishing the Personal Accounts Delivery Authority (PADA) to help set up and advise on the new scheme.

On 16 November 2007, the DWP confirmed that legislation contained in the current Pensions Bill would propose that the Pensions Regulator should take on the role of maximising employer compliance with its new reforms.

Mike O'Brien, Minister of State for Pension Reform, said:

*"... I believe the Pensions Regulator is well-placed to perform this important new role. It currently does an excellent job protecting pension scheme members while also demonstrating sensitivity towards the needs of businesses ... Working with the Pensions Regulator we will put in place a simple, proportionate compliance regime which ensures employers meet their obligations without imposing any unnecessary burdens."*

The current Pensions Bill which, subject to Parliamentary approval, is likely to receive Royal Assent later this year will confirm the Pensions Regulator's new role and duties.

# Our core themes for the Corporate plan 2008-2011

## The planning framework

The *Medium term strategy* themes continue to underpin our 2008-2009 *Business plan*, and the diagram below (Figure 3) summarises where our efforts have been and will be focused for the period of this *Corporate plan*.

Figure 3

	MTS Core themes			
	1. Strengthen DB funding	2. Improve governance of work-based pensions	3. Reduce risks to DC scheme members	4. Deliver effective risk-based regulation
Previous focus	Build systems and processes	Build trustee and adviser understanding	Research and publish the DC consultative document	Build relationships and infrastructures for risk-based regulation
2008-2011 focus	Complete third year of the tri-annual scheme funding review	Influence behaviours to improve governance standards	Develop and implement DC regulation approach	Sustain a continuous improvement culture

A more detailed explanation of our focus under each of the *Medium term strategy* themes for the period of the *Corporate plan* can be found in the following sections.

Our core themes will continue to evolve as the landscape changes, and as our role changes to accommodate new objectives and duties arising from emerging legislative developments.

## Theme 1: Strengthen DB scheme funding

### The landscape

#### Scheme funding

Estimates of the effects of market conditions on the original *Purple Book* data set have demonstrated the variations in deficit levels over time, showing the imbalance between assets and liabilities. Indeed deficit levels are highly variable with short-term market volatility having a significant impact on funding levels within schemes. Changes in the economic environment since December 2002 have caused the estimated aggregate funding position of pension schemes, measured on a s179 basis, to vary by around £220bn, with the largest deficit, of £113bn, in early 2003, and a maximum s179 surplus of £107bn in June 2007. Recent falls in the overall funding level (from June to September 2007) have left the overall funding level reduced, but still significantly higher than in late 2006.

Numbers of schemes in deficit have varied considerably, too. The number of schemes in the dataset in deficit on a s179 basis peaked in early 2003 at around 5,300 and dipped in June 2007 to around 3,000. Whilst we need to understand the impact of market volatility, we also need to maintain focus on the medium to long term landscape conditions.

The new funding regime is already having an effect, as demonstrated in our recovery plan analysis and survey results, although the regime is still in its early stages as the final recovery plans will not be received until December 2009.

#### Increased longevity

The adoption (by defined benefit scheme trustees) of technical provisions calculated on prudent assumptions is a major factor in the achievement of our statutory objectives of protecting members' benefits and reducing risks to the PPF. These objectives are at risk if trustees are not aware of current good practice and up-to-date research. There have been significant developments in research on increasing longevity as published in the last year.<sup>7</sup> We have published draft longevity guidance to encourage use of the most up-to-date longevity evidence and to assist trustees in their assessment of mortality assumptions. Where continuing improvements in life expectancy are not factored into assumptions, we expect those assumptions to attract further scrutiny and dialogue with trustees. We also aim to ensure greater clarity and transparency in the reporting of mortality assumptions.

<sup>7</sup> CMI Working papers 29 and 30 and the CMI library of mortality projections (November 2007)

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

### Levels of corporate activity

The long-term trend in corporate activity has been steadily upwards, and there is little evidence to suggest that recent turbulence in markets and the drying up of relatively cheap credit has led to any reversal of this trend. A direct consequence of corporate activity for the regulator is likely to be a steadily increasing level of clearance applications and revision of recovery plans. Indirectly, high levels of corporate activity may well fuel greater innovation in the market as more creative solutions are sought to surmount the pensions issues which arise in negotiation of such deals.

The Pensions Act 2004 gave companies entering into a corporate transaction the right to request a 'clearance' statement from the regulator, confirming that it will not use its anti-avoidance powers in relation to the corporate transaction in question, based on the evidence provided to the regulator at the time. Since the introduction of the clearance process in April 2005, the regulator has received over 700 clearance related applications. In the great majority of cases where clearance has been provided, the applicants have provided mitigation for the cleared transaction which has improved the funding for the scheme. Mitigation arrangements might include various forms of cash contribution, such as lump sum payments, increased regular payments or accelerated contribution schedules. Other forms of mitigation might include the provision of support such as guaranteed or contingent assets. Whatever form the mitigation takes, the impact is to strengthen scheme funding.

## Focus for 2008-2011

The clearance process has been a key tool in the drive to protect members' benefits during corporate transactions. To assist this process further we have issued new clearance guidance.

Aside from clearance issues, all pension schemes are required to undertake a valuation every three years. The Pensions Act 2004 requires any schemes showing a deficit to put in place a recovery plan and send this to the regulator for review within 15 months of the valuation. The legislation also requires both the valuation and recovery plan to be scheme specific, with assumptions depending on the circumstances of each scheme.

A study of recovery plans received by July 2007 was published by the regulator in September 2007. We found that the plans received showed a great deal of diversity, as is to be expected in a scheme specific system. Factors such as asset return assumptions, discount rates and longevity vary between plans, indicating that a significant degree of tailoring to the scheme has been undertaken. The average technical provisions in the data gathered showed a similar level to FRS17, and above s179 level funding. The typical recovery period was 7.5 years.

The regulator has stated that it will use the technical provisions of a scheme as its primary trigger, and this will be evaluated with reference to the s179 valuation (alongside FRS17) when considering whether a scheme's Part 3 valuation merits further examination by the regulator. To encourage sufficient prudence in the establishment of technical provisions we are also consulting on guidance on the key issue of longevity. This will help reinforce the need to give the setting of prudent technical provisions primacy in the recovery plan process. The regulator intends to scrutinise recovery plans to ensure that technical provisions are appropriately dealt with, for example with the application of technically sound longevity assumptions.

