

The Pensions
Regulator 

Corporate plan

2009-2012

April 2009

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Foreword

Today we are faced with a period of intense financial instability which has had a profound impact on occupational pension schemes in the UK.

We are operating in an economic climate far removed from the context in which we began in April 2005 and have reviewed our plans for 2009-2012 accordingly.

Scheme governance, mitigating Defined Benefit (DB) risks and mitigating Defined Contribution (DC) risks remain at the core of our activities. Throughout these key focus areas we will remain sensitive to the severe pressures employers, trustees and members currently face.

All through this *Corporate plan* runs the theme of good governance, which is more, not less, important during the downturn.

For those managing DB schemes, we have endeavoured to reassure the regulated community that the scheme funding regime has sufficient flexibility to cope with the impact of the downturn. In explaining the position of trustees of a scheme in deficit being akin to an unsecured creditor, we have set out the option to renegotiate recovery plans to repair scheme deficits, making clear that the best support for a pension scheme is a viable employer.

For those managing DC schemes, we have reminded trustees they should have clear and appropriate processes for members approaching retirement, and should encourage review of investments, contributions and target retirement dates. We look forward to our first publication of the *DC trust-based landscape* this summer.

We will continue to encourage open dialogue between employers and trustees. We will monitor the situation. We continue to help educate our regulated community as we explain new risks in the downturn, and we will always emphasise the long-term nature of pension promises.

Ultimately our goals remain the same – to protect members' benefits, to reduce risks to the Pension Protection Fund (PPF), and to promote best practice.

We can best achieve our goals for the long term when we enable and educate through positive dialogue, with the power to enforce as an important but last resort. We will continue to endeavour to work efficiently and in partnership with the regulated community, Government and our key stakeholders both at home and abroad.

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In addition to the challenges brought on by the current financial instability, we face profound changes in the UK pensions landscape. The 2007 and 2008 Pensions Acts seek to transform the UK pensions landscape. Within the *Enabling Retirement Saving Programme* (ERSP), we welcome and will deliver the capability needed to support our new role in relation to employer compliance. We will deepen our understanding of the impact of these significant changes to the pensions environment, working closely with both the provider and business communities. Our aim is to make it as easy as possible for employers to comply with the new duties from 2012.

Finally we recognise that UK schemes do not operate in isolation and we will continue to represent the UK in European debate, remaining positively engaged on key regulatory issues. We aim to ensure our particular regulatory approach is understood and aligned appropriately to that of our domestic and international partners.

This *Corporate plan* also sets out our sustained commitment to value for money. We will continue to deliver year-on-year reductions in cost as we improve service delivery. These efficiency savings will be recycled into an increased annual budget for 2009-2010, which we will use to equip our operational processes to reflect the prevailing conditions.

Combined, this extra resource will help us to manage the challenges of the economic downturn in the year ahead, as we continue to work openly with our regulated community and focus on the long-term security and protection of UK pensions.



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, established under the Pensions Act 2004 as an executive non-departmental public body, accountable to the Secretary of State for Work and Pensions.

We 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). The set-up costs of the Employer Compliance Regime (ECR) are being met by the DWP.

The Corporate plan

This is our third *Corporate plan*, covering the period 2009-2012.

Our purpose is to set out a 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 target our resources over the next three years.

Incorporated in this three-year view is a more detailed annual *Business plan* for the year 2009-2010. This enables us to deliver our statutory objectives and corporate strategy.

Our objectives

Our objectives, as established under 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;
- * Reduce the risk of situations arising which may lead to compensation being payable from the PPF; and
- * Promote, and improve understanding of, the good administration of work-based pension schemes.

Our running costs in relation to these objectives are funded by the general levy on pension schemes.

An additional objective, established under the Pensions Act 2008, is to:

- * Maximise employer compliance with the employer duties introduced through that Act and with the safeguards against prohibited recruitment conduct and inducements to opt out of pension saving.

Regulatory performance

In the current and difficult economic climate, it is important to reinforce the message that pension promises are commitments from employers to their employees which must be assessed over the long term.

We believe that the structures and powers put in place by the Pensions Act 2004 and the risk-based approach to regulation have delivered positive outcomes for schemes and their members, and are flexible enough to cope with the impact of the downturn.

We are determined to ensure that those we regulate follow the rules, and we are prepared to use our powers where it is appropriate and proportionate to do so.

The use of our powers in high profile cases such as *Ericsson*, *Sea Containers* and *Telent* have sent strong and clear signals to the market, and we believe that the threat and use of regulatory powers serve as an effective instrument in driving positive market behaviour. We have dealt with a significant number of cases where this has been evident.

An analysis of the second tranche of recovery plans submitted to us by DB schemes with a funding deficit, published in December 2008, shows that:

- * Fewer schemes are triggering in the second tranche of recovery plans compared with the first (47% compared with 70%);
- * Recovery plan lengths have fallen;
- * Schemes are better funded – assets as a percentage of Technical Provisions (TPs) have grown from 86% to 90%; and
- * Employer contributions have been growing.

Clearly, recent economic conditions will have an impact on schemes moving forward and we would expect to see this reflected in both funding and recovery plan lengths, which we will continue to scrutinise.

We have made a number of changes to make it easier to engage with our scheme funding regime, including the successful introduction of our online scheme return to reduce administrative burdens.

This has been supported by the *Trustee toolkit* which 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 also remain 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* jointly with the PPF on an annual basis. Over the past three years this publication has achieved the reputation of being an essential reference point for anyone requiring data on DB schemes. We have also published an analysis of recovery plans submitted to us and information about the DC landscape. We have 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. We have also published a report on the *Telent* case under Section 89 of the Pensions Act 2004.

In April 2008 the House of Commons Committee of Public Accounts published the National Audit Office report entitled '*The Pensions Regulator: Progress in establishing its new regulatory approach*'. This concluded:

'We found that TPR 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 (PPF). TPR 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.'

