The Corporate plan 2010-2013

The Pensions Regulator

Contents

Foreword

2010 brings us a step closer to the onset of workplace pension reforms, a fundamental change for the work-based pensions industry.

This document details The Pensions Regulator's plans to help the industry prepare for the impact of workplace pension reforms, and sets out our continuing focus on the issues that are most critical to the protection of the current members of occupational pension schemes.

We continue to operate in an environment of financial uncertainty. While employers have on the whole endeavoured to work in members' interests in difficult economic circumstances, we have seen increased activity focused on transfer of risks away from employers. At the regulator, we have continued to experience an increased workload across current core processes, linked to the economic downturn. The casework is more complex and we are seeing more avoidance cases. There are many more schemes in deficit and trustees and employers are working harder to reach agreement on recovery plans.

The scale of these challenges, combined with increased workload around preparations for the workplace pension reforms and an increased focus on Defined Contribution (DC) risks in light of changes in the pensions landscape, has led to significant workload on the regulator.

We are committed to increasing cost efficiencies to help fund these challenges, and in 2009-2010 the in-sourcing of scheme return and levy activities, plus the move to online services, has further reduced the cost base by £0.75m. Cost savings in excess of £0.15m have already been made through our approach to procurement and purchasing.

However, the scale of the challenges outlined above and the additional generated workload mean that as forecast in the **Corporate plan 2009-2012** our budget for 2010-2011 sees an increase of £1.3m.

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Defined Benefit (DB) pension schemes still contain more assets and more members than any other form of pension, although they have fewer active members than now contribute to DC schemes. Our priority for DB schemes remains that trustees set prudent funding targets, and agree with employers that any resulting deficit is filled as quickly as is reasonably affordable. This requires trustees to assess the strength of the sponsor's covenant to the scheme, and to understand how they will crystallise the contingent support if required.

We intend to provide more help and support to trustees on the issue of covenant this year. As more employers close DB schemes, we will continue to monitor the transfer of risk away from corporate balance sheets to individuals and insurers to ensure that it is well managed and members' interests continue to be protected.

As increasing numbers of employers choose to offer DC schemes, we plan to continue our focus on standards in delivery. Last year we encouraged employers to be more engaged with their pension provision, and examined standards of pre-retirement processes in trust-based schemes. Over the coming three years we will continue our focus on supporting employers, particularly as we move closer to 2012.

2010 sees the beginning of our proactive external communications to ensure employers are aware of, understand the implications of, and are prepared for the workplace pension reforms. This year, we will engage first with the representative bodies of intermediaries and employers (by size and related industries), to ensure they are aware of our approach, and active in helping us fulfil our objectives.

Following that, in 2011, we will launch a communications campaign targeted initially at intermediaries such as accountants, advisers and trade associations; and later in 2011 and beyond, we will shift our focus to communications with employers. In addition, because there is a duty on our part to maximise employer compliance, we will develop an enforcement strategy on which we will consult during 2010.

In 2009-2010 our regulated community was still dealing with the impact of the difficult economic climate. We aimed to regulate in a way that recognised the difficulty, but protected scheme members' benefits dependent on employer support.

We expect that a combination of employers' adjustments to the persistent effects of the downturn and their preparations for the workplace pension reforms will lead to a high level of activity in our industry in 2010-2011. We aim as always, to direct our resources to the areas of greatest risk to members, and to educate and enable the industry to respond appropriately. However, our powers exist to ensure members are adequately protected, and where necessary we enforce to protect their interest.

We are fully engaged with developments in Europe, and monitor closely the proposed new European legislation and new structures for managing systemic risks across all financial sectors. Our representation on the Managing Board and at the **Committee of European Insurance and Occupational Pensions Supervisors** (CEIOPS), working in partnership with the **Financial Services Authority** (FSA), and the UK pensions industry and its representatives, enables us to fulfil a unique role in securing a positive and progressive path for reform in Europe, taking account of our national perspectives.

Regulatory efficiency has always been a key priority and in 2009 we were assessed against the **Hampton Principles** and **Macrory characteristics of effective inspection and enforcement**. The review team concluded that the **Hampton Principles** are thoroughly embedded in our work, both at strategic and operational levels.

We welcome this report and in this **Corporate plan** period we will continue to build on these achievements including undertaking a full review of how the risks to members of DC schemes might change in shape and severity over the coming years.

In addition in 2010-2011 we will applying a cost model to our major information obligations to create a baseline measure of administrative burden. This will provide insight into the key drivers of administrative burden and how we can make ongoing improvements in our regulatory burden in 2010-2013.

This **Corporate plan** sets out our ambitions for 2010-2013. We aim to continue to engage with the pensions industry from a position of credibility and authority, founded on our pragmatic but firm approach to our regulatory responsibilities. We are committed to delivering value for money and strive to minimise the burden on business as we deliver our increasing responsibilities in a growing market.

David Norgrove

David Norgrove
Chair, The Pensions Regulator

Tony Hobman
Chief executive, The Pensions Regulator

This Corporate plan sets out our ambitions for 2010-2013

Introduction

The Pensions Regulator

The Pensions 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

Our **Corporate strategy** (published in October 2008) 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.

This **Corporate plan** represents the second year covered by this strategy and sets out our strategic priorities from 2010 to 2013.[1] The plan is split into the five strategic themes detailed opposite. Incorporated in this three-year strategic view is a detailed Resource summary for the years 2010-2013 which sets out the anticipated resources required to deliver our outcomes during 2010-2013.

Since we published our **Corporate strategy**, the pensions landscape has continued to change. We have seen a continuation of trends such as the shift to DC provision, as well as the emergence of new ones, such as the rapid growth in DB de-risking strategies. In addition, the Government has introduced the biggest pension reforms for a generation. These will create substantial change in many areas of pension provision. In the light of these developments we will be reviewing our strategic priorities and aim to develop a new **Corporate strategy** later in the year.

[1] Appendix 2 on page 42 illustrates how our planning and reporting processes are organised from our statutory objectives through to objectives at a personal level.

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 Pension Protection Fund (PPF); and
- Promote, and improve understanding of the good administration of work-based 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.

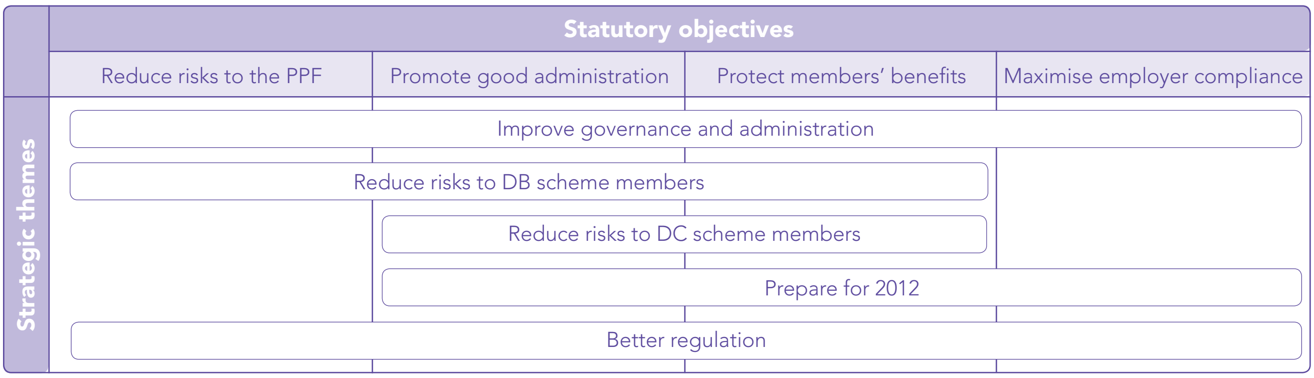
The law provides us with a governance framework and a wide range of discretionary powers, and it is our responsibility to identify key issues, set priorities and plan specific regulatory activities. Our five strategic themes set out in our **Corporate strategy** and developed in our **Corporate plan 2009-2012** are as follows:

- **Strategic theme 1**
  Improve governance and administration
- **Strategic theme 2**
  Reduce risks to DB scheme members
- **Strategic theme 3**
  Reduce risks to DC scheme members
- **Strategic theme 4**
  Prepare for 2012
- **Strategic theme 5**
  Better regulation

Figure 1 below illustrates how our strategic themes link to our statutory objectives.