During the initial phase of the new regulations, the regulator has been patient and facilitative with schemes which have had difficulty meeting the deadline for submission. Whilst wishing to continue to seek facilitated agreement between trustees and employers, the regulator is now starting to take a more proactive stance and considering the use of our powers where appropriate to ensure that schemes and their sponsoring employers comply fully with the requirements of the legislation in a timely manner.

## Theme 2: Improve the governance of work-based pensions

### The landscape

#### Governance

Good governance is at the heart of a well run pension scheme and is the one theme that underpins all our statutory objectives. Trustees play a key role in trust-based provision, though governance is also critical in contract-based schemes where there are no trustees. We estimate that there are around 120,000 pension scheme trustees, nearly all of whom are lay trustees appointed by the sponsoring employer or elected by the members. Trustees have the front line responsibility for securing members' benefits, and we rely on and greatly appreciate the dedication that these (largely unpaid) individuals bring to this demanding but vital task. We aim to provide these trustees with guidance and support that will help to bring schemes to an appropriate level of good practice, with the goal of raising standards where needed.

Our annual survey of the governance of occupational pension schemes in the UK provides us with an invaluable evidence-base, which we supplement with our regulatory experience and evidence from other sources. In the results of our 2008 survey, we took particular comfort from evidence of improvement in the three areas of governance on which we had focused most heavily: trustee knowledge and understanding (TKU), conflicts of interest and monitoring the employer covenant. Key headlines include:

- \* In the survey period (2008), schemes were not experiencing significant difficulties in retaining trustees: only 7% compared to 11% in 2007. However there has been an increase reported with difficulties in recruiting trustees, with 19% experiencing problems in 2008 compared to 15% in 2007.
- \* Encouragingly, 72% of schemes had a process to identify the risks that could affect the scheme and its members compared to 59% in 2007. Without such a process it is much harder to implement effective internal controls.
- \* Larger schemes are monitoring administration more closely than smaller schemes. In 2008, only 54% of small schemes assessed the quality of administration at least every three years compared to 72% of medium schemes and 94% of large schemes. Hence our focus turns more towards smaller schemes.

#### Governance of contract-based schemes

Our statutory objectives apply to work-based personal and stakeholder pensions as well as those arranged under trust. Contract-based schemes are different from trust-based schemes, and the risks to the regulator's objectives also differ. In contract-based schemes many of the ongoing risks associated with the scheme are mitigated by the Financial Services Authority (FSA). In November 2007, jointly with the FSA, we published a guide to regulatory responsibilities in respect of workplace contract-based pensions. This set out how the regulator and the FSA will regulate in this area, and provided clarity over our respective roles and responsibilities.

In January 2008 we published our guidance entitled *Voluntary Employer Engagement in work place contract-based pension schemes*, which is relevant to employers seeking to increase their role in the stewardship of contract-based schemes. We are working on how we might move to more principles-based regulation, exploring disclosure requirements as a potential area to pilot. Other initiatives, explained in more detail further on in this section, include improvements in record-keeping and raising standards in administration, especially in smaller schemes as our survey research indicates governance standards among smaller schemes to be generally poorer than larger schemes.

### Investment choices

In November 2007, the National Association of Pension Funds (NAPF) reported to Her Majesty's Treasury ('the Treasury') on progress in implementing the Myners principles of good investment governance. They concluded that standards of governance in UK pension schemes have risen considerably since the original *Myners Report* was published in 2001. However, they found that progress has not been even, and they made proposals to deal with areas where there has been less progress. It should be noted that our work on Trustee Knowledge and Understanding has been rooted in the original Myners recommendations and has been a major contributor to the step change in governance found by the NAPF.

We have since then commenced work with the Treasury, DWP, the pensions industry and the NAPF to help take forward plans for a reduced set of investment governance principles which will help address those areas of investment governance where improvement is required (see *Processes for Investment Choice*).

### Wind-up

It is important that scheme wind-up is completed efficiently and effectively in order to minimise costs to the scheme and ensure that members receive the benefits they are due. We support DWP's target that schemes should complete the key activities of wind-up within two years. Our data shows that the target is currently not being met in more than 85% of schemes. Well over half of all schemes have been winding up for more than five years, with one in 20 taking more than 15 years.

### Knowledge and understanding

We regard knowledge and understanding as a distinct governance priority from the others, because it deals with the causes of poor governance rather than the behaviour of those who are governing inappropriately. Our view is that those who have acquired knowledge and understanding are more likely to be able to govern their schemes well. This is borne out by the results of our 2006 *Governance survey* which showed a strong association between 'inputs' such as training against standards of various measures of governance.

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

### Focus for 2008-2011

We will maintain action to address our seven governance priorities which we published in October 2007.

In doing so, we recognise that sound risk management procedures and adequate internal controls underpin all aspects of good governance. We also recognise there can be significant variation in governance standards as well as different governance challenges in different schemes (for example in relation to knowledge of complex financial products). We shall continue to monitor the actions trustees take and will review or supplement our existing guidance<sup>8</sup> as necessary. In summary, we are taking a three-pronged approach to addressing our governance priorities:

- \* education, guidance and enabling;
- \* working in partnership with the pensions industry, the FSA and Government; and
- \* proportionate intervention, in line with our risk-based approach.

We shall in particular focus on the areas described below.

#### Trustee knowledge and understanding (TKU)

In view of the clear link between the level of trustee knowledge and the improvement of standards of governance, trustee education has been one of our highest priorities, building on the TKU code of practice and scope guidance published in 2005. Our e-learning programme, the *Trustee toolkit*,<sup>9</sup> continues to provide the primary educational resource. While some 12,500 trustees (out of 23,000 current users) have already accessed the *toolkit* there are many more who could benefit from using it, and we propose to market the *toolkit* in a more targeted way, especially to the smaller scheme trustees where gaps in TKU are greater. We have been developing the means to assess how the *Trustee toolkit* improves knowledge and drives better behaviours. By reviewing the types and size of schemes signed up, and the completion rates of the modules, we can ensure we have the right penetration and completion levels across schemes. We will also increase our understanding of what motivates trustees to use the *toolkit* and what we can do to widen its use. We will also keep the content under review and update it as necessary. We are aware that both the code and *toolkit* provide the minimum knowledge and understanding requirements needed if individual trustees are to understand their duties and make good use of their advisers; and we appreciate that often more detailed understanding is required, for example in relation to considering increasingly complex investment and risk management products. We will continue to encourage other providers and initiatives that help trustee boards to enhance their corporate competence.