We welcome endorsement of our risk-based approach, and remain focused on the fact that our long term success will be judged by how effectively we deliver against our objectives.

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Regulatory impact

Our risk-based approach means we are better able to target our resources on areas that pose the greatest risk to our statutory objectives, and to take actions that are proportionate to these risks. Our operational approach is to **Educate**, **Enable** and **Enforce**.

Educate

- * The *Trustee toolkit* continues to be welcomed by the industry and praised by users. There are approaching 30,000 registered users of the *toolkit*. Our research shows a satisfaction rating of 98% amongst those who have used the *toolkit*.
- * We continue to publish guidance to help trustees and advisers to understand and discharge their responsibilities.
- * We make all our codes of practice and guidance available on our website which receives on average 85,000 visits per month and is rated by 91% of users as being useful or very useful.
- * We are planning to run a series of workshops, building on the successful programme of scheme funding workshops which we ran in 2007.
- * We have developed a *direct communications* capability that allows us to use our scheme data to deliver targeted messages to key audience segments (such as sponsoring employers, trustees, or administrators).

Enable

- * We seek to be as open and approachable as possible. We continue to handle around one hundred clearance enquiries every month. The lower volumes of clearances supports the evidence that in more straight-forward cases the system is becoming largely self-regulating.
- * Through proactive contact with schemes, on issues such as completing recovery plans and scheme returns, we are able to help them handle scheme-specific risks and to ensure that they comply with regulatory duties.
- * We continue to use our outbound telephone campaign capacity as part of our ongoing proactive contact strategy.

Enforce

- * Over the course of the year we were involved in 47 independent trustee appointments and 586 member and third party appointments (member and third party appointments are generally made to enable members to secure their own benefits, often due to ill health; to secure death benefits; or to allow a representative to act on behalf of a member based overseas).
- * We have continued to work with and support other regulators and law enforcement agencies in their investigations as appropriate.
- * We have issued our first Financial Support Directions (FSD).
- * We have appointed independent trustees with exclusive voting rights to a pension scheme whose sponsoring employer was taken over.
- * At any one time we may be considering the use of our powers in a number of cases; however, in most of these cases the potential use of our powers has proved sufficient deterrence to secure a satisfactory outcome.

We are committed to demonstrating that we operate effectively against the *Better regulation* principles. We use our annual *Perceptions tracker survey* to track our performance in this regard (see section on *Better regulation*). Our latest survey results, in Table 1 below, show how we were rated by our customers and stakeholders against a set of key characteristics.

Table 1

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

	2007	2008
Professional	85%	92%
Informative	78%	90%
Educative	77%	90%
Credible	79%	87%
Protective	66%	83%
Respected	67%	79%

Our corporate strategy

The law provides us with a governance framework and a wide range of discretionary powers, and it is our responsibility to identify key issues, set priorities and plan specific regulatory activities.

Strategic priorities

We recently completed a review of our medium-term priorities. Our new *Corporate strategy* sets out our strategic priorities from 2009-2010 to 2011-2012, as listed below.

Governance and administration

Good governance is more, not less, important during the downturn, and runs to the heart of a well-run pension scheme. The theme of good governance and administration underpins all of our statutory objectives.

Good governance is crucial in managing many of the risks associated with DC and DB and will be a critical factor in ensuring that the auto enrolment policy meets its objectives.

Key DB risks

The DB sector has been the main focus of much of our activity since we were established in 2005.

Whilst other risk areas are becoming increasingly important, DB remains a priority area in two respects:

Scheme funding

We remain committed to the effective regulation of the scheme funding regime. The regime is increasingly well understood and has had a positive affect. We continue to believe that the regime is flexible enough to cope with the current economic downturn.

Market transitions

There have been a number of developments in the market for corporate pensions risk, with the emergence of new providers and new business models. Whilst much of that is welcome, we will ensure that associated risks are appropriately managed.

Key DC risks

Recent trends in pension provision mean that DC provision is becoming increasingly important. The regulator has previously identified five key risks in this type of provision. These remain a priority and will receive increased focus. They are:

* *Member communications*

We will continue to focus on helping trustees, employers and others to communicate with members as effectively as possible, particularly in this acute environment where scheme members are increasingly anxious and concerned. We will continue to actively support the Financial Services Authority (FSA) in their leading role to develop levels of financial capability.

* *Decumulation*

We will continue to work with others such as the FSA and the Pensions Advisory Service (TPAS) to help ensure members make the right choice of annuity product at retirement and take advantage of the options available to them.

* *Investment*

We will not prescribe investment decisions, we are keen to help make sure members are offered suitable options and defaults, equipped to make the right choices for them.

* *Charges*

We intend to keep under review the evidence base on the level of charges borne by members in different types of provision, and to promote transparency.

* *Administration*

Which cuts across all our priority areas and in which we will continue to promote good practice.

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Preparing for 2012

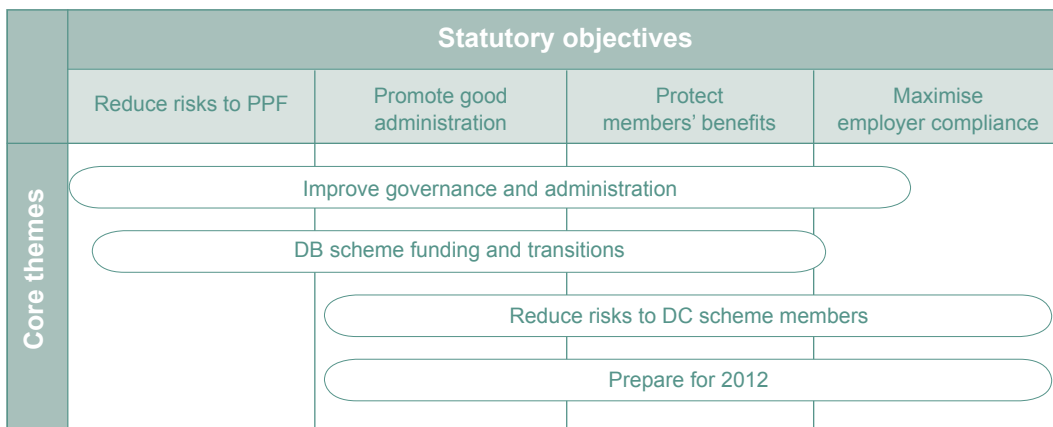
The Pensions Act 2008 introduced a number of changes to the UK pension system. There are three particular areas which we are focused on.

