

Governance survey 2008

Ipsos MORI

Research study conducted
for the Pensions Regulator

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Executive summary

This is the third year that the scheme governance survey has been carried out; overall ratings are reasonably consistent for the majority of measures between 2007 and 2008 following some marked improvements between 2006 and 2007.

Schemes are clear about the aspects that contribute to the raising of governance standards – particularly the importance of *regular trustee board meetings*, *trustee training* and *the level of trustee experience*. There are also generally consistent positive ratings for boards' abilities to meet their overall governance activities. Overall, boards perform well across fifteen attributes that ask them to rate their own performance. Scores for boards' *understanding of its role and responsibilities in relation to the scheme* is the highest of these (71% of schemes 'strongly agree' that this is the case).

However, differences in experience and practice between small and large schemes can be seen clearly across these activities. Particular 'pressure points' for small schemes can be seen with *documented internal controls* (where just 26% 'strongly agree' that the board has these in place, compared to 45% of large schemes), *addressing trustee learning gaps* (16% small versus 45% large) and *ensuring a high standard of member communication* (27% small versus 41% large). Marked differences across different scheme sizes can be found throughout the survey findings. Some examples are shown below:

- Formal board meetings are held at least quarterly among fewer than a quarter of small schemes (23%) but over four-fifths (81%) of large schemes.
- Large and medium-size schemes are twice as likely as small schemes to have formally assessed or documented their trustees' needs.
- While nearly all (93%) of large schemes allow time off work for trustee training, fewer than two-thirds (62%) of small schemes say they do this.
- Relatively few trustees in small schemes (38%) are provided with an induction programme of learning activities but most trustees with large schemes (82%) do have this opportunity.
- A quarter (25%) of small schemes have a formal documented policy on trustee knowledge and understanding (TKU), although this rises to 55% of large schemes.

Perceptions of the board's collective understanding are measured for several areas; generally these are extremely positive, especially for *how the scheme is funded* and *the role of the scheme trustees*. Overall, the main issue in this area is around *the clearance process* and *when an application for clearance should be made*, with one in five rating their collective understanding as poor. Wider issues of understanding are

observed among small schemes, most notably *how the scheme's assets are invested, the provision of the scheme's rules, procedures and policies and the role of scheme trustees.*

Retention and recruitment of trustees are not widely seen as issues for schemes. Where issues exist, the main driver for them continues to be seen as apathy (eg 'nobody wants the responsibility'). The problems around a perception of the 'onerous nature' of the trustee role are also expressed by the number of schemes who contend that *the risk and additional responsibilities carried by the trustees, lack of time and conflicts of interest* are particular issues in the board being able to conduct its role effectively.

Most schemes (84%) have service standards in place with their main administration service provider but few have standards which are linked to either financial penalties or rewards. The frequency with which boards receive formal reports on levels of service from these providers differs widely across scheme sizes – three-quarters of large schemes receive them every three months but this drops to a third of medium-size schemes and just one in 12 small schemes. A corresponding disparity can be seen in the frequency with which scheme administration is included as a formal board meeting agenda. The main method used to assess the quality of service given by administration service providers is simply checking compliance with the service standards and looking for patterns of complaints; surveys or feedback forms, or independent assessment are rarely used. Ratings for the service provided across a range of factors, such as *compliance and value for money* are very positive.

Around a third (35%) of schemes always have a formal process (such as a checklist) when appointing external advisers or service providers, although this varies depending on the size of scheme. There are few concerns expressed about the potential for conflicts of interest when these providers are serving and advising on the scheme. Around one in 12 have had a corporate transaction with regard to the sponsoring employer in the last year, and in most cases professional advice was sought.

Although a clear majority (84%) state that their board *manages conflicts of interest effectively*, there is a more mixed response with regard to actual policies or concrete processes in place to mitigate those potential conflicts. This is especially true for small schemes, where just a quarter *have a specific policy in place for conflicts of interest* and only a sixth *keep and maintain a register of interests*. Around a third (30%) have had an actual or perceived conflict of interest in the past year.

One in 20 DB schemes say that the sponsoring employer offered an incentive or inducement to members to either transfer out of a scheme or accept reduced benefits. In a third of cases the offer is said to have presented concerns.

Confidence is generally very strong that appropriate internal controls are in place, such as mitigating risks relating to *non-compliance with scheme rules*. Confidence is weakest in terms of the controls against *data transfer* risks, but even here the clear majority express confidence in their controls. Two-thirds of boards review their

internal risk controls at least annually, but this drops to under a half of small schemes.

On average, 14 funds are available to members of DC/sectionalised schemes and four-fifths of those with more than one fund have a default fund. Regular assessments are fairly common among medium-size and large schemes but less widespread among small schemes. Communication with members is most popularly undertaken via summary funding statements, followed by summaries of the trustees' annual report, and most members have a scheme booklet available to them.

1. Introduction

The Pensions Regulator Governance Survey is an annual exercise conducted among pension scheme trustees which is designed to monitor the standards of scheme governance of occupational pension schemes in the UK. The survey also serves to highlight areas for specific attention, informing the regulator's understanding of trustees' work and the best approaches for their education and guidance, and raising the profile of these issues among the wider industry.

This report details the findings from the **third wave** of the survey which was conducted between 10 December 2007 and 11 February 2008. Wave 1 fieldwork was conducted between January and March 2006 and wave 2 between January and March 2007.

This wave of the survey was carried out by a new supplier, Ipsos MORI. As requested by the regulator, they have maintained a consistent methodology with previous waves. The format of this report has changed slightly from previous years, however, as Ipsos MORI have identified key findings by topic area and in particular have broken down scores by size of scheme in several places in order to highlight differences at this level.

In brief, the survey is used by the Pensions Regulator to provide essential evidence to:

- monitor pension scheme governance
- enable the regulator to be risk focused and proactive in its approach to scheme governance
- inform the regulator's approach to education and guidance
- enable the regulator to make informed comment on standards of pension schemes' governance among trustee boards
- highlight how poor standards can cause risks to the security of members' benefits and how good standards can help minimise risks to scheme members' benefits
- enable the measurement and reporting of key performance indicators on governance.

2. Methodology overview

A more detailed technical manual booklet is available in addition to this report and provides more comprehensive detail on the methodology of the survey including sample design and weighting.

2.1 Sample provision and overall sampling

The Pensions Regulator's database of registered schemes was used as the sample source. A total of c. 7,500 scheme records were provided by the regulator. From the eligible universe, Ipsos MORI selected a 'survey sample' to be approached, based on the following seven cells:

Scheme type	Scheme membership			
DC	12-99	100-999	1000+	
DB	5-99	100-999	1000-4999	5000+

Schemes which had been used for other research projects in the previous 12 months were flagged and were not approached to participate. Ipsos MORI then mailed introductory letters to the sample of potential survey participants and from this sample, all were approached by telephone and 968 completed the screener questionnaire.

The screener questionnaire's main purposes were to confirm scheme details (such as the type and size of the scheme) to ensure that each interview could be assigned to the correct interview quota, and to ensure that the survey participant was both sufficiently senior and had the requisite knowledge about the scheme to be able to answer the detailed questions in the main stage.

A total of 500 main stage interviews were conducted from those who successfully passed the screener questions. Fixed quotas were agreed and set pre-fieldwork, with the main stage interviews split by scheme type and size as follows:

Scheme type	Scheme membership			
DC	12-99	100-999	1000+	
	51	51	45	
DB	5-99	100-999	1000-4999	5000+
	50	99	107	114

Further details on the sampling approach taken can be found in the separate Technical Appendices.

2.2 Questionnaire development

As with the previous wave of the survey, the main stage questionnaire was developed through close collaboration between the Pensions Regulator, Ipsos MORI and the External Advisory Group. The EAG consists of 17 senior pensions experts fulfilling various roles in both the public and private sector. The screener questionnaire was largely unchanged from the previous wave, reflecting the need to target the same types of scheme and speak to the same types of respondent.

Care was taken in ensuring that, where the findings from key questions needed to be tracked wave on wave, those questions remained unchanged. It was also important to keep the overall questionnaire length to within reasonable limits, so that interview response rates and data quality were not compromised by an over-long questionnaire. The average interview length was c. 25 minutes, which is similar to previous waves of the study.

2.3 Pilot

A total of 20 pilot interviews were conducted with a mix of mainly DB/hybrid (18 interviews) and some DC (2 interviews) schemes. Fieldwork for the pilot was conducted between 11 and 14 December 2007. A full briefing of the fieldwork team was conducted pre-fieldwork by executives from both the regulator and Ipsos MORI. The pilot confirmed that no changes needed to be made to the content of the questionnaire and that the overall interview length was not impacting on willingness to participate or compromising the quality of data collected. Data from the pilot interviews was not included in the main stage dataset.

2.4 Main stage

An introductory letter was sent by Ipsos MORI on behalf of the regulator to all potential participants. The letter was sent in order to underline the genuine, important and confidential nature of the study and acted as an important tool for boosting participation.

All telephone interviews were conducted in-house by experienced Ipsos MORI interviewers at its Edinburgh telephone centre. As with the pilot stage, a full briefing was given to the interviewers, with members of the regulator and Ipsos MORI project team involved. The briefing covered the background and objectives of the research, sampling and contacting procedures and a dummy run of the CATI (Computer Assisted Telephone Interviewing) script. A detailed set of interviewer instructions was also provided covering these areas, for the interviewers' reference. All interviewers were monitored through the course of the project to ensure that they fully met Ipsos MORI's stringent quality standards.

Fieldwork was conducted between 10 December 2007 and 11 February 2008.