<sup>8</sup> Guidance documents are accessible at: [www.thepensionsregulator.gov.uk/guidance/index.aspx](http://www.thepensionsregulator.gov.uk/guidance/index.aspx)

<sup>9</sup> Our e-learning programme is available at: [www.trusteetoolkit.com](http://www.trusteetoolkit.com)

### Conflicts of interest

Conflicts of interest are likely to arise in the trust structure of occupational pension schemes. It is vital that trustees identify, monitor and manage conflicts appropriately as the consequences of not managing conflicts appropriately can be severe. This may lead to trustees inadvertently or deliberately making decisions which are not in the best interests of members; indeed, if the conflict is acute, trustees may need to consider whether they should seek to avoid it entirely. Conflicts are more likely to arise in respect of DB schemes because decisions by the employer are more likely to impact on the scheme. We have published guidance on this subject and taken regulatory action in cases where severe conflicts of interest have put members' benefits at risk. We will persist in pressing for better identification, monitoring and management of such conflicts, the starting point being the development by trustees of a robust conflicts policy document.

### Monitoring the employer covenant

As sponsoring employers ultimately underwrite defined benefits, it is essential for trustees to understand the strength of the employer covenant (particularly in the context of corporate transactions), the assumptions underlying technical provisions and the length of recovery plans. We have continually emphasised the importance of covenant review in our communications and contacts with individual schemes, and there is evidence that this has had a significant impact. We will continue to assess trustees' understanding of covenant issues.

### Relations with advisers

Expert advice is essential to help trustees run their schemes successfully. Responses to our governance discussion document emphasised the importance of trustees managing adviser relationships effectively and efficiently. We will continue to supplement the assistance the *toolkit* provides on this subject with other forms of guidance to help trustees, and will promote worthwhile initiatives taken by other pensions bodies to ensure that the service given by advisers meets the needs and expectations of trustees.

### Administration

Good administration is vital in every scheme, although the risks from poor administration can be particularly acute for DC arrangements. Experience of schemes in wind-up shows that the quality of record-keeping can be poor and costly to remedy. We will therefore pay particular attention to helping ensure that overall standards of record-keeping improve. More generally we will continue to promote the development and sharing of good practice in pensions administration, where appropriate, in partnership with other groups, such as Raising Standards in Pensions Administration (RSPA).

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

### Processes for investment choice

It is the responsibility of trustees to ensure that they have understood the investments made by the scheme. For a DB scheme, the risks of poor investment performance include underfunding and higher costs to the sponsoring employer. The risks to a DC scheme include a reduction in fund value for members and reputational damage to both the scheme and the employer. Our focus on promoting good practice in investment processes, such as the appointment and review of investment managers and consultants, will remain through our own guidance and in partnership with pensions industry bodies taking forward the Myners agenda. We have therefore recently published a joint consultation paper outlining our proposals on the Myners principles. We will also work with others to improve the transparency of charges which reduce the returns members receive, and encourage trustees and employers to keep these under review.

Achieving greater ownership of the Myners principles by trustees specifically, and the pensions community more generally, is a key Government objective. This will encourage and improve both the application of the principles and the quality of reporting against them. We will take this issue forward with industry to promote the principles and improve the governance of work-based pensions. Specifically, we expect to progress work in relation to any identified gaps through a working group that the regulator would chair.

### Governance during wind-up

Once the decision is taken to wind up a scheme it is usually (with a few limited exceptions) in members' interest that winding-up is completed within the shortest reasonable period, in order that members have greater certainty about their benefits. The regulator supports the DWP target that the key activities of wind-up should be completed within two years. We have published a regulatory statement, jointly with the PPF and the Financial Assistance Scheme (FAS), and associated guidance on meeting this target. This sets out a revised regulatory framework for schemes which are winding up, including setting out the circumstances when the regulator will use its powers to issue directions, and take other steps in order to ensure the two-year target is met.

## Theme 3: Address the risks to DC scheme members

### The landscape

The DC landscape is becoming increasingly complex. Traditionally, most DC provision has been through relatively small occupational schemes which are the employer's only pension arrangement, and hence there are some 72,700 occupational DC schemes (including hybrid schemes with a DC element) registered with the regulator.<sup>10</sup> In more recent years we have seen:

- \* Larger employers closing their DB scheme to new entrants and either opening a DC section within their existing scheme or a new DC scheme alongside the DB scheme, often with the same trustees. Of the 2.7 million occupational DC scheme members, 29% belong to schemes which also have a DB section, 39% belong to DC schemes with less than 1,000 members, and 32% belong to DC schemes with over 1,000 members.<sup>11</sup>
- \* Workplace contract-based DC plans can be split into group personal pensions, group stakeholder pensions, and group SIPPs (since April 2006). For many employers, these are the only form of provision open to new members. There were over four million new members<sup>12</sup> into plans such as these between the first quarter of 2002 and the second quarter of 2007, equating to 800,000 new members per year on average. A survey in 2007<sup>13</sup> indicated that over 60% of employers would set up an arrangement of this type if they were starting pension provision for the first time.

The nature of this evolving landscape means that we need to be focused on:

- \* The knowledge and understanding of trustees of larger schemes who are responsible for both DB and DC members and whose efforts may be disproportionately focused on the challenges of DB, rather than the distinct risks to DC members.
- \* The way that risks to members are addressed in contract-based schemes, bearing in mind that our statutory objectives apply to work-based personal and stakeholder pensions as well as those arranged under trust.
- \* Broader member understanding of the range of products they may be offered.

<sup>10</sup> Data taken from the Pensions Regulator's PRISM database

<sup>11</sup> Data taken from the Pensions Regulator's PRISM database

<sup>12</sup> Source: Association of British Insurers

<sup>13</sup> Source: Fidelity International Viewpoint, January 2007

### Theme 3: Address the risks to DC scheme members *continued*

A major influence on the landscape going forward will be the introduction, from 2012, of the requirement on employers to auto-enrol employees into the new Personal Accounts scheme, or an alternative qualifying scheme. This will have a major impact on the landscape from 2012 but will also increasingly influence the types and take-up of DC schemes in the interim. For instance, all alternative qualifying schemes will have to provide a default fund when automatic enrolment is introduced.