- * In order to fulfil the extended remit given to us by Parliament in the Pensions Act 2008, the regulator is building the capability to maximise employer compliance with the new duties. We are well advanced with this work. At a high level we intend to take a similar approach to this activity as we do to our current regulation: we plan to be risk-based and to focus on educating and enabling, with enforcement action taken where appropriate.
- * The Personal Accounts pension scheme, which will be delivered by the Personal Accounts Delivery Authority (PADA), will be a multi-employer trust-based DC pension scheme and will therefore fall within our regulatory ambit, as will any other schemes offering similar products.
- * The 2012 reforms are expected to have a major impact across the pensions landscape. Many open pension schemes are likely to see an increase in membership and level of savings, and many new pension schemes are likely to be set up. The extension of automatic enrolment as a joining mechanism is likely to mean that many more people will save in DC pensions.

The following diagram (Figure 1) illustrates how our *Corporate strategy* priorities link to our statutory objectives:

Figure 1

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



Strategic alignment

Planning documents

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 objectives at a personal level.

Corporate strategy

Our *Corporate strategy* sets out our analysis of the pensions landscape and our framework for determining the key risks that we will need to manage in the coming years.

Corporate plan


This document describes our strategic direction and the outcomes we are seeking to achieve. The plan also describes how we intend to focus and deploy our resources over the next three years.

Business plan

Incorporated in this *Corporate plan* is a more detailed annual plan for 2009-2010. 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 and the challenges set out in our *Corporate strategy*.

Figure 2
Planning, reporting and delivery processes

		2009	2010	2011	2012	2013	2014	2015	
Externally published	Statutory objectives								
	Corporate strategy								
	Corporate plan								
	Business plan								
Internally applied	Performance dashboard								
	Operational plan								
	Performance delivery and development plans								

Core themes for the Corporate plan 2009-2012

The planning framework

The *Corporate strategy* themes underpin our 2009-2010 *Business plan*, and the diagram below (Figure 3) summarises where our efforts will be focused for the period of this *Corporate plan*.

Figure 3

Regulatory focus under *Corporate strategy* themes for the period 2009-2012

	Core themes			
	1. Improve governance and administration	2. DB scheme funding and transitions	3. Reduce risks to DC scheme members	4. Prepare for 2012
Previous focus	Influence behaviours to improve governance	Complete third year of the tri-annual scheme funding review	Develop and implement DC regulation approach	N/A
2009-2012 focus	Promote key aspects of good governance and administration	Monitor and review scheme funding and monitor market transitions	Build understanding of DC risks in a changing landscape	Build capacity and consider wider impact of reforms

A more detailed explanation of our focus under each of the *Corporate strategy* themes for the period of the *Corporate plan* (together with a fifth theme on *Better regulation* which captures how we will deliver our business) can be found in the following sections.

Theme 1: Improve the governance and administration

The landscape

The good governance of pension schemes is more, not less, important during the downturn. Good governance and administration are at the heart of a well-run pension scheme, and this is the one theme that underpins all of our statutory objectives.

Trustees play a key role in trust-based provision, though good governance and administration are also critical in contract-based schemes where there are no trustees, and the responsibilities are shared between employers and providers.

Our annual survey of the governance of occupational pension schemes provides us with an evidence base which we supplement with our regulatory experience and evidence from other sources. In our report on the 2008 survey, we were pleased to note the evidence of improvement in the three areas of governance on which we had focused most heavily: trustee knowledge and understanding, conflicts of interest and monitoring the employer covenant.

There will be another survey in 2009 and this will be a key piece of evidence to help us direct the next steps of our risk-based approach to governance and administration.

Over the course of the last year we have issued guidance on a range of issues relating to governance and administration:

- * Winding up;
- * Conflicts of interest;
- * Relations with advisers;
- * Record keeping; and
- * Investment choices.

We have also consulted on changes to the code of practice and scope on *Trustee Knowledge and Understanding* that further underline the importance of good administration.

In contract-based schemes many of the ongoing risks associated with the scheme are mitigated by the FSA. In November 2007, jointly with the FSA, we published a guide to our regulatory responsibilities in respect of 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.

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Theme 1: Improve the governance and administration *continued*

Focus for 2009-2012

Good governance and administration are crucial in managing many of the risks associated with both DB and DC provision, and are likely to remain important in the context of changes to provision arising out of the 2012 reforms.

We set out in our statutory code of practice for *Internal controls* in 2006 our expectations of how occupational pension schemes should satisfy the legal requirement to have adequate internal controls in place. The code provides the underpinning to the decisions that need to be taken in both DB and DC pension schemes.

We followed the publication of the overall framework with a series of tailored publications focusing on specific details of the code for those who needed to drill down into particular areas in more detail. Some recent examples include *Conflicts of interest* and *Relations with advisers*. We are reviewing the performance of the code with stakeholders. The evidence suggests it has been well received.

Later in the year we will be setting out improvements to the guidance and case studies in this area. We aim to make the job of trustees as straightforward as possible, helping them to understand their different duties as well as underpinning the fundamental importance of getting the procedures right for making key decisions for their pension scheme.

We will continue to take a close interest in promoting good administration and guidance in the priority areas that we published in October 2007.