2.5 Effects of self-assessment

The Pensions Regulator and Ipsos MORI acknowledge the impact that effective 'self-assessment' may have on the responses given by survey participants. There is a potential danger that a less critical standpoint may be taken in assessing schemes' corporate governance when the respondents themselves are directly involved in that area. A number of approaches can be taken to try to mitigate this potential bias.

Perhaps the simplest but most critical is to recognise this possibility and consequently to view the survey responses within that context. An adjunct to this is to apply tough criteria when examining respondents' ratings of their own scheme's effectiveness. Is a rating of 'fairly positive' at a sufficiently high level when the possible effects of self-assessment are considered?

It is also important to look for consistency of responses across both 'internal' and 'external' parties (such as service or administration providers), as well as to examine where gaps in perceptions and ratings occur among these respondent types and among other groups (such as between small, medium-size and large schemes). Responses to different questions can also be good indicators of possible gaps between perceptions of good governance and 'concrete' actions.

Looking forward, there may be scope to evolve the questionnaire to further mitigate some of the possible effects of self-assessment. There may be scope to develop questions which 'force' more balanced and self-critical responses (a simple example of this might be to probe for the top three strengths as well as the top three weaknesses in the scheme's governance). Another option may be to conduct a small number of qualitative face-to-face interviews, looking specifically at areas of concern and seeing where current practices fall short of a stated ideal of scheme governance.

2.6 Analysis

The final data set was weighted to an agreed profile (see Technical Appendices for further details) and then provided in full data tabulations by Ipsos MORI, with key sub-group splits (eg by scheme size). Further correlation analysis was undertaken, examining correlations between aspects of collective understanding among the board and the frequency of formal meetings and with assessments of quality of service. A summary of this analysis can be found in the appendices.

Throughout this report, comparisons are made between small, medium-size and large schemes. Statistically significant differences between these sub-groups are marked in red in the charts.

These scheme sizes are defined as follows:

- Small = DB with 5-99 and DC with 12-99 members

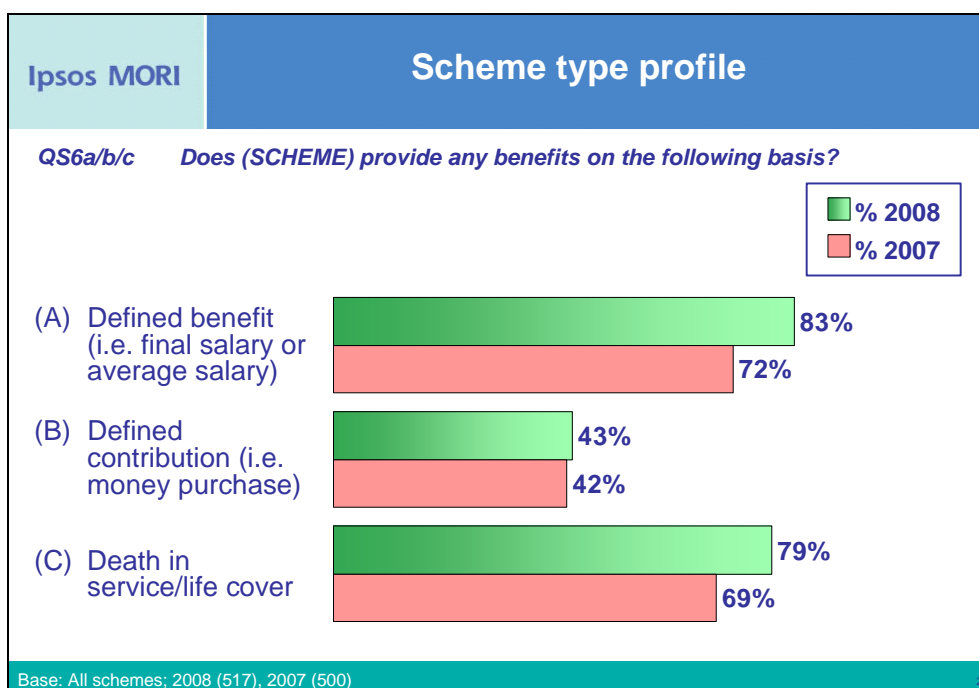
- Medium-size = DB or DC with 100-999 members
- Large = DB or DC with 1,000+ members

Please note that, due to rounding of percentages, multiple answers and, in some cases, exclusion of 'don't know' responses, not all percentages in the charts shown in this report will total 100%. Statistically significant differences are marked in red in the charts.

3. Key findings

3.1 Profile of survey participants

The overall profile of the types of scheme who were surveyed for this year’s study is broadly in line with earlier waves of the study. Just over four-fifths (83%) of schemes surveyed were DB schemes, with a similar proportion (79%) classifying themselves as death in service/life cover and around two-fifths (43%) of the schemes classified as DC. In total, approximately three-fifths (62%) of employers participate in these schemes, which is consistent with 2007 – see chart below.

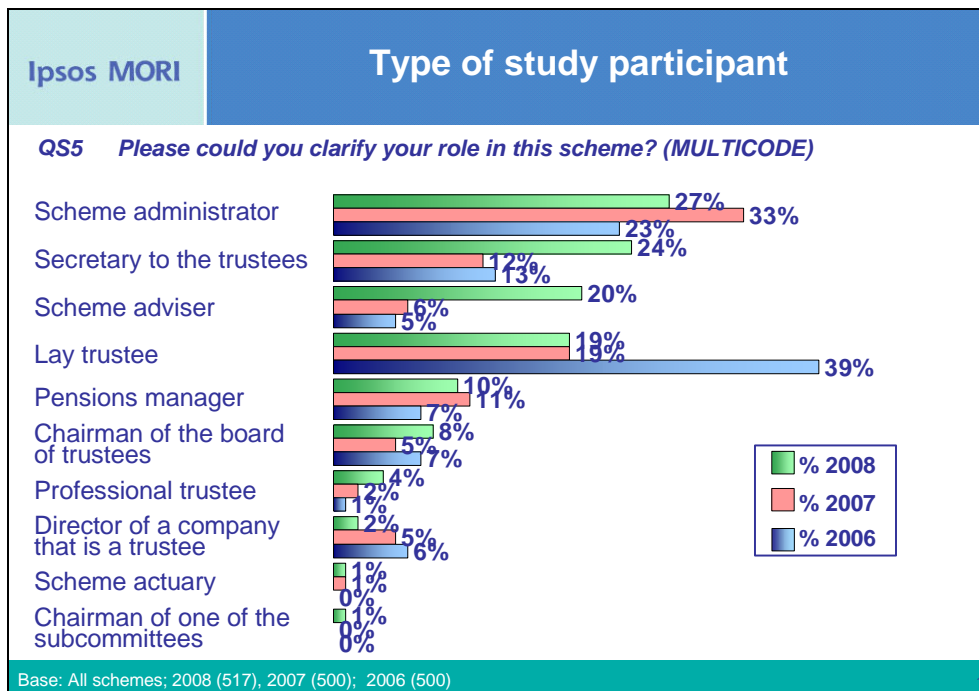


Of those schemes with DB and DC elements, a third (36%) were classed as hybrid schemes (providing defined benefits with a defined contribution underpin, or vice versa) and about two-fifths (44%) were sectionalised schemes (eg one with a defined contribution section for new entrants and a closed defined benefit section).

The proportion of schemes interviewed which were closed to new entrants increased slightly from 2007 – up from 47% to 54% – while there was a corresponding but less significant drop in the proportion which were open to new entrants – down from 41% to 37% this year. A further 9% were frozen or paid-up.

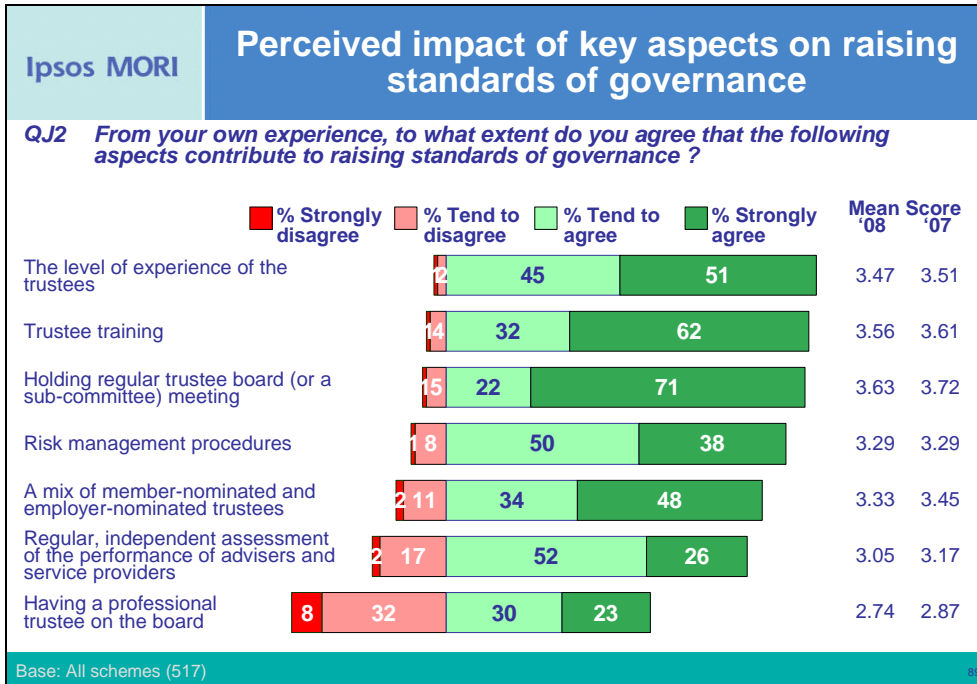
Most of the survey participants were either scheme administrators (27%), secretary to the trustees (24%), scheme advisers (20%) or lay trustees (19%) – see chart below. A higher proportion of secretaries to the trustees and scheme advisers were interviewed this year compared with 2007, while a lower proportion of scheme administrators were interviewed. No quotas were set by job function in the survey. However, as stated in the Methodology section, qualification for participation in the

survey was based not only on scheme characteristics but also on respondents having the requisite knowledge and experience of the scheme to be able to answer the detailed questions with authority.