Appendix 1 on page 38 sets out the outcomes we have delivered in 2009-2010 focusing on our regulatory approach and impact. This contains details of our interventions in 2009-2010.

Figure 1
Our strategic themes and their link to our statutory objectives



Our approach to the regulated community

We place a priority on our understanding of and engagement with our regulated community. Our key stakeholders are trustees, employers, intermediaries and industry providers. In the following section, we set out our approach to these distinct groups of stakeholders.

In 2010, we launched our refreshed website to better focus on our audience. This was vital given the changes to the pensions landscape resulting from pensions reform, particularly the introduction of the Employer Compliance Regime which gives the regulator a much wider audience, with over a million employers potentially accessing our website.

The website was therefore updated to provide targeted content across the audience types – pensions professionals, employers and trustees (plus limited content and signposting for individual members) as well as more general improvements to the quality of the service and user experience.

Trustees

There are approximately 130,000 corporate and individual trustees, with at least one-third being nominated by the membership of the scheme. The majority of trustees are responsible for very small schemes, although the largest schemes have many thousands of members. In small trust-based schemes, an insurer often has a key role; particularly where they are the trustees' sole supplier of services.

We have always understood the importance of supporting trustees, and our **Trustee toolkit** helps trustees to meet the statutory requirements for knowledge and understanding of how schemes work. In 2009 we reviewed the Trustee Knowledge and Understanding (TKU) regime and included a more explicit requirement for trustees to use the **toolkit** unless they find an alternative learning programme. In 2009 we also introduced bite-sized online learning modules on our website, to improve accessibility and to make core information more easily available. We will continue to explore how to make our online tools more accessible and relevant.

In 2010 and 2011 we will continue to work to understand how the changes in the economic climate and pension trends – including the growth in DC – affect the trustee model, and review how, as a risk-based regulator, we can ensure that trustees continue to take the appropriate decisions in the best interests of scheme members. In particular we will focus on segments where employers are disengaged and where, because of issues of size, schemes may be very heavily dependent on providers of bundled products. We are aware that the support from the employer is crucial, and where that support is weak there is a risk of poor governance. We are examining the new risks which may emerge where employers become disengaged from their schemes.

Our **Governance survey** results suggest governance tasks are less diligently performed in smaller schemes. We recognise the unique requirements of trustees in very small (12-99 members) fully insured DC schemes and we have developed bespoke, abridged TKU guidance for this group. Trustees of schemes with fewer than 12 members remain exempt from these requirements.

Employers

Employers have a critical role in the enablement and maintenance of robust workplace pension provision. From 2012 the workplace pension reforms will bring this role into sharp focus as employers will be required to enrol their workforce into a pension arrangement. Millions more employees, and over one million employers, will be brought into workplace pension savings for the first time.

Our communications programme with employers alongside the communications role undertaken by the DWP will be one key part of ensuring the success of the reforms. Experience in other countries show that the communications challenges will be greatest with small employers. Our first challenge is to build awareness and understanding of the reforms so that employers will act to put in place a qualifying pension scheme, and subsequently enrol their employees into that scheme in a timely manner.

To do this, we will build a communications programme to educate and enable the significant numbers of employers who will be involved in pensions for the first time, as well as those with existing pensions arrangements. We will seek to provide the tools to enable employers to build confidence in their ability to talk about pensions to their staff. We will segment the employer audience in order to deliver clear messages appropriate to each audience, and will work with representative stakeholder bodies and associations to deliver those messages.

For those employers that already provide qualifying workplace pensions, we continue to look to support and enable them. Where the employer has DB arrangements, we continue to support trustees to ensure that they are adequately funded. Where DC plans are in place, trust-based or contract-based, we encourage appropriate levels of engagement in governance by the employer.

As a risk-based regulator, we seek to identify schemes which carry the greatest risks in terms of member security and the PPF. An engaged employer can significantly minimise governance, administration and funding risk, and we believe, is more likely to create the conditions that will lead to better member outcomes.

Intermediaries and industry providers

As we continue our preparations for our new responsibilities we are increasingly focusing on building effective relationships with advisers and intermediaries who influence employer behaviour. We know that small employers in particular will seek advice, most commonly from their accountant, and medium and large employers from Independent Financial Advisers (IFAs).

Our research also tells us that intermediaries see themselves as having an important role in helping clients become compliant with the requirements of auto-enrolment. Ensuring these intermediaries and advisers have the information and tools they need to deliver the guidance employers seek is central to our communications plans in 2010 and 2011.

Pension scheme providers, administrators, payroll providers and other service suppliers in the industry will also have a key part to play in enabling employers and trustees to meet their regulatory responsibilities. Trustees and employers are reliant on a range of providers in order to comply with their duties, and we have an interest in ensuring they are able to do so.

We plan to improve our understanding of the full range of industry participants and to work more closely with them to maximise the effectiveness of our communications activities. In particular we seek to understand the relationships between different employer groups and their advisers in order to optimise our communications activities.

We will maintain a close understanding of the development of the advisory and provider market in liaison with stakeholders and other regulators.

We will continue to work closely with the providers of services to the pensions industry and with pensions providers, who have an important role to play in delivering outcomes to members of contract-based schemes, and who can be the most significant factor where they provide bundled services to trustees in trust-based schemes. Pensions administrators, whether in-house or third party, will be an increasing focus for us, as we look to improve standards of data and administration across the industry.

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Our approach to the regulated community continued...

In support of our work on scheme funding and other issues, we will work with the actuarial profession to ensure they have a clear understanding of our position. Similarly, we will aim to work with the legal profession, pension consultants, and their representative bodies to ensure they have a clear understanding of our approach.

Improving our business effectiveness

Our overall approach is one of continuous improvement, developing systems and services with a view to implementing an approach which readily identifies and subsequently manages risks in a manner which is consistent with the principles of better regulation in practice.

We will continue to focus on operational efficiency to minimise the burden on pension schemes of meeting their legal duty to register and submit data to the regulator.

Our overall approach is one of continuous improvement

Strategic theme 1: Improving governance and administration

Governance

Introduction Pensions provision is not a short-term undertaking. Promises made today could still be in payment a hundred years from now. Good scheme governance and administration underpin secure pensions and enable the effective management of risk over lengthy timescales.

Governance will become even more important as we approach the workplace pension reforms, where millions more employees will be enrolled in pension schemes.

Our work in this area focuses on the existence of robust governance structures, and attention to the accountabilities of the individuals within them. Our 2009-2010 campaign on good governance and administration focused on the capabilities of those involved in the governance of pension schemes and the processes they need to have in place.

We are clear that the vast majority of schemes are run by dedicated and hard-working individuals. Our **2009 Governance survey** shows many positive aspects, for example increases in the proportion of DB schemes where the trustees have reviewed the sponsoring employer's business plans and who strongly agree that the trustee board is able to conduct effective negotiations with the employer.

There has also been an increase in the proportion of those strongly agreeing that the trustee board has appropriate processes in place to manage conflicts of interest and that they actively monitor and manage service providers and professional advisers. We produced guidance on both of these areas in 2008.

However gaps persist. Significant improvements are necessary in trustee training: whilst large schemes perform well, two-thirds of small DC schemes and half of small DB schemes do not provide any training.

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Regulatory strategy: Our strategy will continue to focus on educating and enabling trustees to ensure adequate levels of governance.

Trustee Knowledge and Understanding (TKU)

The **Trustee toolkit** remains our key tool for providing trustee training. As a result of our review of the TKU regime there is now a more explicit requirement that trustees use the **toolkit** unless they an find an alternative learning programme. We start our DB campaign in May 2010 and the **toolkit** will be a significant focus of this campaign. Our aim in 2010-2013 will be to ensure that we achieve year-on-year growth in uptake of the **toolkit** starting with a 10% increase in 2010-2011 compared with 2009-2010.