In substantially increasing the numbers of people making pension provision, it is important that the perception of DC provision is not tarnished. Therefore we have an important role in promoting high standards of service provision and will increasingly focus on this goal.

### Focus for 2008-2011

When the regulator was first established in 2005, our primary focus was on final salary pension schemes since these covered the majority of pension scheme members and presented the greatest immediate risk to members. We have, however, paid increasing attention to the risks to DC members. In particular, we published in April 2007 a statement on *How the Pensions Regulator will regulate defined contribution schemes in relation to risks to scheme members*. This drew on responses to a consultation paper we issued with the same title in November 2006.

The paper was based on the five key risks we identified as applying specifically to DC scheme members:

- \* lack of member understanding;
- \* poor administrative practices;
- \* poor investment practices;
- \* lack of transparency in charges; and
- \* poor retirement choices.

The NAO review of the Pensions Regulator supported the increasing emphasis on DC schemes, noting that:

*'They present very different risks to members and many have very different governance arrangements to final salary schemes. Since employers are increasingly shifting provision from final salary to money purchase schemes this will be an important and challenging area for the Pensions Regulator in the future.'*

We expect to continue our focus on the five risks identified in our strategic approach. Much of our effort will be on raising understanding of these risks and the ways in which they can be addressed by those responsible for running DC schemes. We will work with the FSA and others already providing guidance to fill the gaps where appropriate. In addition, we expect to identify and hold to account those schemes that are failing to put in place effective initiatives to address risks.

Taking each risk in turn:

### **Member understanding**

There are many bodies with an interest in improving public understanding of financial issues, most notably the FSA with its statutory objective to improve financial capability. The plan period is likely to see the implementation of the generic advice service proposed by the *Thoresen Review*.<sup>14</sup> We will support these developments where we can share specific experience and insights. Our main focus will be on promoting more effective communication by pension schemes with their members, sharing good practice and helping trustees and employers to develop effective communication.

### **Administration**

Our governance focus on administration should encourage schemes to implement good practice in this area, and we shall supplement this work by paying particular attention to the specific risks of DC administration.

### **Investment**

While our governance focus is on the promotion of improvements in the processes by which schemes choose and monitor investment advisers and providers for DC schemes, there is the specific risk arising from member choice of investment funds. Where a default fund is provided, commonly well over 80% of members use the fund, and we will work with the FSA to develop understanding of good practice in default fund design. We will also help trustees and employers communicate effectively with members on the choices available and provide a manageable range of choice.

<sup>14</sup> The *Thoresen Review* can be accessed on the HM Treasury website:  
[www.hm-treasury.gov.uk/media/8/3/thoresenreview\\_interim\\_221007.pdf](http://www.hm-treasury.gov.uk/media/8/3/thoresenreview_interim_221007.pdf)

### Theme 3: Address the risks to DC scheme members *continued*

#### **Charges**

We will work with the FSA and others to improve the transparency of charges which reduce the returns members receive from their investments, and encourage trustees and employers to keep these under review.

#### **Retirement options**

Members' decisions at retirement on the annuity or other product into which their investment funds are placed are potentially the single most important choice they have to make. We will work with other bodies such as the FSA and the Pensions Advisory Service (TPAS) to improve the tools and information available to members at this point, and encourage trustees and employers to make the best provision they can to help members make their choice.

We also recognise that the need, and legal requirement, to implement internal controls is equally applicable to trust-based DC schemes. Our 2007 *Governance survey* showed that risk management related activities are not as visible in DC schemes as in DB schemes, and we will target our efforts to promote effective risk management and internal controls for DC schemes.

In view of the rapid growth in contract-based scheme provision we, jointly with the FSA, published a guide to regulatory responsibilities in respect of workplace contract-based pensions. This was designed to provide clarity on our respective roles and show how we could work with the FSA in this area. In January 2008, we published guidance on voluntary employer engagement in contract-based schemes which highlighted the importance of effective governance in such schemes and the need to review arrangements regularly to help ensure members' benefits are protected. This remains an important area for the regulator going forward, and we are committed to working closely with the FSA to help ensure that the risks associated with contract-based provision are addressed appropriately.

## Theme 4: Deliver effective risk-based regulation

### The landscape

A key challenge for any regulator is to interpret its statutory objectives and develop an appropriate and flexible operational response in a way that reflects the current needs of the regulated community. As a regulatory body, we must operate within the framework of the Hampton principles for better regulation: this means being proportionate, accountable, consistent, transparent and targeted in all we do. These principles are at the centre of our operational philosophy. We measure the industry's perception of our performance as a regulator on each of the key principles and consistently seek improvement in our interactions with the industry, our stakeholders and customers.

Our statutory objectives provide a sound framework for pension regulation and we have, over the last three years, established clear links between these objectives and our operational approach. Our risk-based framework ensures we are targeting our efforts on schemes where we identify the greatest risk to the security of members' benefits. We have a number of tools which we use within the regulatory framework set out in legislation. These include codes of practice which have evidential weight in legal procedures, and guidance for those involved in running schemes, including case examples and sharing best practice.

The results of our Governance survey show that we must tailor our regulatory approach to both large and small schemes. Working in partnership with our key stakeholders, we have begun to define new priorities through our strategic enquiry process. The outcome of this exercise will be our new ten-year strategic vision. This longer-term strategic vision will help carry us forward as we continue to enhance and embed our position and approach to regulation in response to the developing needs of the industry.

We recognise our increasing role in terms of scheme data and information and will continue improving the quality of information we hold in order to support effective risk-based regulation, as well as to inform and influence the pensions community.

**Theme 4: Deliver effective risk-based regulation** *continued***Government and legislative developments****Regulatory impact**

Under the Legislative and Regulatory Reform Act 2006, the Department for Business Enterprise and Regulatory Reform (BERR) has issued a *Regulator's Compliance Code*.<sup>15</sup> This will be effective from 6 April 2008 and will apply to most UK regulators, including the Pensions Regulator.

The Pensions Bill currently in Parliament will have a major impact on the role and work of the Pensions Regulator. We are currently considering the potential implications to enable us to deliver the new statutory requirements efficiently and effectively. We will be designing systems and processes which will enable us to fulfil our new duties.