3.2 Overview and measurement of governance standards

There is especially strong agreement that *regular trustee board meetings*, *trustee training* and the *level of trustee experience* are all aspects that contribute to the raising of governance standards (71%, 62% and 51% respectively agree strongly that this is the case) – see chart below. There is similarly widespread recognition of other aspects, such as *a mix of member-nominated and employer-nominated trustees* in raising standards.



The recognition of these aspects has remained relatively constant year on year. However, the positive impact of *having a professional trustee on the board* on standards continues to be questioned by a sizeable minority (two-fifths disagree) and this level of disagreement may even be hardening slightly, with the mean rating declining somewhat from 2007 (now 2.7).

Agreement is slightly more muted among smaller schemes, particularly for the *impact of professional trustees* – see table below. There is generally more widespread agreement among DB schemes of the contribution that these various aspects make to raising standards of governance.

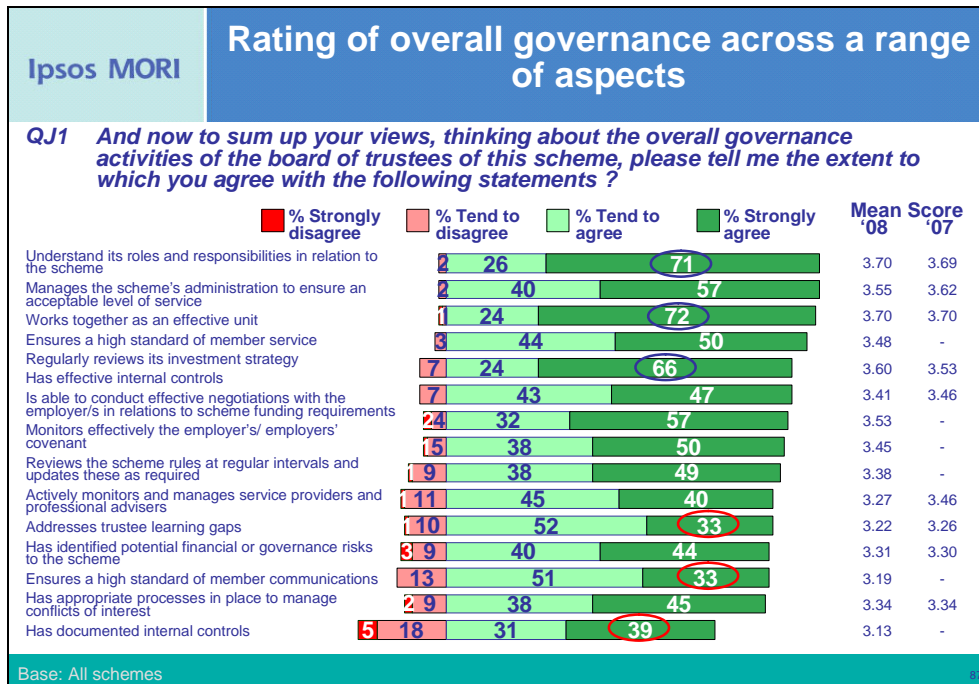
Ipsos MORI Perceived impact of key aspects on raising standards of governance – by scheme size

QJ2 From your own experience, to what extent do you agree that the following aspects contribute to raising standards of governance ?

	Agree		
	Small	Medium	Large
	%	%	%
The level of experience of the trustees	94	96	97
Trustee training	84	95	99
Holding regular trustee board (or a sub-committee) meeting	85	94	99
Risk management procedures	80	89	94
A mix of member-nominated and employer-nominated trustees	73	83	91
Regular, independent assessment of the performance of advisers and service providers	72	80	83
Having a professional trustee on the board	44	54	60

Base: All engaging (small bases for IFAs & advisers)

When asked to consider the overall governance activities of the scheme’s board of trustees against a range of key actions, the ratings are consistently positive. In particular, nearly three-quarters (71%) strongly agree that the board *understands its role and responsibilities in relation to the scheme*. A similarly high majority (72%) strongly agree that the board *works together as an effective unit* and that the board *regularly reviews its investment strategy* (66%). In fact, there is little disagreement that the board is performing well across any of the fifteen aspects which are rated, and the mean scores have remained fairly consistent year on year – see chart below.



Despite high agreement that there are *effective internal controls* in place (90% either tend to or strongly agree that this is the case), the largest disagreement is whether the board has *documented internal controls* – over one in five (21%) disagree that this is true.

Clear differences can be seen in the views of small versus medium-size and large schemes on this aspect. While 44% and 45% of medium-size and large schemes ‘strongly agree’ that documented internal controls are in place, this drops to around a quarter (26%) of small schemes. Similar gaps across scheme size can also be seen in relation to whether the board addresses trustee learning gaps and whether it ensures a high standard of member communications – see table below.

Ipsos MORI	Rating of overall governance across a range of aspects – by scheme size		
	Small	Medium	Large
QJ1 And now to sum up your views, thinking about the overall governance activities of the board of trustees of this scheme, please tell me the extent to which you agree with the following statements ?			
	Strongly agree		
	%	%	%
Addresses trustee learning gaps	16	36	45
Ensures a high standard of member communications	27	32	41
Has documented internal controls	26	44	45

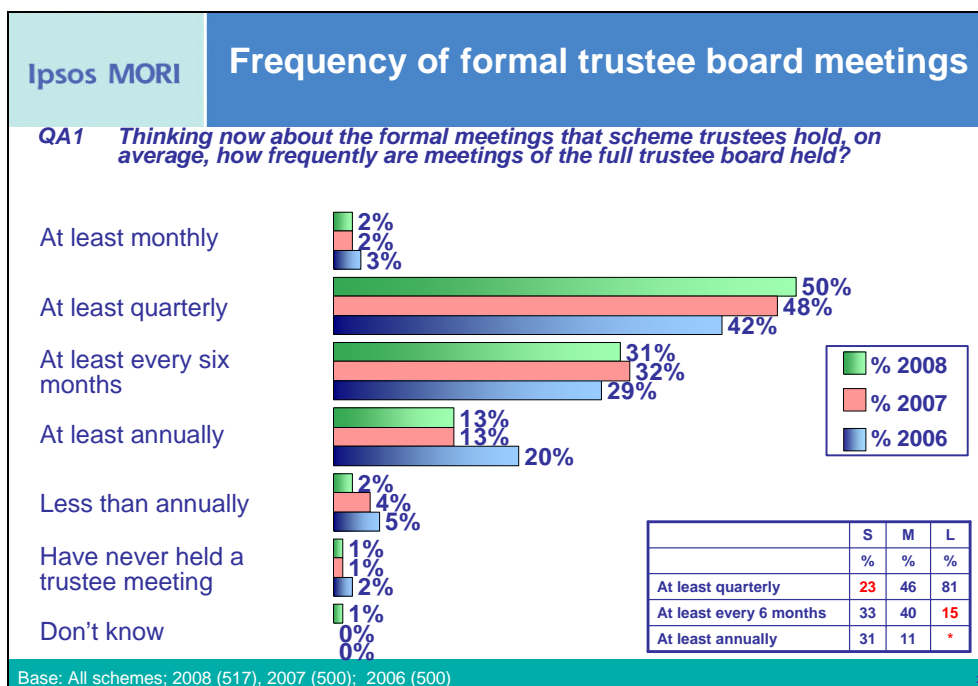
Base: All schemes 89

A higher proportion of DB schemes feel that the board *understands its role and responsibilities* than DC schemes (74% strongly agree that is true versus 58%) and, in particular, that the board *regularly reviews its investment strategy* (70% versus 48% strongly agree). For other aspects, opinions are very similar across the two types of scheme. Pensions managers are generally more positive across all aspects of governance activities than scheme administrators (for example, 88% of pensions managers strongly agree that the board understands its role and responsibilities in relation to the scheme, compared with 69% of scheme administrators).

3.3 Trustee board and sub-committee meetings

Meetings of the full trustee board continue to be held at relatively frequent intervals, albeit with some differences across different sizes of schemes.

As in the last wave of the survey, half of the schemes hold formal meetings at least quarterly – see chart below. The frequency of these meetings varies though with the scheme size, with small schemes significantly less likely to hold formal meetings on a more regular basis, especially when compared with the largest schemes. A clear majority of large schemes (over four-fifths) hold meetings at least quarterly, compared with just under a quarter of small schemes.