Trustee Knowledge and Understanding (TKU) and independent trustees

We have consulted on proposed changes to the code of practice and scope on *Trustee Knowledge and Understanding*, and will be producing revised versions. The *Trustee toolkit* will be reviewed to ensure that it reflects the changes in the code and scope and new modules will be considered to keep it up to date.

We will also explore ways to make the *toolkit* more accessible and relevant to wider audiences and will continue to promote the requirements and benefits of *Trustee Knowledge and Understanding*. We are making the *Independent Trustee Register* fit for purpose by raising the bar for belonging to the register and giving greater assurance of those who are on it. The project will use a combination of workshops, one-to-one meetings and other channels to engage with trustees on the register. This will be part of a discursive engagement with the sector to listen to their views and develop revised joining criteria to meet the regulator's challenges.

Conflicts of interest and relationship with advisers

Following the publication of our guidance in these areas in 2008, we will continue to monitor the situation and consider what further steps need to be taken.

Administration

Following the publication of our guidance on *record keeping* in January 2009, we will take forward work to establish some clear benchmarks against which progress can be measured. We then expect to publish a progress report in autumn 2009. We will continue to work with all relevant parts of the industry to achieve our goals in this area.

Processes for investment choice

The regulator will continue to chair the Investment Governance Group (IGG) established last year in the wake of a review by the National Association of Pension Funds (NAPF) and Government consultation into the *Myners Principles*. The group will take forward work to implement an industry-led framework for the application of the principles.

Winding up

We will continue to monitor progress in relation to the two-year target as set out in guidance published jointly with the PPF and DWP. A progress report will be published during the summer of 2009.

Theme 2: Reduce risks to DB scheme members

The landscape

The scheme funding regime was introduced in September 2005 alongside anti-avoidance powers and clearance. Since then, positive steps have been made to address pension deficits through the scheme funding regime – scheme funding improved between 2005 and 2007, and clearance activity is on a downward trend.

Current economic conditions are difficult, and the challenges associated with providing DB pensions have increased. Costs have been rising, for example because of increased longevity and scheme maturity, and businesses and investors are more conscious of these costs, partly due to developments in accounting standards. The increased focus on transparency has raised awareness of the short term volatility of scheme deficits and the employer's interest in managing the risks.

A more recent trend in DB provision is the emergence of innovative solutions to the management of pension scheme assets and liabilities. The last two to three years have seen significant growth in transactions which shift some or all of the risks in DB pension schemes to counterparties such as insurance companies. These transactions can take several forms, including:

- * **Buy-out**, where, for example, an insurance company takes on all the assets and liabilities of a DB scheme;
- * **Buy-in**, where a scheme sets up an insurance contract in respect of a section of the membership for which it retains the liabilities, with the insurance contract providing a stream of income; and
- * **Transfers**, where individual members opt to transfer their DB pension rights to a DC scheme.

Buy-out solutions have shown a particularly dramatic growth recently and we have also seen the emergence of blended solutions which use more than one approach to manage liabilities. Although we have seen substantial growth in these new ways to manage pensions, the size of the market is still small compared to the total stock of DB liabilities.

Focus for 2009-2012

The DB sector has been the main focus of much of our activity since we were established in 2005 and we believe that we have made substantial progress. Whilst other risk areas are becoming increasingly important, DB remains a priority area in two respects, as set out below.

Scheme funding

We remain committed to the effective regulation of the scheme funding regime. We believe that this has demonstrated success in boosting the funding of DB schemes and is well understood. However, the current economic conditions have had a significant impact on the funding position of pension schemes. The fall in asset prices and increases in the present value of liabilities of schemes are increasing the pressures on DB pension schemes. This is at a time when employers are facing reduced cash flows due to a fall in aggregate demand and restricted credit markets.

The approach set out in UK legislation balances scheme funding levels with what is reasonably affordable for employers, and we believe that the current scheme funding regime is flexible enough to cope with the impact of an economic downturn.

We will continue to apply the flexibilities in the scheme funding system pragmatically, looking for outcomes in the best interests of the scheme and sponsor as well as providing guidance and support where necessary.

The regulator will continue to publish its key data and analysis publications on an annual basis; these are the *Purple Book* and *Scheme funding: An analysis of recovery plan and clearance applications*.

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Theme 2: Reduce risks to DB scheme members *continued*

Market transitions

There have been a number of developments in the pensions buy-out market, with the emergence of new providers and new business models. Whilst much of this is welcome, we will ensure that risks are appropriately managed.

We need to ensure that trustees are looking carefully at proposals for new buy-out solutions to make sure that they provide the right levels of security for their scheme members. We have been concerned about a subset of activity that potentially weakens the employer covenant without any additional mitigation. We continue to monitor closely this market in order to ensure that members interests are appropriately protected.

Our aim is to understand the risks so that we may help the parties involved in these transactions to ensure that they explore their options thoroughly, carry out due diligence and consider, where applicable, the counter-party covenant that they are accepting in exchange for the one with which they have been long familiar, together with the associated risk.

A key part of our approach involves ensuring we continue to communicate with all parties, focusing on education to help people understand their roles and working together to find the correct solutions for individual schemes. The regulator will continue to be proactive in monitoring developments and communicating with all relevant parties to ensure that we have a joined-up approach to regulation and remain vigilant to emerging risks.

The Pensions Act 2008 included provision for a proportionate extension of our powers to intervene in the market place in certain circumstances. The regulator's new powers should generally assist us to intervene with some of the models that cause concern. We will maintain our approach of educating, enabling and enforcing only where appropriate, and we therefore expect to use these powers very rarely.

The European debate

In addition to these two priority areas outlined above, we will continue to represent the UK in the European debate, remaining positively engaged to ensure that the UK scheme specific approach to funding remains intact, and that EU-wide initiatives are appropriate for the protection of UK schemes and members.