**Developments in EU legislation and regulatory co-operation**

The *IORP Directive*,<sup>16</sup> the principal EU legislation relating to private pension schemes, came into force in September 2005. The UK is fully compliant and the regulator is responsible in particular for the operation of the arrangements for cross-border schemes, governed by the *Budapest Protocol* to which all EU pensions regulators are signed up. The European Commission has initiated a review of the *Directive* in 2008. The results of the review will be the key driver for the regulator's international work for the next few years.

It is possible that during the plan period there will be a further EU Directive relating to pensions, the *Portability Directive*. This has stalled owing to failure to achieve consensus between member states, but we do not anticipate that the directive as currently drafted would have a major impact on the regulator's work.

<sup>15</sup> Regulatory reform compliance code can be found at: [www.bre.berr.gov.uk/regulation/documents/compliance\\_code/compliance\\_code\\_071217.pdf](http://www.bre.berr.gov.uk/regulation/documents/compliance_code/compliance_code_071217.pdf)

<sup>16</sup> Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of Institutions for Occupational Retirement Provision.

## Focus for 2008-2011

In order to maintain our performance as an effective regulator offering value for money, it is essential that we have the capability to learn, improve and adapt. Over the next three years, we will aim to achieve continuous performance improvements in our operational effectiveness, efficiency, quality and customer service. Being an adaptive and flexible organisation enables us to reduce the regulatory burden on those we regulate and work with, and is also consistent with our risk-based regulatory approach.

We believe we are well placed to meet the requirements of the new *Regulator's Compliance Code*, which comes into force in 2008, having designed our approach with the *Hampton Principles of Better Regulation* very much in mind.

With greater transparency as one of our goals, publication of our determinations will be considered, and decisions will be made available over the course of this plan. This will ensure that the reasons behind our actions and decisions are properly understood and that we share lessons learned from our regulatory experience with other bodies.

We will continue to automate our processes wherever possible to improve efficiency and reduce the administrative burden to schemes. We have undertaken a review of our scheme return and levy services which have resulted in significant improvements to our scheme return handling capabilities. We have successfully launched a new user-friendly web-based application for scheme returns. Further planned enhancements will eliminate the need for paper forms and offer easier ways to pay levies such as direct debit and debit card.

We have continued with process reviews in levy finance targeted at improving efficiencies and cost-effectiveness, as well as reducing the administrative burden for schemes.

These initiatives include:

- \* strengthening the debt collection process, resulting in a reduction of aged debt from £4.2m to £1.2m during 2007-2008;
- \* enhancements to the IT invoicing software;
- \* increased automation in our processes; and
- \* reviewing and re-designing processes.

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

Future plans include:

- \* further re-organisation and process changes;
- \* further automation, including debt chasing processes;
- \* development of the facility for easier payment methods, including direct debit and debit card; and
- \* improved planning of invoice generation to balance resource requirements.

We have completed the three-year plan for the collection of all scheme returns as required by legislation. We have combined data from our scheme return database with a number of external business information sources to create a database with which we can analyse the combined risks to over 85,000 schemes. This, along with our proactive horizon scanning, allows us to identify potential risks enabling timely intervention.

The ability to analyse the different trends and patterns in the data collected by the regulator means that we are increasingly able to respond to issues at a strategic as well as a tactical level when they arise.

We will continue to introduce more innovative ways of data management and analysis to ensure that we have the best possible information. This will involve working closely with the Pension Protection Fund with whom we jointly produce the *Purple Book* annually. Additionally, we will continue to develop the means to collect and publish DC data.

We are continuing to build our campaign capacity and will be increasing the flow of targeted messages and communication to key audience segments, for example smaller schemes, backed up by integrated stakeholder engagement activities. Our customer support function is set up to deliver proactive outbound campaigns and to handle significant inbound contact with customers. We handle over 5,000 contacts per month, ranging from enquiries about late payment of contributions to making member trustee appointments. This volume of customer contact will grow with more emphasis on outbound proactive contact.

Technology will play a major part in the achievement of our statutory objectives over the next three years. The last year has seen a strong technology platform established as a baseline for future business change including our proposed new regulatory duties. The online scheme return solution will enable us to make it easier for trustees to provide accurate data for more efficient and effective data sharing with the PPF for their annual levy. These technological improvements will help us to drive down operating costs as well as improve our customers' service experience with the regulator.

We will explore further opportunities to use technology and data to deliver services in the most effective way possible, working with key stakeholders such as the PPF, HMRC, DWP and insurance providers, whilst maintaining a business flexibility which enables us to respond to a changing pensions environment.

We will maintain our aim of minimising the regulatory burden, and continue to leverage easier and more cost effective ways for trustees and other stakeholders to do business with us, for example through self service.

There has been significant improvement in the costs, services, capability and capacity of our IT infrastructure with a mix of in-house and outsourced services. We will continue to improve the provision of IT services to the business to achieve industry best practice and demonstrate value for money.

# Business plan 2008-2009

The following sections convey our annual *Business plan* objectives and associated corporate performance measures for the period 2008-2009. These objectives have been derived from our three-year key performance indicators which are set out in our *Medium term strategy*. A summary of key activities is also included to demonstrate how we will achieve our 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 we deliver these outcomes effectively (theme 4). Measuring achievement, especially over a one-year time frame, is not straightforward. For example, it is impractical to measure the precise role of the regulator 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.

Because of these measurement challenges, we have focused our attention on more intermediate results that we believe will enable us to meet our long-term ambitions. In doing so, we have focused on:

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

As there is a time lag between our actions and these outcomes becoming apparent, we also measure some key enablers of our ability to deliver these outcomes. In particular, we focus on the delivery of key outputs and the credibility of the regulator. These measures are principally secured through research and survey results and we believe that these are good indirect measures. We are actively considering how we may supplement them with wider market-based information and data as well as more audit-style information.

To summarise our approach to measuring our success:

- \* success for the regulator is assessed by measuring the regulator's impact on the external environment;
- \* our *Medium term strategy* identifies the key themes for regulatory focus, and for each theme we have identified a key performance indicator which is our success indicator; and
- \* these measures are reported quarterly to our board and the DWP using a performance dashboard specifically developed to present the outcome measures agreed in the *Business plan*. The dashboard presents measures under four categories:
  - customers;
  - processes;
  - financials; and
  - learning/growth.

Our overall performance is published in our *Annual report and accounts*. Further details of the *Business plan* are shown in the following tables.