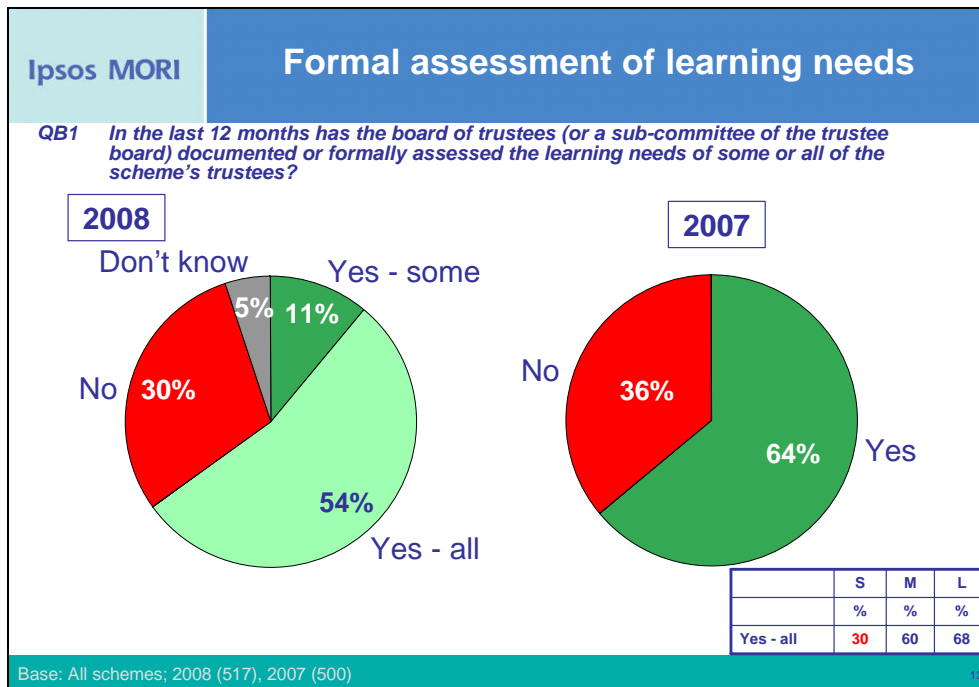
Around a fifth of schemes overall have sub-committees. As might be expected, larger schemes are more likely to require this type of secondary resource: half of the larger schemes have sub-committees whereas only one in seven of the medium-size and none of the smaller schemes have.

In most cases (four-fifths of schemes), the focus of the sub-committees' work is on the scheme's *investments*. Less common responsibilities are managing the *scheme funding* and *benefits issues*, carried out by one in five of the schemes. With regard to other duties, the most frequent sub-committee roles are administration and operation, discretionary committees and communications.

3.4 Trustee knowledge and understanding

Nearly two-thirds (65%) of schemes have documented or formally assessed the learning needs of their trustees in the previous year and in most of those cases, all of the trustees were assessed.

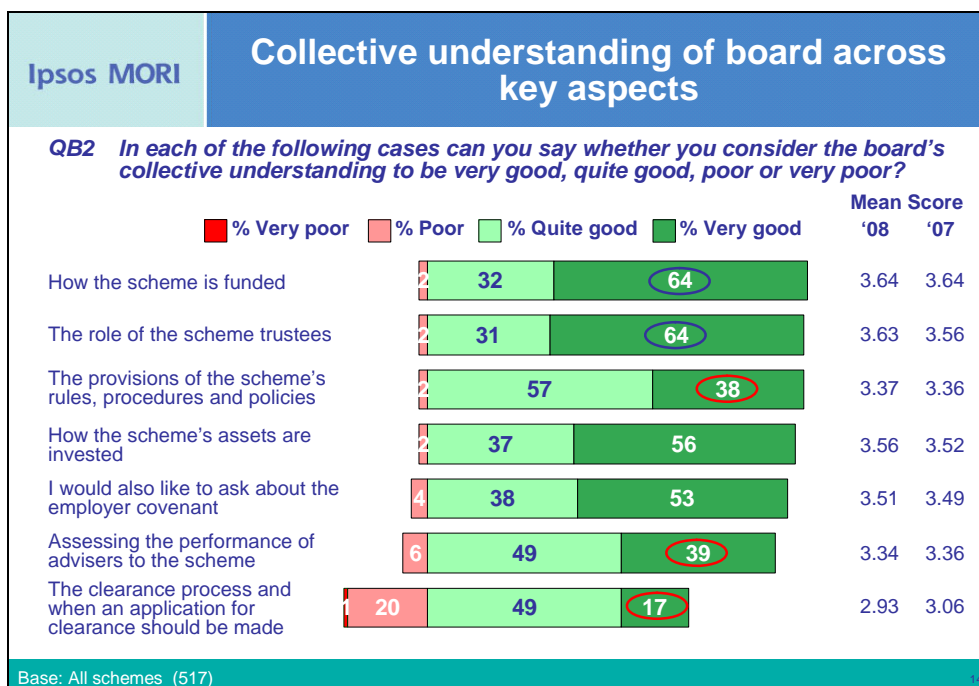
This is largely unchanged from 2007. However, there are notable differences across different scheme sizes: large and medium-size schemes are twice as likely to have formally assessed or documented the needs of their trustees than are small schemes. DB schemes are somewhat more likely to have this formal documentation in place than DC schemes.



It should also be observed that there remains a significant minority (just under a third) where no formal assessment or documentation has been undertaken in the past year.

Confidence in the board's collective understanding of key aspects of the scheme is generally high. However, this can vary across the different aspects – see chart below.

Boards are perceived to have a better grip on fundamental issues, such as *how the scheme is funded* and *the role of the scheme trustees*, than more technical issues such as *the provision of the scheme's rules, procedures and policies*, *assessing the performance of the advisers* and *the clearance process*. Nearly two-thirds of schemes rate their board's understanding of how the scheme is funded and the role of the scheme's trustees as 'very good'. In comparison, fewer than two-fifths give the same highest rating for understanding of *the provisions of the scheme's rules* and *assessing the performance of advisers to the scheme*.



Understanding of the clearance process, in particular, seems to cause some uncertainty among a wider range of schemes, with around one in five (21%) claiming that the board has a 'very poor' or 'fairly poor' understanding of the clearance process.

The overall mean ratings for these aspects of understanding by the board have remained consistently unchanged wave on wave.

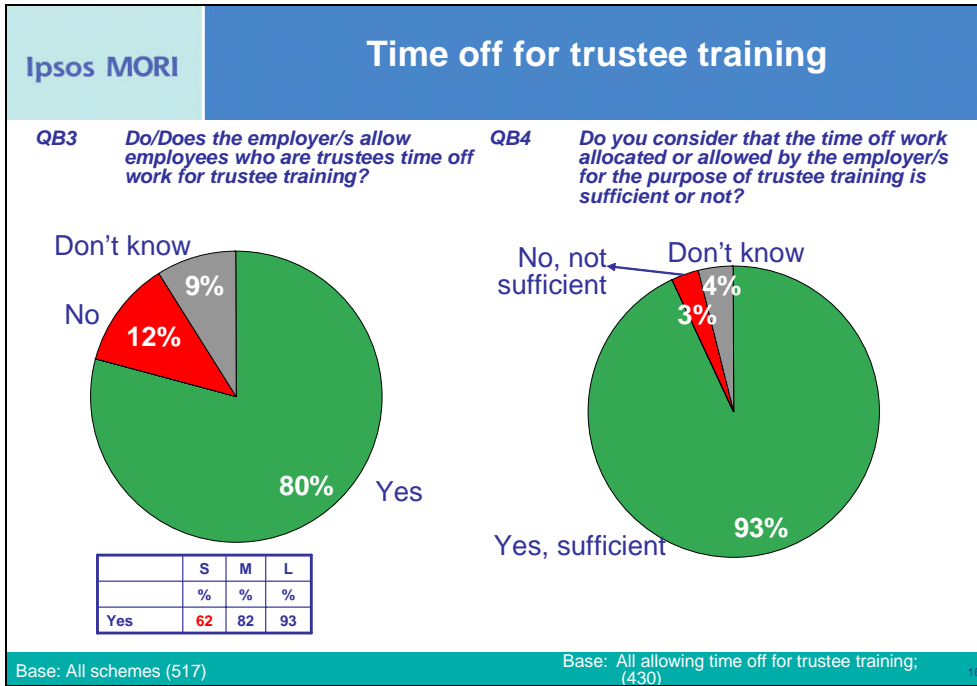
Differences can be seen not only in the boards' understanding of each key aspect. There are also several interesting differences across the scheme sizes, with the smaller schemes having the poorest understanding of most of the issues – see table below. This gap in perceived understanding is most noticeable with regard to *the role of scheme trustees, the provisions of the scheme's rules, procedures and policies* and *how the schemes assets are invested* – see table below.

	Very good understanding		
	Small	Medium	Large
	%	%	%
How the scheme is funded	68	60	68
The role of the scheme trustees	50	64	76
The provisions of the scheme's rules, procedures and policies	30	42	40
How the scheme's assets are invested	42	57	68
I would also like to ask about the employer covenant	53	51	56
Assessing the performance of advisers to the scheme	40	35	46
The clearance process and when an application for clearance should be made	17	18	15

Base: All schemes (517)

DB schemes are consistently more positive about the board's collective understanding in these areas than are DC schemes – for example, 66% of DB schemes say the board's understanding of the role of the scheme trustees is very good, compared with 53% of DC schemes. Pensions managers are more positive about the board's collective understanding of *the role of scheme trustees* compared with scheme administrators (71% versus 58% 'very good'), while scheme administrators are more positive about *understanding of the employer covenant* (66% versus 50% 'very good'). For the other five attributes which are asked about, the views of these job functions are fairly consistent.

Four in five (80%) of schemes allow time off work to employees who are trustees for trustee training – see chart below. This again varies with the size of the scheme, dropping to around three-fifths (62%) among the small schemes, compared with almost all (93%) of the large schemes. A significantly higher proportion of DB schemes allow employees who are trustees time off work than do DC schemes (82% versus 67%).



Among those who are allowed time off work for trustee training, nearly all (93%) think that the time allocated is sufficient for this purpose.

Trustees are encouraged to undertake unpaid *self-training* in more than four in five (86%) cases. Three in five (61%) are provided with *an induction programme on their appointment* but just one in five (20%) are *encouraged to undertake formal qualifications such as the PMI trustee qualification* – although significantly lower than the other two forms of learning, this is up by 6 percentage points from 2007.