We will also continue to make our case in Europe for the scheme specific funding approach to be recognised, together with the employer covenant and the pensions protection fund, as an appropriate means of ensuring member protection and of maintaining sustainability.

We will contribute to the European debate about the extent and impacts of current financial instability, as we aim to ensure our particular regulatory approach is both understood and complementary to that of our domestic and international partners.

Theme 3: Reduce risks to DC scheme members

The landscape

Traditionally, much of DC provision has been through relatively small occupational schemes which are the employer's only pension arrangement.

As of 1 January 2009, there were some 54,545 occupational DC schemes (including hybrid schemes with a DC element) registered with the regulator. As of the same date there were 6,904 pure DB schemes registered with the regulator. In recent years we have seen two developments in this area:

- * Some larger employers have been closing their DB schemes 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 2.5 million DC members of occupational schemes, 38% belong to schemes which also have a DB section, 25% belong to schemes with fewer than 1,000 members, and 75% belong to schemes with over 1,000 members.
- * For many employers, workplace contract-based provision (group personal pensions, group stakeholder pensions and group SIPPs) are the only form of provision open to new members. The 2008 *Annual survey of hours and earnings* (from the Office for National Statistics (ONS)) found that there are 3.18 million members of workplace contract-based provision, a slight increase on the 3.17 million found in 2007.

In 2006 we embarked upon extensive research and analysis of the risks inherent in DC schemes. This provided us with the insight required to consult with industry which, in turn, led us to produce our consultation document in November 2006, *How the regulator will regulate defined contribution schemes in relation to members' risks*.

Our consultation report was subsequently produced in April 2007 and this enabled us to deliver a programme of work in 2008 that focused heavily on some of the key DC risks either explicitly, such as the decumulation stage of a DC scheme or voluntary employer engagement, or through governance and administration guidance, such as on record keeping and managing conflicts of interest.

Additionally the DC module in the *Trustee toolkit* covers all the five major risk areas discussed below. Although it was written for trustees of occupational schemes, most of the material is equally applicable to contract-based schemes and could be adapted for that purpose.

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Theme 3: Reduce risks to DC scheme members *continued*

Focus for 2009-2012

DC provision is becoming increasingly important. It is the case that as opposed to DB scheme members, DC scheme members bear a greater share of the risks than employers. We have previously identified key risk areas in this type of provision. These risks will remain a priority area and will receive increased focus. We also continue to work with the FSA in areas where we have joint regulatory responsibilities in relation to workplace contract-based schemes.

Member communication

We published our *member communications guidance* in October 2008, which set out principles of good practice. This highlighted the point that if members have a lack of understanding of their pension arrangements they may well make poor decisions or take no action at all. We will continue to focus on helping trustees and others to communicate with members as effectively as possible.

Financial capability is an important issue for pensions and we will continue to actively support the FSA, who take the lead in this area. We are committed to undertaking a communications campaign on DC issues which will include the publication of a scheme return analysis of the DC trust-based landscape.

Decumulation

We published our *member retirement options* guidance in May 2008, which highlighted our view that schemes should have an appropriate process in place to help members (or dependants) who want to convert money purchase funds into an income and in particular, the importance of the *Open Market Option*. We will continue to work with others such as the FSA and TPAS to help ensure that members make the right choice of annuity product at retirement and take advantage of the options available to them.

We intend to get more feedback from members and member groups of their experiences of member communications and the decumulation process within their schemes. This will help us to understand the issues and consequences from their perspective, and ensure that suitable regulatory response and follow-up is initiated.

We will also be working more closely with the DWP regarding the initiatives they are launching in this area, ensuring that our activity remains closely aligned where required.

Investment and charges

We do not envisage becoming involved in prescribing investment decisions. However, we are keen to help ensure that members are offered suitable options and defaults, and that they are equipped to make the right choices. We will do this through a number of channels including continuing to chair the IGG, established last year in the wake of a review by the NAPF and Government consultation into the *Myners Principles*. The group will take forward work to implement an industry-led framework for the application of the principles. In addition to this we will keep under review the evidence base on the level of charges borne by members in different types of provision, and promote transparency.

Administration

Following the publication of our guidance on *record keeping* in January 2009 we will take forward work to establish some clear benchmarks against which progress can be measured. We then expect to publish a progress report in autumn 2009.

Theme 4: Prepare for 2012

The landscape

The Pensions Act 2008 introduced a number of changes to the UK pension system.

These changes will:

- * Make the state pensions system fairer and more generous, but available at a gradually increasing age;
- * Require employers to automatically enrol eligible staff into a qualifying pension scheme; and
- * Set up a new multi-employer occupational DC pension scheme, called Personal Accounts.

As part of these changes, the regulator has been given a new role and accompanying statutory objective to maximise employers' compliance with their new duties.

The changes are expected to have a substantial impact on the UK pensions landscape. The introduction of automatic enrolment is expected to increase the number of people saving in private pensions by around six to nine million once these changes are introduced from 2012.

There are a number of variables associated with these changes, for example:

- * The level of opt-out and participation from 2012 following the introduction of auto-enrolment;
- * The fact that the nature and mix of additional savings is not yet known (employers will need to choose a qualifying scheme in which to enrol their staff: however, they will have a choice over the type of qualifying scheme to use - DB, trust-based DC or contract-based DC, or possibly a mix); and
- * The increase in pension participation and saving levels, and the change in joining mechanisms, and the effect on Occupational Pension and Group Personal Pension (GPP) markets.

The Personal Accounts pension scheme is expected to be the largest pension scheme, by far, in the UK. It is expected to have several million members and hundreds of thousands of sponsoring employers.

Focus for 2009-2012

Employer compliance

In order to fulfil the extended remit given to us under the Pensions Act 2008, we are building our capacity to maximise employer compliance with their new duties. We intend to take a similar approach to this activity as we do to other aspects of regulation. We will be risk-based and focus on educating and enabling, with enforcement action taken only when necessary.