Business plan - Theme 1: Strengthen DB scheme funding			
1.1	<p><b>Objective:</b> The regulator ensures that the valuation process and the corporate transaction process are adopted and completed in line with legislative and code requirements and that trustees and employers fulfil their role in this process.</p>	<p><b>Performance Indicator:</b> Trustees, employers and their advisers understand the scheme funding arrangements and their role in this process.</p>	<p><b>Measure:</b> Results of the annual perceptions tracker survey question 'understanding of the new DB scheme funding arrangements': increase percentage of positive responses (top two boxes, excluding don't knows) for the following audiences/segmentation: Trustees - increase to 69% (+4%) Employers - increase to 71% (+3%) Professional advisers - increase to 85% (+2%)</p>
1.2	<p><b>Objective: AS ABOVE</b> The regulator ensures that the valuation process and the corporate transaction process are adopted and completed in line with legislative and code requirements and that trustees and employers fulfil their role in this process.</p>	<p><b>Performance Indicator:</b> All schemes due to have completed the valuation process have done so in line with requirements.</p>	<p><b>Measure:</b> 100% of schemes whose valuation shows a deficit will have either submitted a recovery plan on time or will have been contacted by the regulator within one month after their 15-month deadline to confirm submission requirements.</p>
1.3	<p><b>Objective:</b> The regulator ensures that scheme specific technical provisions are calculated in a prudent manner and recovery plans are appropriate.</p>	<p><b>Performance Indicator:</b> Scheme funding arrangements lead to an increase in the funding of schemes thereby showing the regulator has effected improvement through its interventions.</p>	<p><b>Measure:</b> <i>Protecting members' benefits</i> Schemes having had direct contact with the regulator will show a higher percentage of assets (including contingent and insured) as a percentage of s75 buy-out values than those not having had contact. <i>Protecting the PPF</i> <math display="block">\frac{\text{Sum (assets minus s179 liabilities) where assets &lt; s179}}{\text{sum all s179 liabilities for group affected by regulator}}</math> divided by: <math display="block">\frac{\text{sum (assets minus s179 liabilities) where assets &lt; s179}}{\text{sum all s179 liabilities for group unaffected by regulator}}</math></p>

Business plan - Theme 1: Strengthen DB scheme funding <i>continued</i>			
<p><b>1.4</b></p>	<p><b>Objective:</b> The regulator ensures that appropriate mitigation is offered to schemes involved in corporate transactions.</p> <p>Trustees:</p> <ul style="list-style-type: none"> <li>• take and act upon professional advice</li> <li>• negotiate with employers.</li> </ul>	<p><b>Performance Indicator:</b> The market increasingly understands the role of the pensions creditor and the regulator in corporate transactions.</p>	<p><b>Measure:</b> Results of the annual perceptions tracker survey question on understanding of ‘the regulator’s powers and stance in relation to clearance and anti-avoidance powers’: increase positive responses (top two boxes, excluding don’t knows): medium and large schemes - increase to 69% (+3%).</p>
<p><b>1.5</b></p>	<p><b>Objective: AS ABOVE</b> The regulator ensures that appropriate mitigation is offered to schemes involved in corporate transactions.</p> <p>Trustees:</p> <ul style="list-style-type: none"> <li>• take and act upon professional advice</li> <li>• negotiate with employers.</li> </ul>	<p><b>Performance Indicator:</b> Appropriate mitigation is offered to schemes involved in corporate transactions.</p>	<p><b>Measure:</b></p> <ol style="list-style-type: none"> <li>1) Clearance will be provided or rejected as appropriate within three weeks for 100% of requests (following receipt of a fully completed application with satisfactory supporting documentation).</li> <li>2) Results of Corporate Risk Management satisfaction survey, overall satisfaction results for ‘the service you received’: - increase average to 8.0 in total (maximum score is 10)</li> </ol>

Business plan - Theme 2: Improve the governance of work-based pensions			
2.1	<p><b>Objective:</b> The regulator reduces the time schemes take to wind up.</p>	<p><b>Performance Indicator:</b> A significant reduction in the number of schemes in wind-up.</p>	<p><b>Measure:</b> 85% of schemes in wind-up have a two-year plan for winding up.</p>
2.2	<p><b>Objective:</b> Scheme administration is improved as a result of the regulator's actions.</p>	<p><b>Performance Indicator:</b> Standards for effective record-keeping have been identified, consulted upon and implemented where appropriate, and results of the annual governance survey show sustained performance in the following areas:</p> <ul style="list-style-type: none"> <li>- risk management</li> <li>- internal controls</li> <li>- administration service standards.</li> </ul>	<p><b>Measure:</b> Results of the annual governance survey question 'self-assessment of the trustee board's performance': maintain results for the following:</p> <ol style="list-style-type: none"> <li>1) <i>Monitoring administration</i> Manage the scheme's administration to ensure an acceptable level of service: - maintain at over 90%</li> <li>2) <i>Risk management and internal controls</i> Has effective, appropriate internal controls to manage risks: - maintain at over 90%</li> </ol>
2.3	<p><b>Objective:</b> The regulator improves trustee knowledge and understanding.</p>	<p><b>Performance Indicator:</b> The extent to which trustees and others value and use the <i>Trustee toolkit</i>.</p>	<p><b>Measure:</b></p> <ol style="list-style-type: none"> <li>1) Results of the annual governance survey: question 'approximately how many members of the trustee board, if any, have made use of the <i>Trustee toolkit</i>?' (one or more), segregated by scheme size (top two boxes, excluding don't knows):  Small schemes: increase to 74% (+10%). Medium schemes: increase to 85% (+2%)</li> <li>2) Results of the annual governance survey: question 'self-assessment of the trustee board's performance' for trustee confidence: Trustee understanding of their role and responsibilities, (top two boxes, excluding don't knows):  All schemes: maintain at over 90%.</li> </ol>