Larger schemes are more likely to undertake all of these forms of unpaid training. Induction programmes, for example, are provided in twice as many large schemes as small schemes: fewer than two-fifths of small schemes (38%) versus over four-fifths (82%) of large schemes – see table below. DB schemes are somewhat more likely to offer these learning activities than are DC schemes (eg 63% provide trustees with an induction programme, compared to 51% of DC schemes).

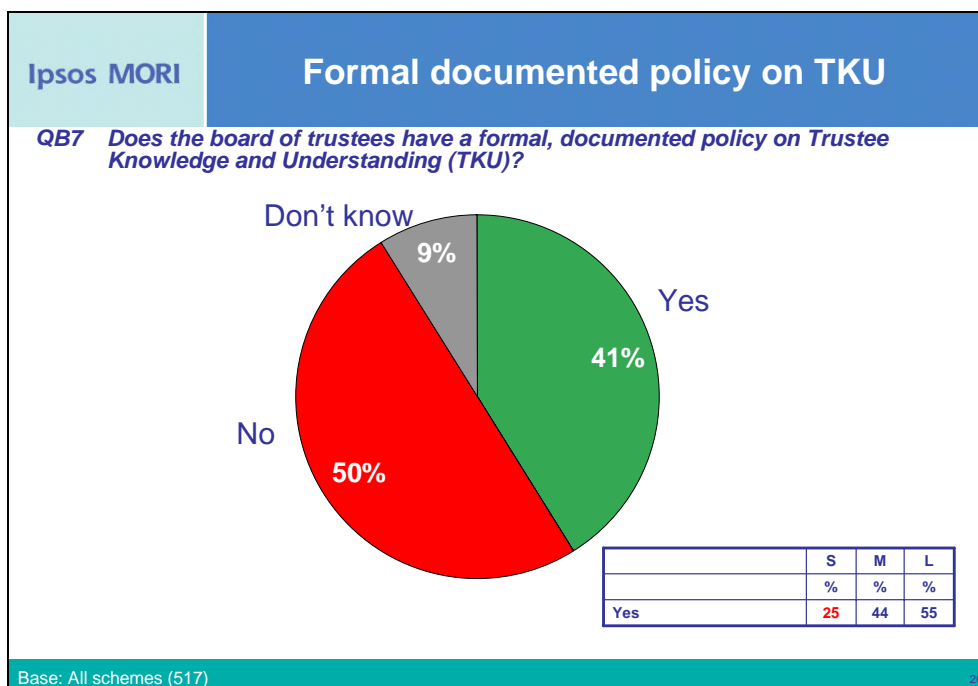
Ipsos MORI	Learning activities offered – by scheme size		
QB5 <i>Thinking about the learning activities that are offered to trustees, generally speaking . . . are trustees . . . ? (excluding paid, professional)</i>			
	Small	Medium	Large
	%	%	%
Provided with an induction programme of learning activities on appointment	38	63	82
Encouraged to undertake formal qualifications such as the PMI (Pensions Management Institute) trustee qualification	12	18	32
Encouraged to undertake their own learning to fill gaps in their knowledge	79	86	92

Base: All schemes (517) 19

Half of schemes overall have run introductory or advanced training in the past year.

Again, size has a large impact on how widely such training is offered: one-third (35%) of small schemes have provided introductory training, against half of the medium-size (50%) and two-thirds of the large (65%) schemes. Differences by size are even more marked in terms of the advanced or specific training available, provided by just over a quarter (27%) of small schemes compared to over three-quarters (78%) of the largest. As with other types of introductory learning, a higher proportion of DB schemes have trustees who have undergone formal, structured training (52% versus 39% of DC schemes).

A formal and documented policy on trustee knowledge and understanding (TKU) is provided by two-fifths (41%) of boards overall, although this figure ranges from just a quarter (25%) for small schemes to over half (55%) for large schemes.

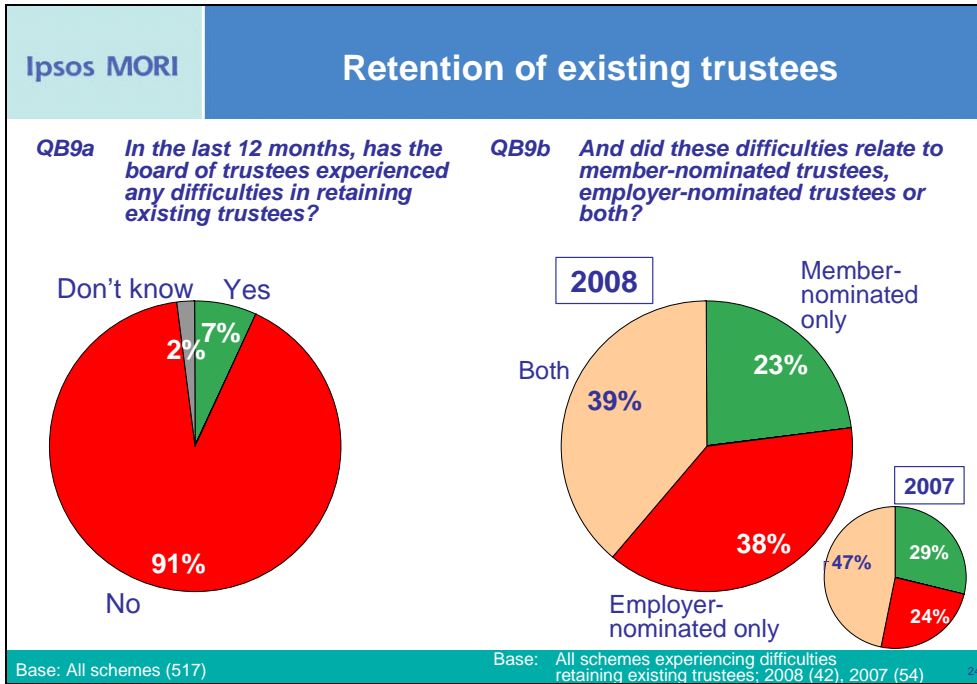


Use of the Trustee Toolkit is similarly very varied. Just over a quarter (28%) say that most or all trustees have used the Toolkit, which is up 5 percentage points from 2007. The incidence of frequent usage is higher in large schemes where nearly two-fifths (37%) have done so. However, a fifth of the schemes (20%) say that none have used the Toolkit. This is down slightly from last year's survey, but it is notable that among the small schemes it is the most common response, with nearly two-fifths (37%) saying that none have used it.

A higher proportion of DC schemes say that none have used the Toolkit (28% versus 18% for DB schemes).

3.5 Retention and recruitment of trustees

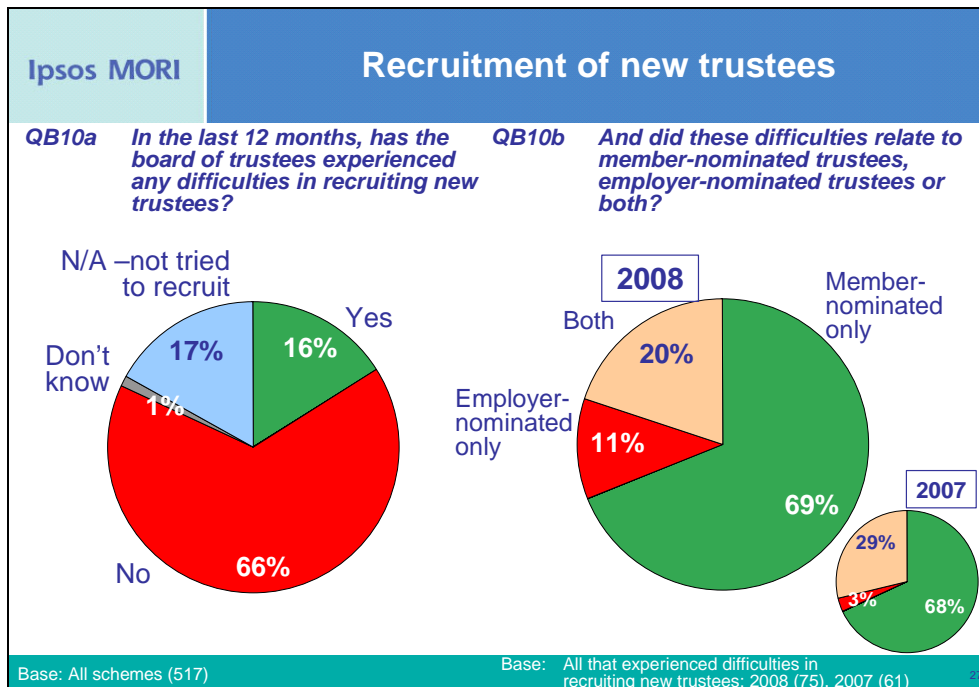
Retention of trustees is not seen as an issue for the majority of schemes (91%). Those who say that they experienced difficulties in retaining existing trustees in the past year – one in 14 (7%) of the total – were more likely to have such issues with employer-nominated trustees than member-nominated ones. This shows some variation from the findings in 2007, although the largest proportion contends that these difficulties were experienced with both types.



The reasons given for these retention difficulties are varied; however, apathy is the most frequently cited cause (29%), followed by 'job changes' (26%) and the amount of time involved (19%).

Recruiting new trustees has been a problem for 1 in 6 (16%) of the schemes in the past year (more than twice the incidence of retention difficulties). A similar proportion of schemes (17%) say that they have not been looking to recruit new trustees in the last 12 months.

The majority of these problems (69%) were experienced with member-nominated trustees – in line with the 2007 survey results.