Personal Accounts

The Personal Accounts pension scheme will be a multi-employer trust-based DC scheme. It will fall within our regulatory ambit and we intend to regulate it as we would any other scheme. Other types of scheme may be created to meet the needs of employees, and we will monitor developments closely.

The wider landscape

The 2012 reforms are expected to have a major impact across the pensions landscape. Many pension schemes are likely to see an increase in membership and the level of savings, and many new DC pensions are likely to be set up. The extension of automatic enrolment as a joining mechanism is likely to mean that many more people save into DC pensions. This will present challenges of scale and complexity in our core regulatory processes and we will ensure we work to understand them.

Theme 5: Better regulation

Background

Since its launch in April 2005, the regulator has been designed and committed to being customer-focused and risk-based, aligned with the principles of *Better regulation* – to be transparent, accountable, proportionate, consistent, and targeted – as first published in March 2005.

It is our aim to be seen as an exemplar of best practice in regard to *Better regulation*. We believe that we have made good progress in this respect over the past four years although we recognise there is further to go. Through the downturn it will be even more important to remain proportionate and targeted to help reduce burdens on businesses in increasingly difficult economic conditions.

Table 2

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

	2007	2008
% who agree that the regulator is consistent in its approach to enforcing pension scheme regulation	57%	71%
% who feel that we explain clearly why decisions have been made	49%	68%
% who feel that our actions are proportionate to the risk posed	51%	58%
% who feel that we are focused on the most important risks to members' benefits	63%	74%
% who feel that we are proactive in reducing risk to scheme members' benefits	57%	70%

In delivering our business objectives, our overriding aim is to achieve worthwhile regulatory outcomes, and to do so in ways that make best use of our resources, ensuring that we work in close partnership with those that we regulate.

Focus for 2009-2012

Understanding our customers

We will use a number of approaches to refine our customer insight so that we can engage with our customers as effectively as possible and make best use of finite resources.

One key factor is that employers will become a more significant element of our customer community, particularly through our role in the 2012 reforms. This improved insight will also inform the selection and design of regulatory interventions, especially those which 'educate and enable'.

We will also continue to build our campaign capacity, increasing the flow of targeted messages and communication to key audience segments, for example smaller schemes. Our focus will incorporate a focus on small employers to build towards the introduction of auto-enrolment from 2012. This will include building relationships with key intermediary stakeholders and building consensus with the small and medium enterprises (SME) community. The behaviours and decisions of these players can have a significant effect on the outcomes for scheme members.

European initiatives such as the convergence agenda mean that we need to work closely with our European counterparts in order to ensure that our risk-based approach across a diverse pensions landscape is well understood. We have offered common training and study programmes for staff from other European regulators, and run pensions seminars around shared themes.

Operational efficiency

Over the coming years, we will aim to achieve continuous 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 will achieve this by, for example, continuing to automate our processes wherever possible to improve efficiency and reduce the administrative burden to schemes, and by introducing more innovative ways of data management and analysis.

Hampton Implementation Review

The *Better Regulation Executive* (BRE) is currently rolling out a programme of *Hampton Implementation Reviews*. We are scheduled to undergo such a review in the summer of 2009.

Business plan 2009-2010

The following sections set out our annual *Business plan* objectives and associated corporate performance measures for the period 2009-2010. These objectives have been derived from the key themes identified in our *Corporate 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, as far as practicable, the outcomes of our regulation, both in terms of what we have achieved and how effectively we deliver these outcomes.

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, market movements or corporate insolvencies.

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

- * Ensuring that scheme funding targets are more robust, and plans are in place to recover deficits, in accordance with legislation, reducing 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 members' benefits;
- * Increasing the understanding of the risks to DC schemes, and how to manage them, to reduce the likelihood of such risks materialising; and
- * Ensuring that employers are aware of their duties under the Pensions Act 2008 in order to maximise compliance.

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.

To summarise our approach to measuring our success:

- * Success is assessed by measuring the regulator's impact on the external environment;
- * Our *Corporate strategy* identifies the key themes for regulatory focus, and for each theme we have identified a key performance indicator which is our success factor;
- * These measures are reported on quarterly to our board and the DWP using a performance dashboard specifically developed to present the outcome measures agreed in the *Business plan*; and
- * We also focus on our effectiveness in delivering our regulatory outcomes against the *Better regulation* principles.

As per previous years we have included indicators to provide clear and transparent performance targets for the regulator's areas of business. Given the uncertainties of the economic context we expect to see greater variation between these forecasts and our future performance out-turn. However, despite this unstable and challenging context, we will continue to sustain and improve our performance, and will report on our annual performance against these published targets in our *Annual report and accounts*.

Further details of the *Business plan* are shown in the following section.

Theme 1: Improve governance and administration		
<p>1.1 Objective: To continue to promote good practice in relation to key aspects of governance and administration (eg record keeping, winding up, member communication, conflicts of interest)</p>	<p>Performance indicator: Results of the annual <i>Governance survey</i> and other monitoring reports show sustained performance in relation to:</p> <ul style="list-style-type: none"> * Winding up * Internal controls * Record keeping * Conflicts of interest * Relations with advisers 	<p>Measures: The average age of stock in wind up falls: target to be developed.</p> <p>25% of schemes in flow should be wound up in two years: target to be developed.</p> <p>We will take forward work to establish some clear benchmarks against which progress can be measured on <i>record keeping</i>: we expect to publish a progress report in autumn 2009.</p> <p><i>Governance survey</i> results in respect of:</p> <p><i>Internal controls</i> Proposed KPI: (baseline measure) percentage of positive responses (top two boxes, excluding don't knows) for the following audiences/segmentation: large schemes – answering in the positive, small schemes – answering in the positive.</p> <p><i>Conflicts of interest</i> Proposed KPI: percentage of positive responses (top two boxes, excluding don't knows) for the following audiences/segmentation: large schemes – to be baselined, small schemes – to be baselined.</p> <p><i>Relations with advisers</i> Proposed KPI: percentage of positive responses (top two boxes, excluding don't knows) for the following audiences/segmentation: large schemes – to be baselined, small schemes – to be baselined.</p>