We expect schemes to have a training plan in place for trustees and we are currently working on creating a baseline measure against which we can measure progress in 2010-2013.

We recognised the unique requirements of trustees of very small (12-99 members) fully insured DC schemes and we have developed slimmed-down guidance for this group. Trustees of schemes with fewer than 12 members remain exempt from the requirements.

In 2010-2013 we will continue to promote the requirements of TKU. We expect standards to continue to improve in how schemes govern conflicts, their relations with advisers and, if appropriate, their employer covenant. We will be looking more closely at the specific issues in scheme segments where governance standards are lower, and working to provide further help or guidance in these areas. In particular we will focus on the areas described here:

Governance of small schemes

We will continue to refine our focus on small schemes. The existing evidence suggests that members of small schemes face higher costs and inferior standards of governance. We will look to address this issue in the run-up to the workplace pension reforms. This will include an evidence-finding exercise on the cost and governance standards of small schemes.

Conflicts of interest and relationships with advisers

Our **2009 Governance survey** shows that following the publication of our guidance in these areas in 2008, there has been an increase in the proportion of trustees strongly agreeing that the trustee board has appropriate processes in place to manage conflicts of interest. We will continue to monitor the situation in 2010-2013 and consider whether further steps need to be taken.

Processes for investment choice

We are continuing to chair the **Investment Governance Group** (IGG), established in 2008 following a review by the **National Association of Pension Funds (NAPF)** and Government consultation into the **Myners Principles**. In 2010 the group is taking forward work to implement a new industry-led framework for the application of the Principles for Investment Governance and creating best practice guidance relating to the investment governance of DC pension schemes, both trust-based and contract-based. Products such as case studies, templates for governance planning, checklists for good investment governance decision making and reference tools for employers and trustees will be produced as part of this work programme.

Independent trustees

After four years of operating the **Trustee register**, we are changing the criteria used to assess whether applicants have sufficient relevant experience, sound administrative and accounting procedures, and adequate indemnity insurance cover. We are also simplifying the process for applying to the register by using one form for all applications.

Administration

Introduction High standards of administration are essential to the protection of members' benefits. In some schemes, particularly DB schemes, basic processes such as the management of member records have not received the day-to-day attention they deserve.

Key gaps exist in standards of scheme administration. Our 2009 Governance survey shows that less than half of schemes are very confident that they have appropriate internal controls in key areas. In addition only 19%[2] of schemes surveyed had checked that they had all the fundamental 'common' record-keeping data.

The forthcoming workplace pension reforms and our statutory objective to improve and promote good administration provide a compelling reason to focus on standards of administration across schemes and in 2010 we will focus heavily on this area. This will include a focus on the processes that control employer payments to schemes and maintenance of accurate member records.

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[2] http://www.thepensionsregulator.gov.uk/pdf/record-keeping-con-doc-2010.pdf

Regulatory strategy Our focus in 2010-2013 is to further our work on administration of pension funds by significantly improving standards of basic administration functions in record-keeping, internal controls and winding-up.

Record-keeping

We have consulted on new proposals in respect of scheme record-keeping. Currently, while there is evidence of good practice, there are also poor existing records which, if not addressed, have the potential to lead to significant issues in the future with the increase in DC provision and the introduction of auto-enrolment. Moreover, there is evidence that the regulator's existing guidance is not being widely followed. Our consultation proposes the establishment of tighter targets for the accuracy of common data which schemes must hold. Where schemes fail to put adequate plans in place to resolve data issues, the regulator will require them to improve.

Good record-keeping applies to all schemes, whether trust-based or contract-based. In respect of contract-based arrangements, we will continue to work closely with the FSA to improve standards and take corrective action where necessary.

Automatic enrolment will bring millions of people into pension saving for the first time, increasing the volumes of member data held. Because of this, record-keeping will continue to be a priority for the regulator in 2010-2013 and beyond.

Internal controls

Strong systems of internal controls are a regulatory requirement. They contribute to raising standards of administration, are a key characteristic of a well run scheme and play an important role in securing member benefits. Many of the issues we deal with in our case teams have their root cause in an inadequate system of controls. In 2010 we will be publishing revised guidance which states which areas the regulator regards as particularly important in terms of having good internal controls, identifies control procedures we would expect trustees to operate and illustrates them using a variety of examples. This includes bite-sized e-learning modules which contain the key messages on internal controls. Subsequent to the publication of our guidance on internal controls in June 2010 we will target a significant improvement in 2010-2013 of the proportion of schemes that have a formal, documented risk register in place.

Winding-up

2009 saw a 25% reduction in the number of schemes in wind-up (94% of all schemes now having two-year wind-up proposals). In 2010-2013 we will track the progress of schemes entering wind up since April 2008 (when, following a DWP report, guidance was issued on winding up periods) and take action where necessary to increase the numbers winding up in under two years.

Late payments

Late payments of contributions from employers into workplace pensions may become a more prominent issue after 2012 with the introduction of a mandatory employer contribution. Many more employers will have to deal with paying pension contributions themselves and deducting and paying contributions on behalf of their workers leading to a potentially higher volume of late payment reports. In 2010 we will review our approach to late payments by employers including our approach to the follow-up of late payments under the reforms and how we will assist schemes in fulfilling their reporting requirements. Our work in 2011-2013 will be built on the foundations of this review.

Good record-keeping applies to all schemes

Strategic theme 2: Reducing risks to DB scheme members

Introduction DB schemes still contain more assets and more members than any other form of pension.

Scheme funding

As we publish our plans for 2010-2013, we are receiving recovery plans based on triennial valuations in the period from September 2008 to September 2009. We are seeing trustees adapt their approach to funding and recovery – responding to the difficult situation in which many sponsors are finding themselves. Our 2009 analysis[3] has seen an increase in average recovery plan length from six to eight years. Scheme funding targets have remained at appropriate levels of prudence, and we continue to support trustees in their emphasis on long-term prudent funding strategies.

Market transitions

There have been a number of developments in the market focused on reduced corporate pensions risk, with the emergence of new business models and the increase in transfers of risk in various bundled and unbundled forms. In 2009 we made clear the importance of being vigilant to these risks to members. This includes the risk of individual transfer incentive exercises where there is significant evidence of inappropriate tactics to encourage members to take transfers.

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[3] Based on valuations in 2008

Regulatory strategy Our priority for DB schemes remains that trustees set prudent funding targets, and agree with employers that any resulting deficit is filled as quickly as is reasonably affordable.

Scheme funding

We remain committed to the effective regulation of the scheme funding regime. Trustees must balance prudent assumptions focused on the primacy of technical provisions with a reasonable judgement of affordability in agreeing recovery plans. We continue to believe that the regime is flexible enough to cope with the current economic downturn and deliver a level of scheme funding which protects members' benefits and the PPF. Trustees can work with employers to ensure they are comfortable with the strength of their contingent claims on employer resources, and to negotiate increased deficit recovery payments as employer affordability improves.

We continue to urge trustees to carry on taking a prudent approach to assessing schemes' technical provisions, to maintain an honest and open dialogue with employers, and to remain aware of the changing economic situation as they focus on the long-term interests of scheme members. We will continue to focus on this shared goal. Our objective in 2010-2013 will be to maintain aggregate funding targets at prudent levels measured by technical provisions as a percentage of s179 liabilities.

In 2010 we will continue to focus on the role of the employer covenant, and intend to provide further guidance on how it should influence scheme funding targets and strategy. We will also look to review current guidance on contingent assets in this context. In 2010 we will establish a baseline measure for the extent to which trustees know how changes in employer circumstances can impact on the scheme funding required and in 2010-2013 we will measure trustee understanding based on this measure.

Our approach in 2011-2013 will evolve based on the rapid changes in the DB landscape and will include further work on the challenges around dealing with closed schemes.

All recovery plans that meet one of our trigger points will continue to be examined on a case-by-case basis. We will continue to apply the flexibilities in the scheme funding system pragmatically but firmly, looking for outcomes in the best interests of the scheme and sponsor.