With regard to recruitment the problem with apathy appears a far more pressing issue, mentioned by 86% of the respondents who experienced difficulties. A respondent from a small scheme explains how tricky it can be to encourage interest in these positions:

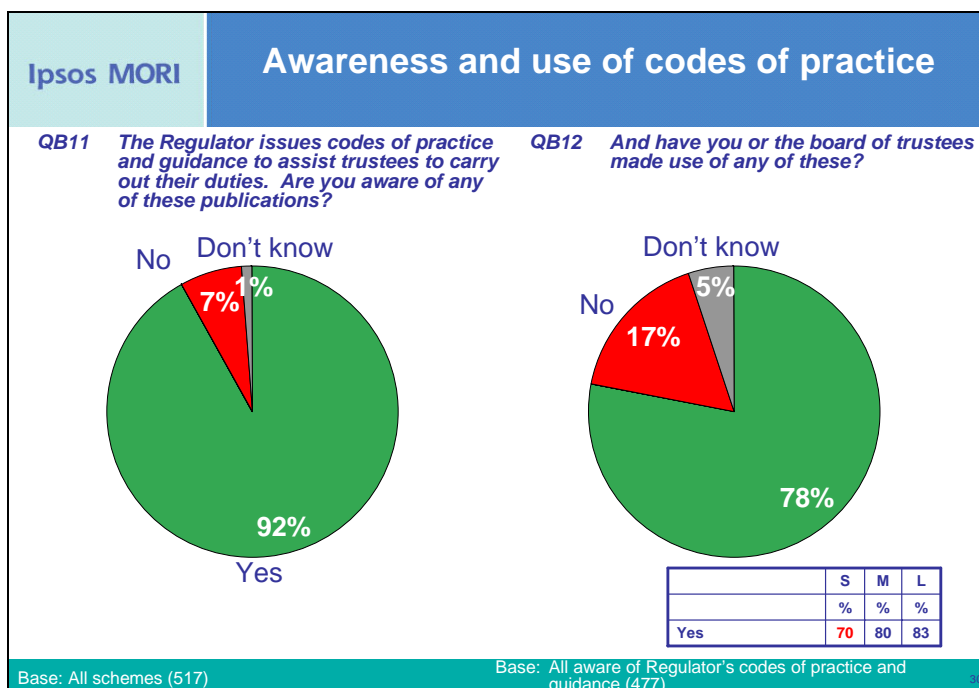
“We went through the process of inviting nominations and no one responded”

And another from a large scheme expresses similar difficulties, this time focusing on the perceptions of the work involved:

“They are reluctant to commit the time due to the potentially onerous nature of the job. Everyone says no”

3.6 Regulatory guidance

Nearly all schemes (92%) are aware of the codes of practice issued by the regulator, and this is consistent across different scheme sizes. Around four-fifths (78%) of these have also used the regulator’s codes – see chart below. Large schemes are more likely to have used the codes than smaller ones.



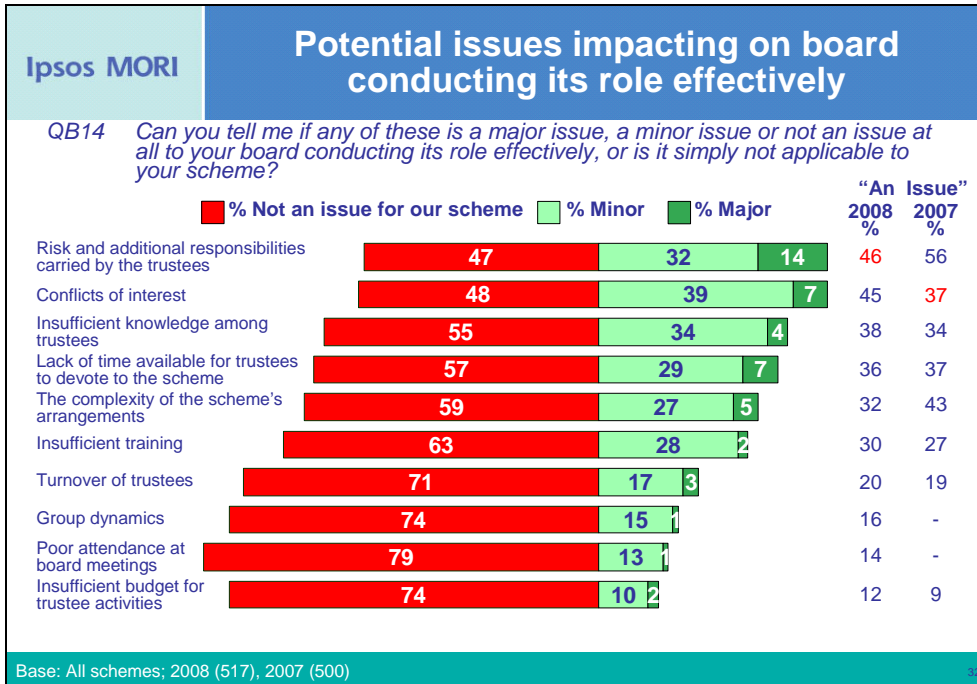
The reasons given for not using the codes of practice are most commonly that there has not been a reason to use the codes (60%), followed by schemes using other sources (29%).

Schemes were asked to say whether a range of factors were an issue at all in the board conducting its role effectively – see chart below. Schemes remain relatively bullish when asked about the impact of most of these factors. However, there are notable pockets of concern with regard to some.

The *risk and additional responsibilities carried by the trustees* and *conflicts of interest* are seen as schemes' most predominant issues. The first in particular appears to cause more widespread concerns than the second, being mentioned as a 'major issue' by 14% of schemes, twice as many as *conflicts of interest*. It is encouraging to note that compared to last year, mentions of risk and additional responsibilities as 'an issue' (either major or minor) have declined by 10 percentage points. However, *conflicts of interest* has increased as 'an issue' by 8 percentage points.

For both of these factors, there is a relatively even split between those schemes which say that both are an issue (whether major or minor) and those saying that neither is an issue for their board.

Trustees' *lack of knowledge* and *lack of time* to dedicate to the scheme are also recognised by nearly 2 in 5 schemes as potential hurdles to the board conducting its role effectively. A further third (32%) say there is a potential negative impact from *the complexity of the scheme's arrangements* and a similar proportion (30%) cite *insufficient training* as an issue in this regard.



Large schemes are more likely to recognise that a number of these factors are issues in the board performing less effectively, perhaps because of increased complexity of their schemes and within these larger organisations. In particular, the *risk and additional responsibilities carried by trustees* is seen as a key concern (53% say it is 'an issue'), along with *conflicts of interest* and *the complexity of the scheme's arrangements* (48% each). For medium-size schemes the main issue is seen as *conflicts of interest*; for small schemes the main issue appears to be *insufficient knowledge among trustees* – see table below.

Ipsos MORI **Potential issues – by scheme size**

QB14 Can you tell me if any of these is a major issue, a minor issue or not an issue at all to your board conducting its role effectively, or is it simply not applicable to your scheme?

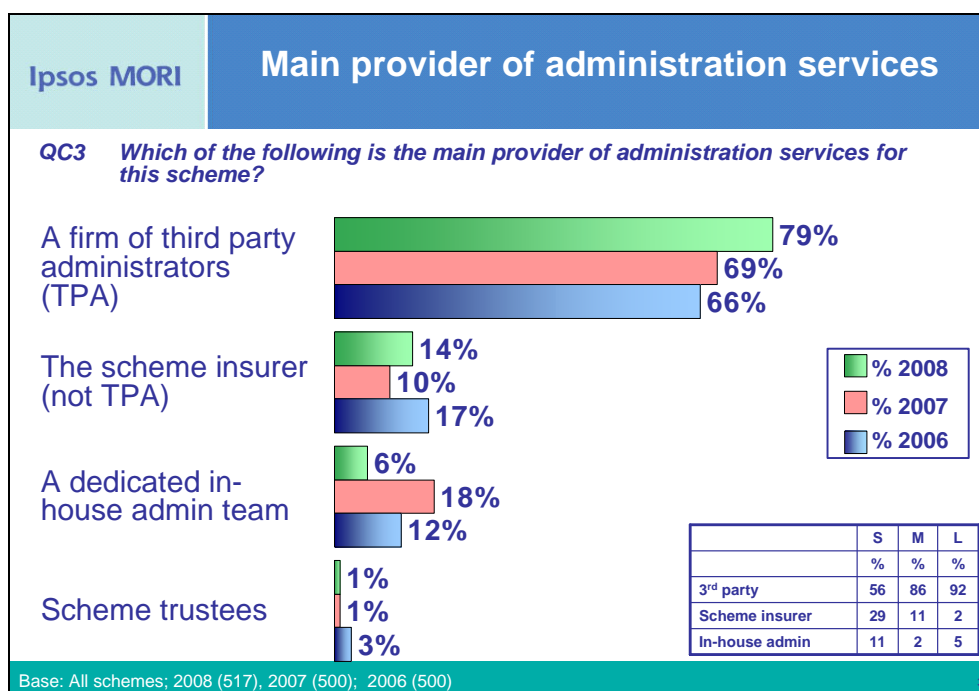
Issue	An issue		
	Small	Medium	Large
	%	%	%
Risk and additional responsibilities carried by the trustees	39	45	53
Conflicts of interest	39	47	48
Insufficient knowledge among trustees	42	38	33
The complexity of the scheme's arrangements	24	28	48
Turnover of trustees	11	19	29
Group dynamics	10	15	24
Poor attendance at Board meetings	11	11	21

Base: All schemes (517)

There are also some differences between DB and DC schemes across these areas. The most significant of these was the proportion of DB schemes for which *conflicts of interest* appears to be an issue (51% compared to only 18% of DC schemes). Less marked differences can also be seen between DB and DC schemes in terms of *insufficient knowledge among trustees* (40% and 29% respectively ‘an issue’), the *complexity of the scheme’s arrangements* (35% versus 20%) and *group dynamics* (17% versus 9%).