**Business plan - Theme 2: Improve the governance of work-based pensions** *continued*

<p>2.4</p>	<p><b>Objective:</b>                  Good standards of scheme governance are maintained and improved as a result of the regulator's actions in respect of:                  relations with advisers                  - conflicts of interest                  - investment processes                  - employer covenant.</p>	<p><b>Performance Indicator:</b>                  Develop, consult and publish good practice guidance so that trustees and employers are more effective on the key objective issues.</p>	<p><b>Measure:</b>                  The delivery of good practice guidance which results in positive movement of the following governance survey results (top two boxes, excluding don't knows):</p> <ol style="list-style-type: none"> <li>1) <i>Relations with advisers - key communication products delivered by end of Q1 2008-2009</i>                      Question: 'Do you have a formal process, when appointing external advisers and service providers, to ensure that they are appropriately qualified' (Yes, Always or Usually, excluding Don't knows):                      - increase to 50% (+5%)</li> <li>2) <i>Conflicts of interest - key communication products delivered Q2 2008-2009</i>                      Question on self-assessment of the trustee board's performance: 'Has appropriate processes in place to manage conflict of interests': - increase to 90% (+2%)</li> <li>3) <i>Investment process - key communication products delivered Q3 2008-2009</i>                      Question: 'Reviews performance of investment funds offered to members at least once every three years'                      - increase to 86% (+2%)</li> <li>4) <i>Employer covenant - (guidance already published)</i>                      Question: 'How would you rate the board's collective understanding of how to assess the employer covenant' - maintain at over 90%</li> </ol>
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Business plan - Theme 3: Address the risks to DC scheme members			
3.1	<p><b>Objective:</b> Trustees understand and mitigate the key risks to:</p> <ul style="list-style-type: none"> <li>- retirement options</li> <li>- administration.</li> </ul>	<p><b>Performance Indicator:</b> Improvement in trustee understanding and action to address retirement option risks as measured by the <i>Governance survey</i>.</p>	<p><b>Measure:</b> Results of the annual <i>Governance survey</i> question: 'Trustees provide appropriate support for members approaching retirement who may wish to exercise an 'open market' option' by measuring (top two boxes, excluding don't knows) if providers are recommending that members look at alternative annuity providers and/or obtain independent advice: - increase to 80% (+2%)</p>
3.2	<p><b>Objective: AS ABOVE</b> Trustees understand and mitigate the key risks to:</p> <ul style="list-style-type: none"> <li>- retirement options</li> <li>- administration.</li> </ul>	<p><b>Performance Indicator:</b> Improvement in trustee understanding and action to address administration risks as measured by the <i>Governance survey</i>.</p>	<p><b>Measure:</b> Results of the annual <i>Governance survey</i> 'self-assessment of the trustee board's performance': maintain results (DC schemes only, top two boxes, excluding don't knows) for the following: <i>Monitoring administration:</i> Manage the scheme's administration to ensure an acceptable level of service: - maintain at over 90%</p>
3.3	<p><b>Objective:</b> Employers and advisers understand the risks to DC scheme members and their members' understanding of them.</p>	<p><b>Performance Indicator:</b> Improvement in employer and adviser understanding and action to address key risks as measured by the <i>Perceptions tracker survey</i>.</p>	<p><b>Measure:</b> Results of the annual <i>Perceptions tracker survey</i> question: 'How would you rate your understanding of the risk to Defined Contribution schemes (Money purchase schemes)' (top two boxes, excluding don't knows): All responses - increase to 78% (+3%)  Results of the annual <i>Perceptions tracker survey</i> NEW QUESTION 'How would you rate your members' understanding of the key risks and options they have?' All responses - set baseline</p>

Business plan - Theme 4: Deliver effective risk-based regulation		
<p><b>4.1</b></p>	<p><b>Objective:</b> The regulator maintains and improves on its position as an authoritative and proportionate risk-based regulator.</p>	<p><b>Performance Indicator:</b> The regulator continues 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.</p>
		<p><b>Measure:</b></p> <ol style="list-style-type: none"> <li>1) Results of annual <i>Perceptions tracker survey</i>, increase in positive responses (top two boxes, excluding don't knows) for the following:               <ol style="list-style-type: none"> <li>i) <i>Overall</i> 'The regulator is a trusted source of information' - increase to 86% (+2%)</li> <li>ii) <i>Proportionate</i> 'The regulator's actions are proportionate to the risk posed' - increase to 56% (+5%). 'The regulator is focused on the most important risks to members' - increase to 67% (+4%)</li> <li>iii) <i>Accountable and transparent</i> 'The regulator explains clearly why decisions have been made' - increase to 54% (+5%)</li> <li>iv) <i>Consistent</i> 'The regulator is consistent in its approach to enforcing regulations' - increase to 61% (+4%)</li> <li>v) <i>Targeted</i> 'The regulator is proactive in reducing risks to members' benefits' - increase to 60% (+4%)</li> </ol> </li> <li>2) <i>Customer satisfaction survey</i>: 'How satisfied overall were you with the service you received from the telephone enquiry team in relation to your enquiry?' - maintain existing high standards of customer service through the front office in line with public sector benchmarks achieving minimum 87% satisfaction level.</li> </ol>

Business plan - Theme 4: Deliver effective risk-based regulation <i>continued</i>			
4.2	<p><b>Objective:</b> The regulator reduces the regulatory burden through efficient, effective and high quality operations and services.</p>	<p><b>Performance Indicator:</b> The administrative burdens of scheme returns and paying levies are reduced.</p>	<p><b>Measure:</b> Positive movement of key scheme return and levy metrics:                      1) The regulator's cost per scheme return dispatched - reduce by 10% from current £37 per scheme return                      2) The regulator's cost per £1,000 collected - reduce by 10%                      3) Average debtor days - reduce from current 84 day to 75 day average                      4) 100% of the general levy to be collected by 31 March</p>
4.3	<p><b>Objective:</b> The regulator reduces the regulatory burden through efficient, effective and high quality operations and services.</p>	<p><b>Performance Indicator:</b> Resources effectively applied in conjunction with the delivery of optimum systems, corporate governance processes, controls and Continuous Improvement initiatives.</p>	<p><b>Measure:</b> Cost of regulator as an organisation - reduce GIA budgeted costs by £2m versus 2007-2008 <i>Corporate plan</i></p>

# Resource summary

This section of the *Corporate plan* provides information on the resources required to deliver our outcomes during 2008-2009.

## 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. The general levy covers the resource expenditure of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman. The PPF administration levy covers the resource expenditure of the PPF. The Pensions Regulator will continue to collect any levies due in previous years which remain outstanding on 31 March 2008.

The regulator's function is to collect and distribute levies as prescribed by DWP.

## Projected budget for 2008-2011

The budget for 2008-2009 (and subsequent years - see Table 2 below) shows a significant year on year reduction, demonstrating our commitment to ensuring value for money in carrying out our operations. We will be able to achieve these reductions through our programme of efficiency measures, including the implementation of self service initiatives, process automation and smarter procurement. These initiatives underline our determination to embed a culture of continuous improvement and enhanced customer service throughout our organisation.