We will continue to publish our 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 we will continue to represent the UK in the European debate, remaining positively engaged to ensure that the UK scheme specific approach to funding is understood and that EU-wide initiatives are appropriate for the protection of UK schemes and members. Our role in 2010-2013 has been further enhanced by the appointment of our chief executive to the managing board of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

Market transitions

We will continue to monitor the market and assess the risk of new products and strategies as they emerge. We will look to expose risks and to encourage best practice. However, where behaviours are particularly concerning, we may look to use our anti-avoidance powers.

We will focus on continued vigilance around new risks emerging from the area of individual risk transfers and transfer incentives. We will continue to support trustees in their role engaging with such exercises and ensuring that members are aware of the significant risks to members' interests. We are not satisfied that aspects of current market practice are likely to lead to good outcomes for members, and we will be revising our guidance in this area in 2010.

In addition we will continue to work to understand which segments of the DB universe are most challenged by the scheme funding system so we can implement targeted guidance to those with the most acute issues. We are committed to ensuring that regulation is case specific and that our guidance reflects the different problems affecting different sets of schemes.

The employer covenant remains the bedrock of the UK funding system therefore where employer actions reduce the reliance on the covenant, we are concerned to ensure that it is replaced with adequate security. This is at its most stark when an employer leaves a multi-employer scheme. Accordingly we plan to provide some guidance on withdrawals from multi-employer schemes to complement the DWP amendments to the employer debt (s75) regulations to offer easements in cases where restructures have no effect on covenant.

We will also continue to focus in 2010-2013 on ensuring that the trustees review and regularly monitor the employer covenant. There is already a high baseline of 83% of trustees of DB schemes reviewing the employer covenant annually[4] but in 2010-2013 we expect this to increase further.

We will look to expose risks and to encourage best practice

[4] http://www.thepensionsregulator.gov.uk/docs/governance-survey-report-2009.pdf

Strategic theme 3: Reducing risks to DC scheme members

Introduction In July 2009 we published our first analysis of the DC trust-based landscape, DC trust: A presentation of scheme return data giving a snapshot of the current shape of DC trust-based provision.

This indicated that there were 53,697[5] trust-based DC schemes registered with the regulator. There are already over 2.5 million memberships of DC trust-based schemes in the UK and 3.2 million memberships in personal pensions arranged by the employer. This is set to rise, especially in the light of the workplace pension reforms when up to 10-11 million more people will be automatically enrolled into a workplace pension scheme. Many are likely to save into a DC scheme.

[5] The Pensions Regulator Annual Report data (31 March 2009)

Regulatory strategy Our existing DC framework has been developed within the regulatory framework of Educate, Enable and Enforce, and focuses on key risks to members. We are committed to raising standards in the key areas where we feel that members may not be served in the way that they should be.

Much of our work on DC schemes to date has been around making clear our expectations of schemes; this has included codes of practice, e-learning, guidance and statements, supported by communications and media work. Our DC campaign in 2009 focused on enabling informed member choices at retirement and improving the quality of employer engagement in DC pension provision. It included a thematic review of retirement literature used by schemes as members approach retirement.

We will continue to put members' interests at the centre and to look, in conjunction with the industry and other stakeholders, at what needs to change in order to improve outcomes for members.

With an eye on 2012 we are currently undertaking a full review of our approach to workplace DC schemes. We are considering how the risks to members might change in shape and severity, and how these risks could potentially be mitigated.

The objective is to deliver an authoritative strategic framework for how the regulation of DC risks can be enhanced in the changing DC marketplace. This will build on our existing framework.

Mitigations of risks to individuals in DC schemes can be wide-ranging, and throughout the project we have worked closely with the DWP, the FSA and HM Treasury. We are also grateful for the involvement to date of many other external stakeholders and individuals. Once the assimilation of all the information and analysis is complete, we will be consulting further with all interested parties during 2010, seeking to build a consensus on what might constitute an effective and proportionate regulatory regime for DC. Any changes resulting from the consultation will likely be phased in over a number of years over the 2011-2013 period.

In the build up to this, and subsequent to any changes we will be focusing on a number of areas, as outlined below:

Administration

High standards of administration are essential to the protection of members' benefits, and our immediate focus in DC administration will be around the area of record keeping as detailed in **Strategic theme 1: improving governance and administration** on page 11.

Investment and charges

We do not envisage becoming involved in prescribing investment decisions. We will, however, support the DWP and the FSA in setting guidance for how default funds should be established to reflect the profile of the scheme membership.

Member communication

Member communications continues to be a key issue. The level of communication between trustees and members lies at the heart of good member outcomes and we will establish a baseline measure against which we can measure levels of member understanding in 2010-2013.

Decumulation

We will continue to focus on ensuring that schemes have an appropriate process in place to help members who want to convert money purchase funds into an income and in particular the importance of the **Open Market Option** (OMO). We aim to maintain the high proportion of retirees who are informed about the OMO and look to increase the take-up. We will establish a baseline measure for this against which we can measure progress.

We will continue to put members' interests at the centre

Strategic theme 4: Preparing for 2012

Introduction Automatic enrolment is the core employer duty of the pensions reform set to commence in 2012, and the full extent of the duties is set out in the Pensions Act 2008 and secondary legislation laid earlier this year.

These reforms mean that all employers in Great Britain and Northern Ireland will have to ensure that they provide access to a qualifying scheme and that they must then automatically place all their eligible employees into a qualifying scheme and make contributions on their behalf.

The Pensions Act 2008 sets out a new objective for The Pensions Regulator which is to maximise compliance with the employer duties set out in the Act, and ensure adherence to certain safeguards protecting jobholders and workers. The regulator will be responsible for delivering the day-to-day running of this regime through active engagement with employers, developing their understanding of their duties and providing a mechanism to allow them to register how they have fulfilled the enrolment duty.

The workplace pension reforms and in particular auto-enrolment will have important effects on the pensions landscape as 10–11 million people will be newly saving or saving more and new business models in the pensions industry will emerge to respond to these changes.

Regulatory strategy We fully recognise the significant changes workplace pension reforms will bring to all employers and particularly to smaller businesses that have not previously chosen to get involved in pension provision, nor had a previous business relationship with the regulator.

We will be working with employers and their advisers to design processes and provide information and support which will enable employers to meet the new requirements with as little disruption as possible to their day-to-day business.

Employer compliance

In order to fulfil the extended remit given to us by Parliament in the Pensions Act 2008, we are building the capability to maximise employer compliance with the new duties. We are designing and building our regulatory capacities to deliver the Employer Compliance Regime (ECR) for auto-enrolment: this includes finding an external partner to help us implement and deliver new systems and processes.

Our risk-based approach to regulation will be extended to apply to this new area of business, which will fully reflect the requirements of better regulation. The extent of the risk of non-compliance with the workplace pension reforms will therefore determine the nature of our regulatory response; however because this is a duty on our part we will develop an enforcement strategy which will ensure that a graduated approach to enforcement is applied wherever appropriate. We will consult on this enforcement strategy during 2010 and in 2011-2013 will work to make our enforcement strategy operational.

Communications strategy

We know that employers and providers alike will need plenty of time to build the necessary changes into their future business planning. An early priority for us will be to begin our communication campaign, starting in 2010. The initial focus will be on intermediary and employer representative bodies. Following that, in early 2011, we will launch a communications campaign targeted at intermediaries such as accountants, advisers and trade associations first; later in 2011 we will shift our focus to communications with employers.

We will seek to educate and enable all those affected by the changes about what they can do now, and should do to continue to prepare for the workplace pensions reforms. We will place decision trees and guidance on our website later in 2010 to assist employers and intermediaries in their preparation for the workplace pension reforms.