3.7 Managing the scheme administration

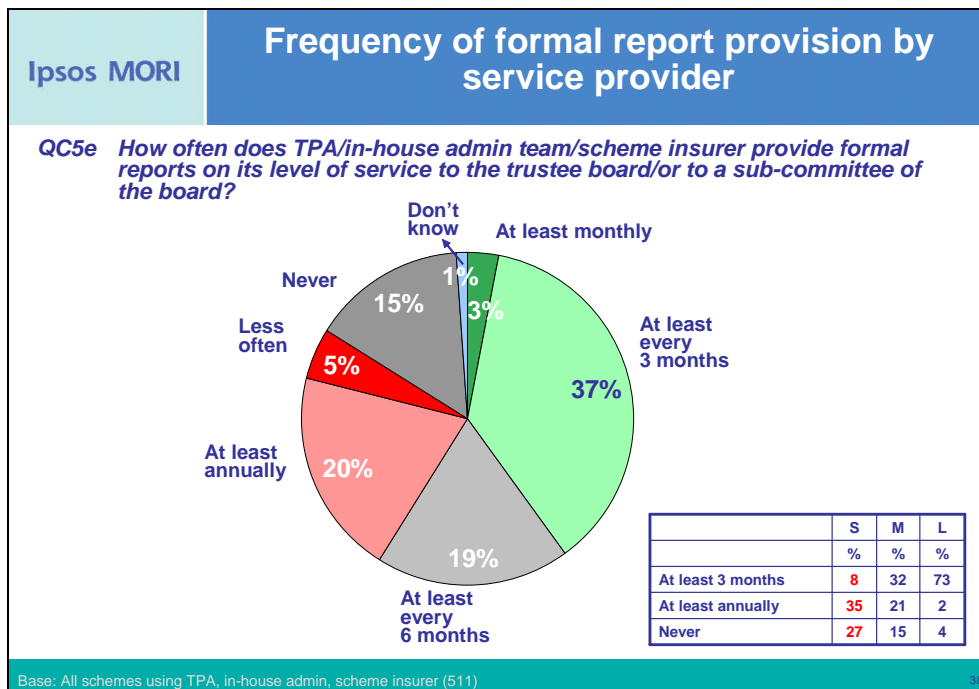
Most schemes continue to regard their third-party administrators (TPA) as the main provider of administration services, in fact increasing since 2007 (up from 69% to 79% of schemes) – see chart below. In contrast, the proportion regarding their in-house admin team as the main provider of services has declined, down from 18% to 6% this year.



A larger percentage of small schemes say their scheme insurer is the main provider (29%), while for nearly all medium-size and large schemes the TPA has this role (86% and 92% respectively).

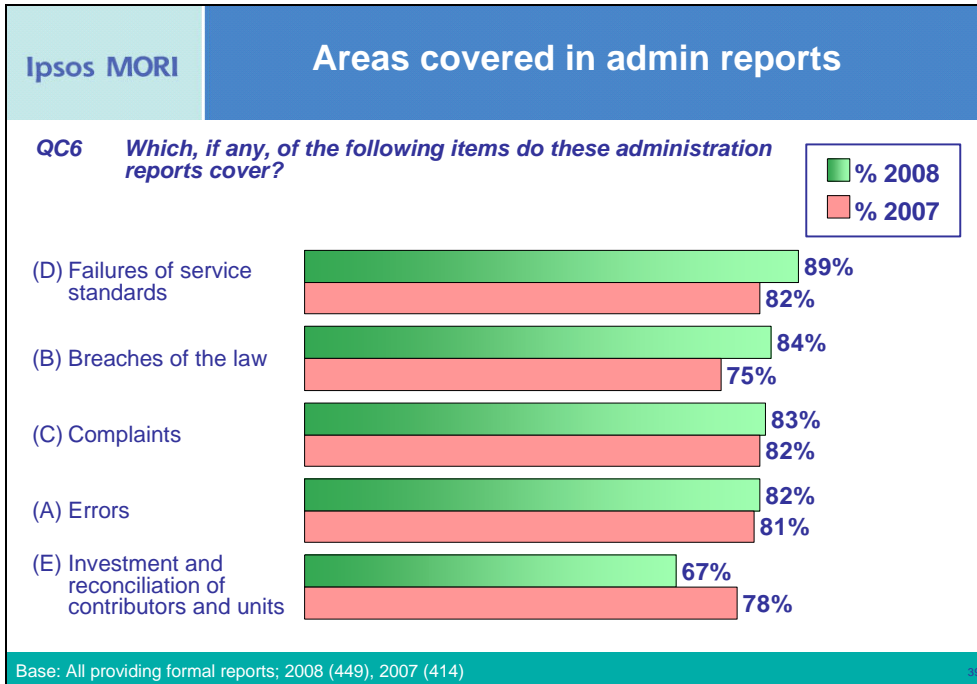
Overall, most schemes (84%) have service standards in place with their service provider although this drops to around two-thirds of small schemes (68%). In nearly all cases, these standards are documented. This is the case in nearly all (94%) of DB schemes. However, relatively few service standards are linked to financial penalties (15%) and even fewer are linked to financial rewards (7%), although there is some indication that large schemes are more likely to have financial penalties in place (21%).

There is a great disparity in the frequency with which service providers give formal reports on their level of service to the trustee board or a board sub-committee – see chart below.



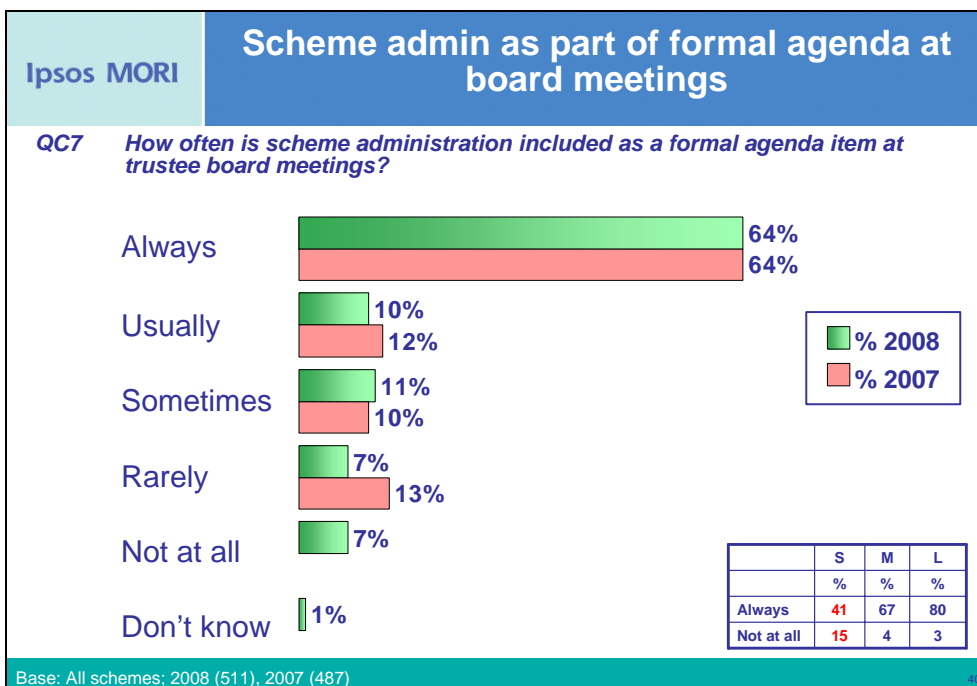
Around three-quarters (73%) of large schemes say that these formal reports are provided at least every three months but this drops to a third (32%) of medium-size schemes and to just one in 12 of small schemes (8%). Small schemes are most likely to receive these reports annually (35% say that this is when they get this formal feedback) and a significant minority of small schemes (27%) say that they never receive formal reports from their service provider. DB schemes are more likely than DC schemes to receive these reports at least every three months (39% versus 26%).

These administration reports cover a broad range of areas in most cases – most often (in around 80% to 90% of cases) they cover *failures of service standards, breaches of the law, complaints and errors* – see chart below. A slightly lower proportion of around two-thirds (67%) cover *investment and reconciliation of contributions and units*, (the only area showing a decline wave on wave).

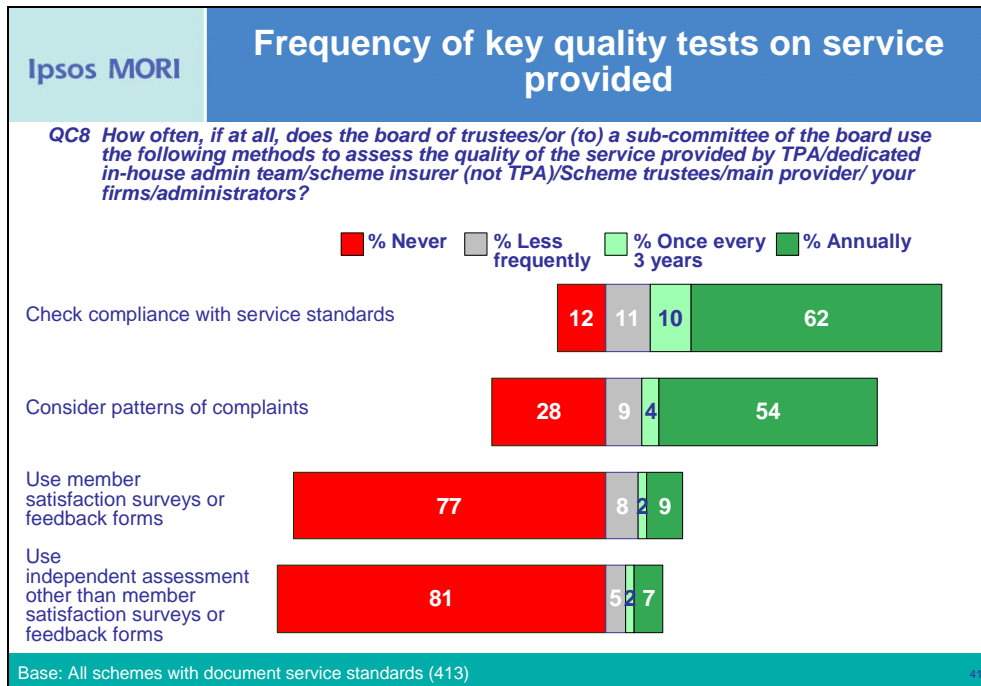


The disparity in frequency of formal administration report receipt between large and small schemes can also be seen in the frequency with which scheme administration is included as a formal agenda item at trustee board meetings. Overall, around two-thirds (64%) of schemes say it is 'always' included, unchanged from 2007.