Theme 1: Improve governance and administration		
<p>1.2 Objective: To continue to develop best in class education programmes to influence our core trustee audience (eg <i>Trustee toolkit</i>) and to explore the options for extending this approach to other audiences.</p>	<p>Performance indicator: <i>Toolkit</i> usage amongst lay trustees continues to increase quarter-on-quarter.</p>	<p>Measure: The number of trustees who have successfully completed modules of the <i>Trustee toolkit</i> against a target of 5,300.</p>
<p>1.3 Objective: To ensure that trustees understand and comply with the <i>Myners principles</i>.</p>	<p>Performance indicator: Improvements in compliance as measured by the <i>Governance survey</i>.</p>	<p>Measure: Results of the <i>Governance survey</i> question: '<i>The board of trustees is compliant with the Myners Principles for good institutional investment governance</i>'. Proposed target: baseline established from the results for the following audiences/segmentation: large and small schemes.</p>

Theme 2: Reduce risks to DB scheme members		
<p>2.1 Objective: To protect members' benefits by continuing to operate the scheme funding regime effectively, taking account of the wider economic climate.</p>	<p>Performance indicator: Percentage of schemes delivering to their recovery plan from the first triennium.</p>	<p>Measure: Technical Provisions as a percentage of s179 against a proposed target of 110%.</p>
<p>2.2 Objective: To continue to ensure that trustees and employers understand the scheme funding regime.</p>	<p>Performance indicator: Improvements in understanding as measured by the <i>Perceptions tracker survey</i>.</p>	<p>Measure: Results of the <i>Perceptions tracker</i> question: '<i>Understanding of the new scheme funding arrangements</i>'. Proposed target: increase percentage of positive responses (top two boxes, excluding don't knows) for the following audiences/segmentation: trustees – increase to 69%, employers – increase to 71%, professional advisers – increase to 85%.</p>
<p>2.3 Objective: To continue to ensure that employers, advisers and trustees complete the corporate transaction process in line with legislative and code requirements.</p>	<p>Performance indicator: The market increasingly understands the role of the pensions creditor and the regulator in corporate transactions.</p>	<p>Measure: Results of the <i>Perceptions tracker</i> question: '<i>Understanding of the regulator's powers and stance in relation to clearance and anti-avoidance powers</i>'. Proposed target: increase percentage of positive responses (top two boxes, excluding don't knows) for the following audiences/segmentation: schemes with over 100 members to 69%.</p>

Theme 3: Reduce risks to DC schemes		
<p>3.1 Objective: Trustees understand and mitigate the risks to retirement options.</p>	<p>Performance indicator: Improvement in trustee understanding and action to address retirement option risks as measured by the <i>Governance survey</i>.</p>	<p>Measure: Results of the annual <i>Governance survey</i> question: '<i>Inform members in communications that they can exercise the open market option</i>'. Proposed target: baseline the % of members who were informed of the open market option. Trustees informed members of open market option against a proposed target of 80%.</p>
<p>3.2 Objective: Trustees understand and mitigate the risks to member communication.</p>	<p>Performance indicator: Improvement in trustee understanding and action to address member communication risks as measured by the <i>Governance survey</i>.</p>	<p>Measure: Results of the annual <i>Governance survey</i> question: '<i>Members are communicated with effectively</i>'. Proposed target: baseline – the % of members who were communicated with well – the % of trustees who communicated well with the members.</p>
<p>3.3 Objective: Employers, advisers and trustees understand and mitigate the risks to DC scheme members.</p>	<p>Performance indicator: Improvement in employer, adviser and trustee understanding and action to address risks to DC scheme members as measured by the <i>Governance survey</i>.</p>	<p>Measure: Results of the annual <i>Governance survey</i> question: '<i>How would you rate your understanding of the risks to DC schemes?</i>' Proposed KPI: percentage of positive responses (top two boxes, excluding don't knows) for the following audiences/segmentation: DC schemes.</p>

Theme 4: Prepare for 2012		
<p>4.1 Objective: To manage key risks to the ECR programme (including project delivery and its impact on the regulator's other activities).</p>	<p>Performance indicator: Project delivery is to plan. The regulator achieves its planned business objectives without disruption.</p>	<p>Measure: 100% of level 1 project milestones completed on time and within tolerance (subject to accepted change controls). ECR risk register properly managed so that risks do not become issues.</p>
<p>4.2 Objective: To deliver all ECR project for 2009-2010 within budget.</p>	<p>Performance indicator: Project spend is to budget.</p>	<p>Measure: ECR spend to budget at end of financial year within 1% variance. (Monitored quarterly).</p>
<p>4.3 Objective: To gain full approval for the ECR annex of the full business case and support DWP in achieving authority for ECR to proceed and award contracts.</p>	<p>Performance indicator: ECR annex of the full business case signed off by ERSP. Contracts awarded to supplier(s).</p>	<p>Measure: Each version of ECR annex to full business case signed off at DWP gated reviews and ECR Design passes MPRG scrutiny.</p>
<p>4.4 Objective: External stakeholders have confidence in the design of ECR.</p>	<p>Performance indicator: Improvement in stakeholder confidence as measured by the <i>Perceptions tracker survey</i>.</p>	<p>Measure: Bi-annual survey to establish and then measure improvement against baseline (wording of questions to be agreed).</p>