The **National Employment Savings Trust** (NEST)

The **Personal Accounts Delivery Authority** (PADA) is a Non-Departmental Public Body (NDPB) specifically established under the Pensions Act 2007. PADA is responsible for designing and introducing the infrastructure for **NEST**. **NEST** will be a multi-employer trust-based DC scheme. It will fall within our regulatory ambit. **NEST** will not be the only scheme employers can use to fulfil their duties – employers may also be able to use their existing provision (subject to its meeting the new qualifying requirements), or adopt a new occupational or **Workplace Personal Pension** (WPP) scheme, and we will monitor developments closely.

The wider landscape

The workplace pension reforms will have important effects on the market as up to 10-11 million people will be newly saving or saving more and new business models in the pensions industry will emerge; our ultimate commitment at all times will be to protect member benefits. The extension of automatic enrolment as a joining mechanism is likely to mean, in particular, that many more people save into DC pensions. This will present challenges of scale and complexity in our core regulatory processes and we are working to ensure that we understand them and reflect the changing landscape in our regulatory approach. This work includes a full review of our DC regulatory framework in 2010.

We're building the capability to maximise employer compliance

Strategic theme 5: Better regulation

Introduction Since the launch of the regulator in April 2005 we have committed to being customer-focused and risk-based, aligned with the principles of better regulation: to be transparent, accountable, proportionate, consistent and targeted.

In 2009 we were assessed against the **Hampton Principles** and **Macrory characteristics of effective inspection and enforcement**. The review team concluded that the **Hampton Principles** are thoroughly embedded in our work, both at strategic and operational levels. In particular, they were impressed with the way in which risk-based thinking is integrated into the culture of the organisation.

We welcome the findings of the report and will continue to build on this in 2010-2013 to ensure our risk-based approach to regulation remains fit for purpose. This will include applying the standard cost model to our major information obligations to create a baseline measure of administrative burden. This will provide insight into the key drivers of administrative burden and help us make ongoing improvements.

Regulatory strategy The **Hampton review** identifies certain areas for us to focus on, as detailed below, in order to re-enforce our **Hampton** credentials.

Reaching smaller schemes and employers

In November 2009 we embarked on a campaign focused on improving standards of scheme governance and administration, and have been focusing on providing education and guidance to small schemes in particular. For example we have recently published a revised code of practice and scope guidance for TKU, to include a specific section aimed at small schemes.

In 2010-2013 we will continue to explore the use of new channels to reach the regulated community such as the use of digital communications and communication through trade bodies. We have launched a new website which is specifically focused on our key audience segments: trustees, employers and providers. This and future initiatives will focus on reaching our regulated community in ways that reduce regulatory burdens.

Finally, we are now very much focused on the challenge of delivering a regulatory regime to maximise compliance with the new duties which fall on all employers from 2012. This includes smaller businesses that have not previously had a relationship with the regulator. Our role is to ensure this new regulated community knows what they must do by their due dates. We also acknowledge that employers and providers alike will need time to build the necessary changes into their future business planning. Once all relevant legislation is complete and the requirements on employers are clear, we will begin our communication campaign.

This will be through targeted education and campaigns via employer and intermediary bodies this year and direct communications from 2011.

Communicating our approach to the regulation of trust-based DC schemes

We launched a campaign in July 2009 aimed at improving standards of practice in the management of DC schemes. The campaign has built on our existing guidance to trustees, employers and their advisers, to focus on ensuring that scheme members are able to make informed choices at retirement, and encouraging employers to become more engaged and aware of their responsibilities in providing pension schemes.

In 2010 to 2013 we will continue to focus on DC including a full review of how the risks to members of DC schemes might change in shape and severity, and how these could potentially be mitigated.

Communicating our approach to our responsibilities for regulating employer compliance under the Pensions Act 2008.

In 2010 we will publish an enforcement strategy setting out our approach to regulating compliance with the new employer duties, and in 2011-2013 we will work to make our enforcement strategy operational.

Alongside the development of ECR itself, we are working to identify and address regulatory risks which may emerge from the workplace pension reforms more widely. This work is focusing on the impact of the reforms on the pensions market, as well as aligning the new regime with our existing regulatory approach.

In addition to these areas identified by the **Hampton Review**, we will continue to focus on sustainability and operational efficiency.

Sustainability

We are introducing a new measure to the **Business plan** by measuring the reduction in our CO_2 emissions from gas and electricity use compared to 2009-2010 levels. Our target is to reduce carbon emission from energy use by 10% in 2010-2011 compared to 2009-2010 and build on this in 2011-2013.

Operational efficiency

Operational efficiency and commitment to value for money will continue to be a key priority in 2010. We are committed to doing more for less as we reduce our own burdens on business through efficiency drives and continue to deliver year-on-year reductions in costs as we improve service delivery. Details of cost efficiencies can be found in the **Resource summary** of this **Corporate plan**.

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Regulating in Europe

The reform agenda continues apace in Europe with institutional change proposed through European legislation at the end of 2010. We will remain positively engaged in the European regulatory structures to ensure that Europe-wide initiatives are appropriate for the protection of UK pension schemes and their members.

As part of the **de Larosiere Report** published in February 2009, new arrangements for financial supervision in the EU were proposed. The Commission plans to introduce a new financial supervisory framework that reforms existing arrangements for law and policy making in relation to financial services directives, including that for occupational pensions.

From 2011 onwards it is proposed that:

1. There will be a new body known as the **European Systemic Risk Board** (ESRB) charged with macro supervision around Europe wide risks, collecting European wide data and providing for early warnings of systemic risks; and
2. CEIOPS will become one of three European Supervisory Authorities (ESAs) which form part of a **European System of Financial Supervisors** (ESFS) and which build on the existing sector arrangements for insurance and pensions, banking and securities. With its new name of **EIOPA** (the European Insurance and Occupational Pension Authority), it will have increased powers for, amongst other things, the development of technical standards that will be binding.

   The first suggested area for binding technical standards is likely to be that of a standardised set of information reported to supervisory authorities. Binding technical standards will result in a greater level of harmonisation across member states and all such proposals will need to be carefully monitored by the UK for their costs and impacts on schemes and members.

In this landscape, it is of increasing importance for the UK to influence initiatives for European regulatory reform. To enable this, The Pensions Regulator will take a lead role in CEIOPS working groups as we move towards their larger role in EIOPA. Our chief executive sits on the main decision making body for CEIOPS, the Managing Board, and the regulator is prominent in a number of work streams including DB funding, pensions and solvency, and DC policy with the aim of ensuring that European approaches will be effective for UK schemes.

To achieve this we will work closely with our European counterparts and domestic stakeholders to ensure that our proportionate and risk-based approach across a diverse pensions landscape is well understood in Europe. We will work closely with government partners in this endeavour (especially the DWP and the FSA).

We will also run common training and study programmes for staff from other European regulators, and run pensions seminars on shared themes to improve understanding of our system. These activities are vital to ensure that European structures and regulations are created with due understanding of, and reference to, our UK systems and structures.

The reform agenda continues apace in Europe

Business plan 2010-2011

The following sections set out our annual Business plan objectives and associated corporate performance measures for the period 2010-2011. These objectives have been derived from the key themes identified in our Corporate strategy.

How we measure our performance

Our aim is to measure, as far as practicable, the outcomes of our interventions in the market, both in terms of what we have achieved and how effectively we deliver these outcomes.

Measuring our effectiveness in protecting members' benefits, especially over a one-year time frame, is not straightforward:

- 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 the rate of corporate insolvencies.

We focus our attention on more intermediate results that we believe will enable us to meet our long-term ambitions. So, for example, 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 in 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 and their intermediaries are aware of their duties under the Pensions Act 2008 in order to maximise compliance.

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How we measure our performance continued over...

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 focus on 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 key performance indicators which can give us an indication of success; and
- 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**.

As in previous years we have included indicators to provide clear and transparent performance targets for the regulator's areas of business.

Strategic theme 1: Improve governance and administration

1.1 Objective

To continue to promote good practice in relation to key aspects of governance and administration (ie record-keeping, winding up, internal controls).