### Projected budget for 2008-2011

Table 2

Category	2008-2009 £'000	2009-2010 £'000	2010-2011 £'000
Staff	18,770	18,188	17,624
Capital	792	211	211
Non-staff costs	8,295	8,065	7,305
<b>Total</b>	<b>27,857</b>	<b>26,464</b>	<b>25,141</b>

# Human resources

## The Pensions Regulator's people capital

We start this three-year period with just over 330 FTEs reducing by approximately 50 by the start of the second year. This reduction reflects the impact of business process improvements such as the move to self service scheme return applications and our commitment to continuous improvements. Our organisational needs are continually reviewed to ensure they are efficiently resourced and effort is directed to those functions with the greatest priority.

As a small organisation, we are committed to attracting and retaining a high calibre workforce, and people issues are central to strategic level decisions. Our overarching people strategy is to enable achievement of our goals by having the right people, in the right place, at the right time and at the right cost.

- \* **Right people:** relevant and up-to-date skills, knowledge and aptitudes; fully engaged and motivated team players able to deliver in a high performance culture.
- \* **Right place and time:** appropriate skills and competency mix deployed to meet specific operational needs or in place to meet future requirements. We use a flexible and mixed resourcing model drawing on a core of high calibre permanent and secondee staff supplemented with temporary employees as required to meet unique skill requirements or to deliver at peak times.
- \* **Right cost:** offering market competitive salary packages, professional development opportunities and a rewarding and stimulating working environment aligned to the culture and affordability.

To ensure we are able to deliver the above we invest in professional staff development, including sponsoring staff to achieve technical and management qualifications, providing mentoring and industry placement opportunities and attendance at in-house and external training programmes.

# Workload assumptions

The figures in Table 3 below are the actual and anticipated workload or traffic volumes for some of the key activities undertaken or provided by the regulator.

**Table 3**

Type of work	Team/Practice*	Actual volume April 2007 - April 2008	Estimated volume April 2008 - April 2009
Schemes due a valuation	SSF	2,267	2,138
Clearance applications	CRM	140	150
Proactive contacts	Triage	267	250
Withdrawal applications	CRM	21	25
Corporate risk management enquiries	CRM	494	500
Website views (non-TKU)	Communications	2,820,534	3,000,000
Trustee toolkit users	Communications	23,813	30,000
Number of schemes going into wind-up	PAG	687	750-800
Customer contacts (DB and DC) excluding levy and scheme returns	Customer support	56,312	55,400
Codes published	Policy	1	0
Guidance published	Policy	18	9
Scheme returns	Scheme return services	64,754	45,000
Levy invoices	Levy/Registration	79,880	75,000 - 80,000

\*Practices: CRM = Corporate Risk Management

SSF = Scheme Specific Funding

PAG = Pensions Administration and Governance

In delivering these key activities our service standards for customer support are to:

- \* answer 80% of incoming calls in less than 20 seconds;
- \* have a lower than 5% abandoned call rate;
- \* respond to 90% of emails and written correspondence for general enquiries within 20 working days of receipt; and
- \* respond to 90% of more detailed technical emails and written correspondence within 20 working days of receipt.

## Data and analysis publications

The regulator will continue to commission high quality independent market research to aid understanding of what is happening in the pensions environment, track stakeholders' views of the effectiveness of the regulator, and help improve the way in which we operate. We will monitor, using our annual governance survey, the way in which trustees operate their pension schemes and what they consider to be the levels of risk associated with various aspects of running pension schemes.

We will monitor awareness of and attitudes towards the regulator via an annual *Perceptions tracker survey* which gathers the opinions of a wide audience ranging from scheme actuaries to employers. We will review areas where we are perceived as effective and those where we are not, and assess our performance against targets contained within this plan. The research report will be published each spring. Furthermore, we commission in-depth interviews with some of our key stakeholders each year so as to provide the opportunity for anonymous feedback on the regulator and how we are performing.

In 2007 we measured our customers' satisfaction with the service they received from our telephone enquiry team; we will continue to do so, and from 2008 will also include email and contact by letter in this survey.

We will carry out ad hoc research projects throughout the year to help us develop our understanding of particular issues. These projects could involve consultation with a wide variety of stakeholders such as trustees, employers and industry experts.

At the start of each year the regulator will carry out a survey of all staff and consultants working for us and benchmark the results against those of a wide variety of other employers to help identify areas of strength and any concerns that we may need to address.

# Appendix

## 2008-2009 budget figures

The Pensions Regulator's budget for 2008-2009 is £27.8m, broken down as follows:

	2008-2009 Budget
Description	£'000
Income	(180)
Salaries	14,474
Non staff	2,067
Board/Panel fees	268
Other staff costs	903
Staff development	555
Travel and subsistence	239
Consultancy	1,047
Professional services	2,283
Information and Intelligence	449
Communications	733
Managed contracts	591
Insurances	67
Property costs	1,400
Telephony/Internet	249
Printing and stationery	131
Leases and maintenance	432
Small assets (<£1,000)	53
Depreciation	1,220
Bank charges	25
Sundry expenses	1
Tax	58
AO Reserve	0
<b>Total resource</b>	<b>27,065</b>
Fixed Asset costs	792
<b>Total</b>	<b>27,857</b>

# Glossary

DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
FRS17	UK accounting standards board, Financial Reporting Standard 17 (Pension Assets v Liabilities)
FSA	Financial Services Authority
GIA	Grant In Aid
GPPP	Group Personal Pension Plan
HMRC	Her Majesty's Revenue and Customs
IORP	Institutions for Occupational Retirement Provision, European market for occupational retirement provision
MTS	Medium Term Strategy
NAO	National Audit Office
NAPF	National Association of Pension Funds
OPRA	Occupational Pensions Regulatory Authority
PADA	Personal Accounts Delivery Authority
PPF	Pension Protection Fund
RSPA	Raising Standards in Pensions Administration
s179	Pensions Act 2004 - Section 179 Pension Protection Fund valuation for scheme levy calculation
SSF	Scheme Specific Funding
TKU	Trustee Knowledge and Understanding
TPA	Third Party Administrator
TPAS	The Pensions Advisory Service

# How to contact us

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Corporate plan 2008 2011  
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