Theme 5: Better regulation		
<p>5.1 Objective: To improve our capabilities and the channels we use to engage with and communicate to those we regulate.</p>	<p>Performance indicator: Key audience segments increasingly understand the 'educate and enable' role of the regulator.</p>	<p>Measures: Media evaluation – aggregated measure monitoring TPR's impact within the media using PR value and positive/negative press balance as indicators. Proposed target of: – Press balance 75% positive – PR Value + 20% on 2008/09 Campaign index – aggregated measure of a range of metrics covering website and marketing campaign activity. Proposed target of increase of 10% on 2008-2009.</p>
<p>5.2 Objective: To continue to deliver risk-based regulation in line with the <i>Hampton Principles</i> and to be an exemplar of best practice.</p>	<p>Performance indicator: The regulator continues to be authoritative and demonstrates improvements in the five principles of good regulation as evidenced by research.</p>	<p>Measure: Collective results (average score) of the <i>Perceptions tracker</i> questions on the <i>Hampton Principles</i> increase in positive responses (top two boxes, excluding don't knows), against a target of 72%.</p>
<p>5.3 Objective: To continue to reduce burdens to our customers.</p>	<p>Performance indicator: The administrative burden of scheme returns and paying levies are reduced.</p>	<p>Measure: Percentage of scheme returns completed on time. Proposed target: 90%. Completed on time covering 95% of DC membership.</p>
<p>5.4 Objective: To maximise the effectiveness of the regulator through effective leadership, collaborative working and continuous improvement of internal policies and processes.</p>	<p>Performance indicator: Resources effectively applied in conjunction with the delivery of optimum systems, corporate governance processes, controls and continuous improvement initiatives.</p>	<p>Measures: Full-year forecast out-turn variance to budget against a proposed target of <1% variance. Average debtor days reduced to 40 day average.</p>

Resource summary

This section provides information on the resources required to deliver our outcomes during 2009-2010.

Financials

Levy

The Department for Work and Pensions funds the Pensions Regulator by a levy payable by pension schemes.

The regulator collects 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 Pension Protection Fund. The Pensions Regulator will continue to collect any levies due in previous years which remain outstanding on 31 March 2009.

Employer compliance

Costs for the work undertaken by the regulator in respect of the set-up cost of the Employer Compliance Regime are being met by the DWP and not by the levy.

This expenditure will be reported separately in our *Annual report and accounts*.

Projected budget for 2009-2010

The projected budget for 2009-2010 and subsequent years (for our non-ECR work) shows a year-on-year increase. This increase is driven by the impact of the economic downturn on the volumes of work that we anticipate we will be required to handle, and reflects changes in the landscape anticipated from auto-enrolment.

We remain committed to ensuring value for money in carrying out our operations, and we set targets so that our underlying costs will continue to reduce through our programme of efficiency measures, including the implementation of self-service initiatives, process automation and smarter procurement. These initiatives underline our culture of continuous improvement and enhanced customer service. Our base cost shows a 5% year on year reduction in costs, however this has been offset through the additional funds required due to the increased volumes anticipated from the economic downturn.

The current economic context is likely to produce additional challenges that will impact on our budget. The projected budget is based on actual and anticipated workloads for the key activities undertaken or provided by the regulator, and factors in a degree of uncertainty about the current economic climate. We are equipped, via the projected budget for 2009-2012, to manage the increased volumes of traffic in the years ahead.

Projected (non-ECR) budget for 2009-2012

Category	2009-2010 £'000	2010-2011 £'000	2011-2012 £'000
Staff	19.7	20.6	21.4
Capital	0.6	0.9	0.9
Non-staff	7.9	8.0	8.2
Total	28.2	29.5	30.5

The budget for our work on the Employer Compliance Regime is subject to further planning as the design work for the programme is further developed.

The project budget for 2009-2010 is £13.6 million.

Human resources

We start this planning period with around 290 full time equivalent posts for our non-ECR work. We aim to end this planning period with a broadly equivalent level of full time equivalent posts. We will continue to ensure that 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 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 seconded 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 the table below are the actual and anticipated workload or traffic volumes for some of the key activities undertaken or provided by the regulator.

The estimated volume is based on current levels of activity and factors in a degree of uncertainty about the current economic climate. We are equipped, via the projected budget for 2009-2010, to manage the increased volumes of traffic in the years ahead.

Type of work	Team	Actual volume April 2008- March 2009	Estimated volume April 2009- March 2010
Schemes due a valuation	Risk and Funding	2,495	2,500
Clearance applications	Risk and Funding	111	100
Withdrawal applications	Risk and Funding	13	20
Corporate risk management enquiries	Risk and Funding	291	300
Number of schemes in wind-up	Pensions administration and governance	4,600	4-5,000
Customer contacts excluding levy and scheme returns	Customer support	55,700	55,300
Codes of practice published	Regulatory policy	0	1
Guidance published	Regulatory policy	9	5-7
Scheme returns	Scheme return and Levy services	25,000	35,000
Levy invoices	Scheme return and Levy services	65,000	65,000

Data and analysis publications

The regulator will continue to publish its key data and analysis publications on an annual basis: these are the *Purple Book* and *Scheme funding: An analysis of recovery plan and clearance applications*. In addition, in 2009, we plan to publish *DC trust-based landscape: scheme return analysis*, the first comprehensive look at the DC trust-based landscape. The data and analysis contained within these publications continues to provide the most comprehensive picture of the risks faced by UK pension schemes.

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 and others 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 by means of 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 will continue to 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.

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 we 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: 2009-2010 budget figures

The Pensions Regulator's budget for 2009-2010 is £28.2 million, broken down as follows:

	2009-2010 budget (£'000)
Income	(6)
Salaries	14,620
Non-payroll staff costs	3,393
Other staff costs	1,735
Consultancy	890
Professional fees	2,061
Communications and publications	681
Managed contracts	488
Accommodation/General office costs	2,570
IT and telecommunications	422
Depreciation	789
Total resource	27,643
Fixed asset costs	557
Total	28,200

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