Performance indicator

Results of the annual **Governance survey** and other monitoring reports show sustained performance in relation to:

- Record-keeping
- Winding up
- TKU
- Internal controls
- Investment governance
- Administration

Measure Wind-ups

We track the progress of schemes entering wind up since April 2008 (when guidance was issued on winding up periods) and look to increase significantly the numbers winding up in under two years (as of 1 February 2010, 638 of 969 schemes entering wind up post April 2008 had completed the process). We also track the progress made in winding up the stock of schemes in wind up (as at April 2008).

Measure Record-keeping

In 2009-2010, only 20% of members belonged to schemes which had measured the extent to which they kept records for essential data. Record-keeping has been a central theme of our governance and administration campaign at the end of 2009-2010. In addition, we are currently consulting on the next steps in record-keeping which will close on 27 April 2010. We are therefore targeting a significant improvement in this metric by the end of 2010-2011.

Measure Internal controls

In the first of the bi-annual surveys of 2009-2010, only 59% of small schemes responded positively to the question: 'Do you have a formal, documented risk register in place?' in our **Governance survey**. Internal controls featured heavily in our governance and administration campaign. In addition, by issuing our guidance on internal controls in June 2010, we will target an increase in the proportion of small schemes having a risk register in 2010-2011.

Strategic theme 1: Improve governance and administration continued

1.2 Objective

To continue to develop best-in-class education programmes to influence our core trustee audience (ie the **Trustee toolkit**) and to explore the options for extending this approach to other audiences.

Performance indicator

Toolkit usage amongst lay trustees in Q1 and Q4 to match the 2009-2010 target; in Q2 and Q3 to achieve 75% of this target.

Measure Trustee Knowledge and Understanding

In 2009-2010, 13,638 modules have been completed (as of 15 February 2010), with more trustees completing modules in Q4 following a recent communications campaign on governance and administration. We start our DB campaign (in which the **toolkit** is a significant focus) in May 2010 and have quarterly targets ranging from 4,000 to 5,300 module completions. Targets are aligned with communications activity and seasonality and represent a 10% growth in take-up compared to 2009-2010. In addition, in order to measure more broadly to what extent trustees conduct training related to governance and administration, we will establish a baseline measure of the proportion of schemes which have a training plan in place for trustees.

1.3 Objective

To ensure that trustees understand and comply with the **Myners Principles**.

Performance indicator

Improvements in compliance as measured by the **Governance survey**.

Measure Investment governance

Following exploratory research we conducted, in 2010-2011 we will measure frequency of monitoring investment performance and reviewing investment strategy. Specifically we will measure the proportion of trustees who monitor investment performance regularly, and the proportion of trustees who review investment strategy regularly.

1.4 Objective

To ensure that trustees understand and recognise the importance of administration

Performance indicator

Improvements in proportion of schemes who have an administration sub-committee in the **Governance survey**.

Measure Administration

In addition, we will measure in our **Governance survey** the quality of administration by trustees. We are looking to improve the quality of administration of pension schemes through our governance and administration campaigns and anticipate an increase in the proportion of schemes putting in place an administration sub-committee or an equivalent allocation of responsibility for administrative issues.

Strategic theme 2: Reducing risks to DB scheme members

2.1 Objective

To protect members' benefits by continuing to operate the scheme funding regime effectively, taking account of the wider economic climate.

Performance indicator

Appropriately high levels of Technical Provisions (TPs) set for scheme recovery plans

Measure Section 179

In the first three quarters of 2009-2010, TPs as a percentage of s179 ranged from 111% to 119%. Our objective in 2010-2011 will be to maintain aggregate funding targets at similarly prudent levels.

2.2 Objective

To continue to ensure that trustees and employers understand the scheme funding regime.

Performance indicator

Improvements in understanding as measured by the **Governance survey**.

Measure DB funding arrangements

In 2010-2011 we will establish a baseline measure for the extent to which trustees know how changes in employer circumstances can impact on the scheme funding requirement. A major focus of our DB communications from May to July 2010-2011 will be employer covenant and it is therefore appropriate to measure understanding of covenant in the context of funding.

2.3 Objective

To ensure that trustees and employers understand the employer covenant.

Performance indicator

Improvements in understanding as measured by the **Governance survey**.

Measure Employer covenant

In 2010-2011 we will target an increase in the proportion of trustees with a DB scheme who have reviewed the employer covenant in the previous 12 months. A major focus of our DB communications from May to July 2010-2011 will be employer covenant. Even though there is a high baseline of 83%, we expect an increase in the proportion of schemes reviewing their covenant in 2010-2011.

Strategic theme 3: Reducing risks to DC scheme members

3.1 Objective
Trustees understand and mitigate the risks in member choice of retirement options.

Performance indicator
Improvement in trustee understanding and action to address retirement option risks as measured by the **Governance survey** and a survey among recent retirees.

Measure Retirement options
We will look to maintain the high proportion of retirees who when surveyed said they were informed of the Open Market Option. We will also establish a baseline measure for this from the viewpoint of trustees.

3.2 Objective
Trustees understand and mitigate the risks of poor member communications.

Performance indicator
Improvement in trustee understanding and action to address member communication risks as measured by the **Governance survey** and a survey among recent retirees.

Measure Member communications
We will target a modest increase in the proportion of trustees who say they communicate effectively with scheme members. We will target a similar modest increase in the proportion of scheme members who say they were communicated with effectively.

3.3 Objective
Trustees understand and mitigate the risks associated with default funds.

Performance indicator
Improvement in trustee understanding and action to address risks to DC scheme members as measured by the **Governance survey**.

Measure Default funds
In anticipation of our focus in 2010-2011, we will establish a baseline measure to subsequently track the extent to which default funds are established to reflect the profile of the scheme membership.

3.4 Objective
Trustees mitigate the risks to DC scheme members.

Performance indicator
Sustained trustee understanding and action to address risks to DC scheme members, as measured by the **Governance survey**.

Measure DC risks
DC risks is a major focus for 2010-2011 and we will look to maintain the high level of 80% of trustees saying they have a good or very good understanding of risks to DC schemes.

Strategic theme 4: Prepare for 2012

4.1 Objective
To manage key risks to the ECR programme (including project delivery and its impact on the regulator's other activities)

Performance indicator
Project delivery is to plan. The regulator achieves its planned business objectives without disruption.

Measure Delivery milestones
In 2010-2011 we will look to achieve all of our milestones on time and within tolerance.

4.2 Objective
To deliver all ECR project objectives for 2010-2011 within budget.

Performance indicator
Project spend is to budget.

Measure Budget
In 2010-2011 we will look to achieve no more than a very small variance of 1% over or to 4% under budget.

4.3 Objective
External stakeholders have confidence in the design of ECR.

Performance indicator
Sustained performance in stakeholder confidence as measured by the **stakeholder satisfaction survey**.

Measure Stakeholder satisfaction
A baseline survey is being conducted in Q4 2009-2010. In 2010-2011 we will aim to achieve an improvement in the benchmark level of confidence of our stakeholders.

4.4 Objective
Alignment of core TPR with ECR programme.

Performance indicator
Aggregate progress on key projects to prepare core TPR for 2012.

Measure Core TPR alignment
In 2010-2011 we will look to achieve all of our in-quarter milestones identified.

4.5 Objective
Communicate effectively to intermediary audiences about the workplace pension reforms.

Performance indicator
Percentage of the intermediary audiences who are aware of the workplace pension reforms.

Measure Communications effectiveness
We will establish a baseline measure in Q3 2010-2011, from which we will set an intermediary awareness target to achieve through the communications campaign commencing in Q4 2010-2011. The focus of communications relating to the upcoming workplace pension reforms will be intermediaries who will be acting as informers and enablers to employers.

Strategic theme 5: Better regulation

5.1 Objective
To improve our capabilities and the channels we use to engage with and communicate to those we regulate.

Performance indicator
Key audience segments increasingly understand the 'Educate and Enable' role of the regulator.

Measure Campaign index
In 2010-2011 we will target a continued significant improvement in the reach of, and response to, our campaigns via email response, website usage and subscription to news-by-email. We are targeting an increase in these metrics, as:

i) we will have a new website, and will be focused in every campaign to driving audiences to it; and
ii) we are basing the anticipated increase in metrics on the increases we have seen in the current financial year.

5.2 Objective
To continue to deliver risk-based regulation in line with the **Hampton Principle**s and to be an exemplar of 'best practice'.

Performance indicator
The regulator continues to be authoritative and demonstrates improvements in the five principles of good regulation as evidenced by research.

Measure Hamptons Principles
In 2010-2011 we shall be applying the standard cost model to our major information obligations to determine a baseline level of administrative burden. This will provide an insight into the key drivers of administrative burden where improvement activity can be focused. We aim to maintain our strong ratings measured in our perceptions tracker survey across the collective results on the **Hampton Principles**.

5.3 Objective
To maximise the effectiveness of the regulator through effective leadership, collaborative working, and continuous improvement of internal policies and processes.

Performance indicator
Resources effectively applied in conjunction with the delivery of optimum systems, corporate governance processes, controls and continuous improvement initiatives.

Measure Debtor days
Our objective in 2010-2011 will be to maintain a prudent level of debtor days at an average of no more than 40 days.

Measure Budget
In 2010-2011 we will look to achieve no more than a very small variance of 1% over or to 4% under budget.

Strategic theme 5: Better regulation continued

5.4 Objective
To continue to reduce burdens to our customers.

Performance indicator
The administrative burden of scheme returns and paying levies are reduced.

Measure Scheme returns
In 2010-2011 we will continue to look to increase the percentage of scheme returns completed on time to 90% covering 95% of DC membership.

5.5 Objective
To provide a high quality service to our customers.

Performance indicator
Improvements in customer satisfaction as measured by the **Governance survey**.

Measure Customer satisfaction
In 2009-2010, 65% of our customers were very satisfied with the service they received. We will look to improve on this proportion as well as establish a new baseline metric using a scale from 'excellent' to 'poor'.

5.6 Objective
To improve our eco-efficiency.

Performance indicator
Reduction in CO_2 emissions.

Measure Sustainability
We introduce a new measure to the **Business plan** by targeting a reduction of 10% in our CO_2 emissions from gas and electricity use compared to 2009-2010 levels.

We focus on measuring our impact on the external environment

Resource summary

This section provides information on the resources required to deliver our outcomes during 2010-2011.

Financials

We receive two separate Grant-in-Aid (GIA) payments from the DWP to fund our business as usual activities and the Employer Compliance Regime.

Levy

We collect two levies on behalf of the Secretary of State for Work and Pensions. The General levy covers our resource expenditure (in respect of our activities under the Pensions Act 2004), the Pensions Advisory Service (TPAS) and the Pensions Ombudsman. The Administration levy covers the resource expenditure of the PPF (also in respect of its activities under the Pensions Act 2004). We will continue to collect any levies due in previous years which remain outstanding on 31 March 2010. In addition, during 2010-2011, we will collect, on behalf of the PPF, the Fraud compensation levy.

Employer Compliance Regime (ECR)

The costs for work undertaken by the regulator in respect of the set up cost of the Employer Compliance Regime are being met by the DWP. No cross-subsidy with the General levy funding stream takes place.

Projected budget for 2010-2013

Our planned budget for 2010-2011 is £29.5m.

Cost pressures

The 2010-2011 budget is an increase of £1.3m on 2009-2010, which is due to a combination of factors. These factors include the preparation required to ensure that we are able to meet the changes in the pensions landscape that will be brought about by the implementation of the measures in the Pensions Act 2008. We have undertaken to focus more attention on DC risks, and also to review our approach to late payments by employers. Both are likely to require additional areas of work, as is the development of our approach to the regulation of **NEST** and other industry responses to the workplace pension reforms.

We will continue to work with other public bodies such as **National Insurance Services to Pensions Industry** (NISPI) and **HM Revenue and Customs** (HMRC) in order to provide joined up regulation and to continue to reduce burden on schemes.

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Cost pressures continued...

We are still experiencing an increased workload across current core processes linked to the economic downturn. The case work is more complex, often demanding a higher skill set. We are seeing more avoidance cases, with the case load more than doubling from last year – and these take longer to resolve. There are many more schemes in deficit, and we are seeing more schemes that require input on governance and administration issues.

We believe that our proposed budget equips the organisation to manage the increased workload, volumes and complexities in the year ahead.

Efficiencies

We are keen to demonstrate efficiency and value for money in the work that we do. We are committed to the cross-government smarter government initiatives and efficiency priorities targeted at reducing back office costs. In particular, over the last three years, the in-sourcing of scheme return and levy activities, plus the move to online services has reduced the cost base by £0.75m per annum recurring.

Smarter procurement has led to cost avoidance of around £0.2m on annual licenses, realised over the next three years, plus some initial non recurring savings. In addition, non recurring savings of around £0.1m were gained through purchasing exercises across IT hardware and development, and discounts of around 30-40% to day rates were secured from major consulting firms on several major projects.

The virtualisation of our servers has led to significant savings in our IT spend of approximately £0.3m per annum, which relates to a reduction in maintenance contracts and support staff as well as lower energy consumption from our server farm. In addition, we achieved £0.4m avoidance on capital expenditure which would be required with a replacement programme. There are also small non-cash releasing savings from projects such as the implementation of an electronic purchase-to-pay system.

There is a decrease in depreciation due to lower capital spend, and a revised depreciation policy. In addition, the depreciation policy has been revised due to asset life extending beyond the current three-year depreciation period, in particular around the capitalisation of software development.

The Pensions Regulator's projected (non ECR) budget for 2010-2012

Category	**2010-2011** £'000	**2011-2012** £'000	**2012-2013** £'000
Staff	21,062	21,500	21,500
Non-staff	7,507	7,923	7,837
Depreciation	609	647	733
Capital	322	430	430
Total	**29,500**	**30,500**	**30,500**

The cost of the ECR programme team for 2010-2011 is £10.4m. This excludes any costs of operation of a prime contract to run the compliance regime. We anticipate that there will be higher 'business as usual' costs associated with an increase in schemes from 2011-2012 onwards. These should be met by higher receipts from the General levy from the increased number of schemes. Details will be provided in future plans.

The Pensions Regulator's non-ECR budget for 2010-2011 is £29.5m, broken down as follows:

	2009-2010 full year forecast (£'000) (as at December 2009)	**2010-2011 budget** (£'000)
Income	(10)	(11)
Salaries	13,877	15,717
Non-payroll staff costs	4,325	3,613
Other staff costs	1,714	1,732
Consultancy	860	1,026
Professional fees	2,049	2,110
Communications and publications	704	717
Managed contracts	542	524
Accommodation/General office costs	2,550	2,675
IT and telecommunications	417	466
Depreciation	666	609
Total resource	**27,694**	**29,178**
Fixed asset costs	506	322
Total	**28,200**	**29,500**

Human resources

We start this planning period with around 302 full time equivalent posts for our non-ECR work and 47 posts for the ECR programme. We aim to end this planning period with a broadly equivalent level of full time equivalent posts. During the year we will further identify and plan for our future people and resource capabilities. Any changes in our workforce requirements will reflect our evolving statutory responsibilities, the changing regulatory landscape and efficiency drives.

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 performance focused 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 necessary to meet unique skill requirements or to deliver at peak times.
- Right cost
  Offering market competitive total remuneration 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 continue to 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.

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Workload assumptions

The figures in Table 1 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.

Table 1
Actual and anticipated workload or traffic volumes for some of the key activities undertaken or provided by the regulator.

Type of work	Team	Actual volume April 2009- March 2010	Estimated volume April 2010-March 2011
Clearance applications	Risk and Funding	84	105
Withdrawal applications	Risk and Funding	8	12
Avoidance cases	Risk and Funding	33	60
PAG cases	Pension, Administration and Governance (PAG)	160	260
Corporate risk management enquiries	Risk and Funding	333	390
Customer contacts excluding levy and scheme returns	Customer support	33,871	34,000
Codes of practice published	Regulatory policy	2	1
Guidance published	Regulatory policy	4	8
Scheme returns	Scheme return and Levy services	32,070	34,000
Levy invoices	Scheme return and Levy services	58,000	58,000

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**, **Scheme funding: An analysis of recovery plan and clearance applications** and **DC trust-based landscape: scheme return analysis**. The data and analysis contained within these publications continue 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 their 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.

The regulator is keen to demonstrate value for money

Appendix 1: Regulatory performance

2009-2010 has been a challenging year for all involved in pensions provision. We have reinforced our message to DB scheme trustees that they should continue to take a prudent approach to assessing schemes' Technical Provisions (TPs), maintain an honest and open dialogue with employers, and remain aware of the changing economic situation as they focus on the long-term interests of scheme members.

We believe that the structures and powers put in place by the Pensions Act 2004 have delivered positive outcomes for schemes and their members, and that schemes are working with sponsors to meet the challenges of the downturn. Both recovery plan lengths and back-end loading have increased in the pensions universe we regulate. Trustees and sponsors make these decisions in the knowledge that replacing deferred contributions and lost investment return implies a steeper path to recovery and leaves less room for future manoeuvre.

An analysis of the third tranche of recovery plans from the first triennial cycle of the scheme funding regime submitted to us by DB schemes with a funding deficit and published in November 2009, shows that:

- Funding levels have worsened in the third tranche of recovery plans, with the weighted average of assets as a percentage of TPs decreasing from 89.1% to 84.7%.
- More schemes are triggering in the third tranche of recovery plans compared with the second (60% as against 52%). However, this is still below the proportion of submitted valuations that triggered in the first tranche (70%).
- Recovery plan lengths have increased. The weighted average recovery plan length was 8.3 years for those schemes in tranche 3, up from 6.1 years for those schemes in tranche 2.

The full impact of the downturn will only be clear next year when we receive the recovery plans for the first tranche of the second triennial cycle.

Regulatory approach

Our overall approach is one of continuous improvement, developing systems and services with a view to implementing an approach which readily identifies and subsequently manages risks in a manner which is consistent with the principles of better regulation in practice. We continue to focus on operational efficiency to minimise the burden on pension schemes of meeting their legal duty to register and submit data to the regulator. In addition we are committed to the cross-government smarter government initiatives and efficiency priorities targeted at reducing back office costs.

We have progressed in the development of the online **Exchange** platform which has enabled significant reductions in the burden of the registration and scheme return process. This has included cutting the amount of data requested by up to 20%; pre-populating online forms to reduce the time taken on data entry; and allowing schemes to update their data online at any time.

Bringing the **Exchange** platform in-house has also enabled the regulator to address customer feedback and technical issues more quickly and to make significant efficiency savings.

Alongside the **Exchange** platform, the regulator has also introduced a data panel to apply rigorous control of future data requirements and to ensure that these are driven by genuine business need. This wider programme, which also included internal organisational changes and process re-design, has made major inroads into the regulator's cost of acquiring and managing pension scheme data.

We have also continued to develop 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.

In addition we have provided bite-sized e-learning modules to enable trustees to focus quickly on the particular risks facing pension scheme members. We 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 four years this publication has established itself as an essential reference point for data on DB schemes.

In 2009 we published our first analysis of the DC trust-based landscape, **DC trust: a presentation of scheme return data** giving a snapshot of the current shape of DC trust-based provision. This builds on work carried out over the past three years to analyse the shape of the trust-based DC landscape and the risks facing DC schemes.

Together with **The Purple Book** this gives the most comprehensive view of the trust-based pensions landscape to-date, we have also published **An analysis of recovery plans submitted**.

In addition, 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.

continued over...

Regulatory impact

In 2009 the regulator was assessed against the **Hampton Principles** and **Macrory characteristics of effective inspection and enforcement**.

The report highlights a number of key strengths at the regulator, including:

- a pragmatic approach, responsive to changing economic circumstances and business needs;
- a risk-based approach integrated into the culture of the organisation;
- good stakeholder relations and a willingness to consult meaningfully and transparently with the pensions community;
- effective systems for identifying and addressing risks to pension schemes proportionately, allocating resources to the most serious issues on the basis of an assessment of these risks;
- a learning culture within the organisation which is based on seeking honest feedback from stakeholders; and
- a clear and developing evidence base as the foundation for regulation.

We track our performance against the **Hampton Principles** in our annual **Perceptions tracker survey**. Our latest survey results given 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[6]

	2007	2008	2009
% who agree that we are consistent in our approach to enforcing pension scheme regulation	51%	61%	64%
% who feel that we explain clearly why decisions have been made	46%	60%	65%
% who feel that our actions are proportionate to the risk posed	47%	50%	54%
% who feel that we are focused on the most important risks to members' benefits	60%	69%	69%
% who feel that we are proactive in reducing risk to scheme members' benefits	55%	65%	66%

[6] This includes those respondents who answer 'don't know' on both 2009 and historic figures.

Our risk-based operational focus 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 over 40,000 registered users of the **toolkit** in addition to nearly 3,000 users of our bite sized e-learning module. Our research shows a satisfaction rating of 96% 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 45,486 visits per month and an average of 250,104 pages viewed monthly.
- We ran a series of scheme funding workshops explaining our approach to scheme funding in the downturn. Over 1,200 trustees, employers and actuaries attended these workshops.
- We ran multi channel campaigns in 2009 covering scheme funding in the downturn and DC governance. The latter was focused on the dispersed audience of trustees in DC schemes and included press, adverts, web, e-marketing and workshops.

Enable

- We continue to handle on average 11 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.
- We have issued a number of statements providing additional guidance to trustees and employers on the impact of the economic downturn.

Enforce

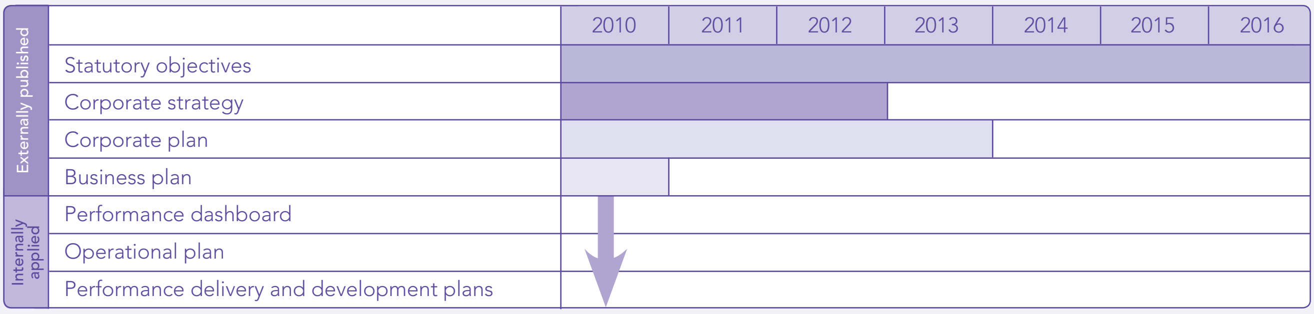
- Over the course of the year we were involved in 110 independent trustee appointments and 109 member and third party appointments.
- We have continued to work with and support other regulators and law enforcement agencies in their investigations as appropriate.
- At any one time we may be considering the use of our powers in a number of cases; however, in most cases to date the potential use of our powers has proved sufficient deterrence to secure a satisfactory outcome.
- Where the regulator considers that certain enforcement action needs to be taken in respect of a pension scheme, the Determinations Panel will ensure that every regulatory decision is made after a full and impartial consideration.

Appendix 2: Strategic alignment

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.

Figure 2
Planning, reporting and delivery processes



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. This is the second year of our **Corporate strategy 2008-2012**. In the light of the developments in the pensions landscape, we will be reviewing our strategic priorities and aim to publish a new **Corporate strategy** later in the year.

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 2010-2011. 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**.

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

T 0870 606 3636
F 0870 241 1144
E customersupport@thepensionsregulator.gov.uk

www.thepensionsregulator.gov.uk
www.trusteetoolkit.com

The Corporate plan 2010-2013

The Pensions Regulator