Yet while this figure rises to four-fifths (80%) among large schemes, it drops to two-fifths (41%) of small schemes. Among this group, nearly one in seven (15%) 'never' include scheme administration on their board meeting agenda – see chart below.

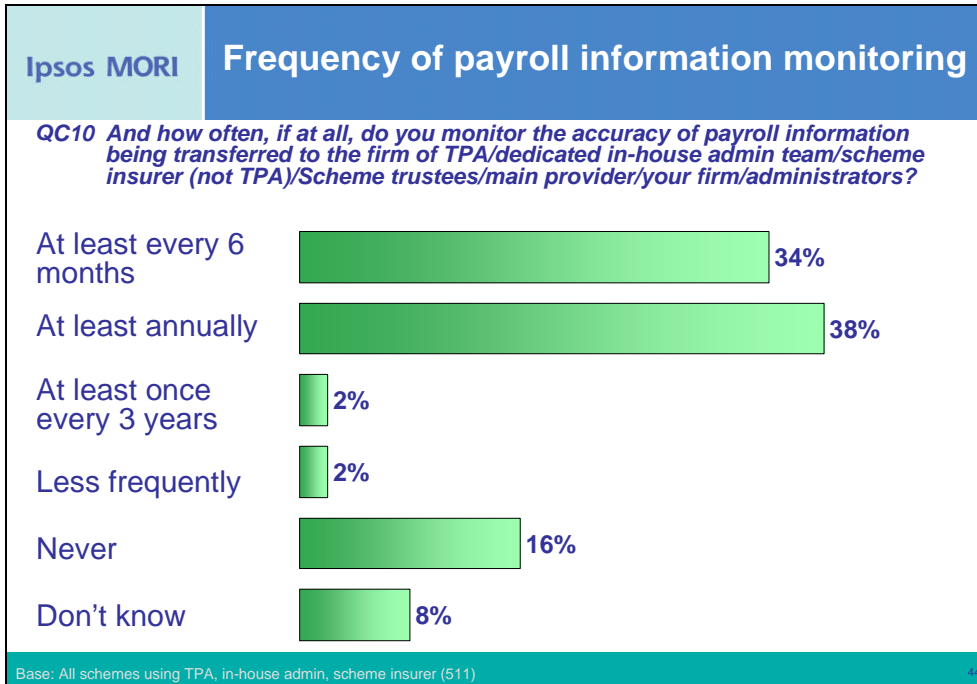


There are a range of methods for assessing the quality of the service provided. *Checking compliance with service standards* and *considering patterns of complaints* are tests which are generally carried out annually (in 62% and 54% of cases, respectively). The use of *member satisfaction surveys/feedback forms* or using *other types of independent assessment* remain relatively unpopular (77% and 81% of schemes respectively say that they ‘never’ use these methods) – see chart below.

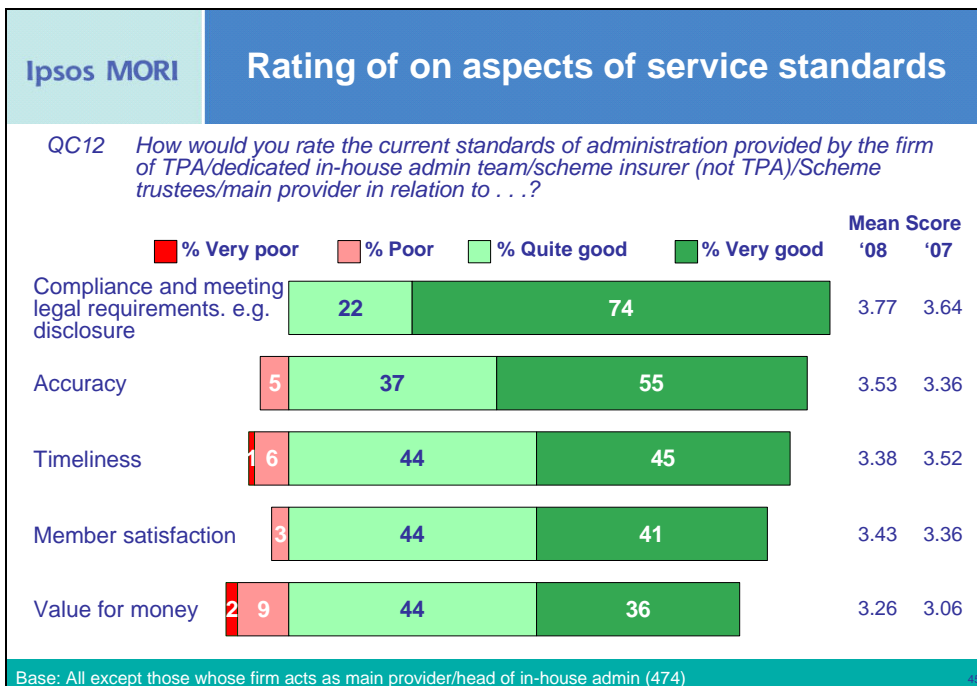


These areas of governance are applied far more widely by large schemes than by small schemes – twice as many check compliance with service standards on an annual basis, for example (84% versus 41%). Pensions managers are more likely to say that these methods are used at least annually than scheme administrators (eg for checking compliance with service standards, the proportions are 79% and 47% respectively). Similarly, DB schemes are consistently more likely to use these methods annually than DC schemes.

Monitoring the accuracy of payroll information which is transferred from the main service provider is often undertaken more frequently than data accuracy reviews (34% undertake it at least every six months, versus 9% for accuracy reviews). Overall, almost three-quarters (72%) of schemes monitor the accuracy of transferred payroll information at least annually or more frequently.



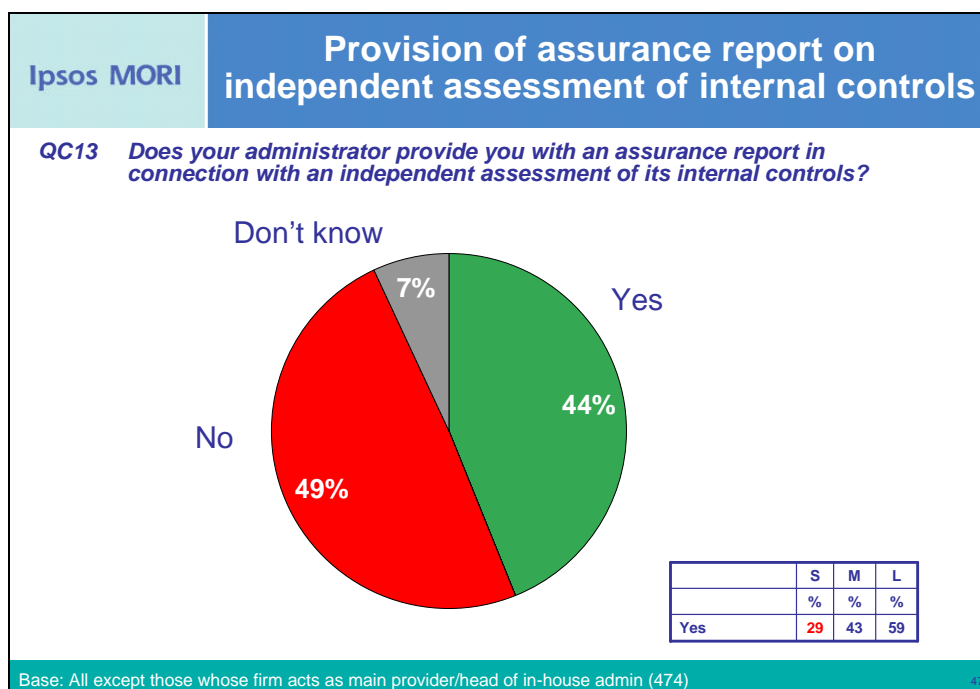
When asked to rate the current standards of administration provided by the main service provider, the reactions are generally very positive – see chart below. With a rating scale from 1 (very poor) to 4 (very good), mean scores for these attributes range from 3.3 for *value for money* to 3.8 for *compliance and meeting legal requirements (eg disclosure)*. This last attribute is rated particularly well, with three-quarters (74%) of schemes awarding a ‘very good’ score. Although the service providers receive more mixed praise for *value for money*, only 9% give a ‘fairly poor’ rating and 2% give a ‘very poor’.



These positive ratings have not changed significantly over time.

It is also noteworthy that, despite marked differences in experiences and attitudes between small and large schemes elsewhere in the survey, the service provider scores are remarkably positive and consistent across different scheme sizes. There are differences though between the ratings given by pensions managers and scheme administrators – perhaps reflecting possible impacts of self -assessment. For example, while 25% of pensions managers rate their main service provider as ‘very good’ for *timeliness*, this rises to 61% of scheme administrators.

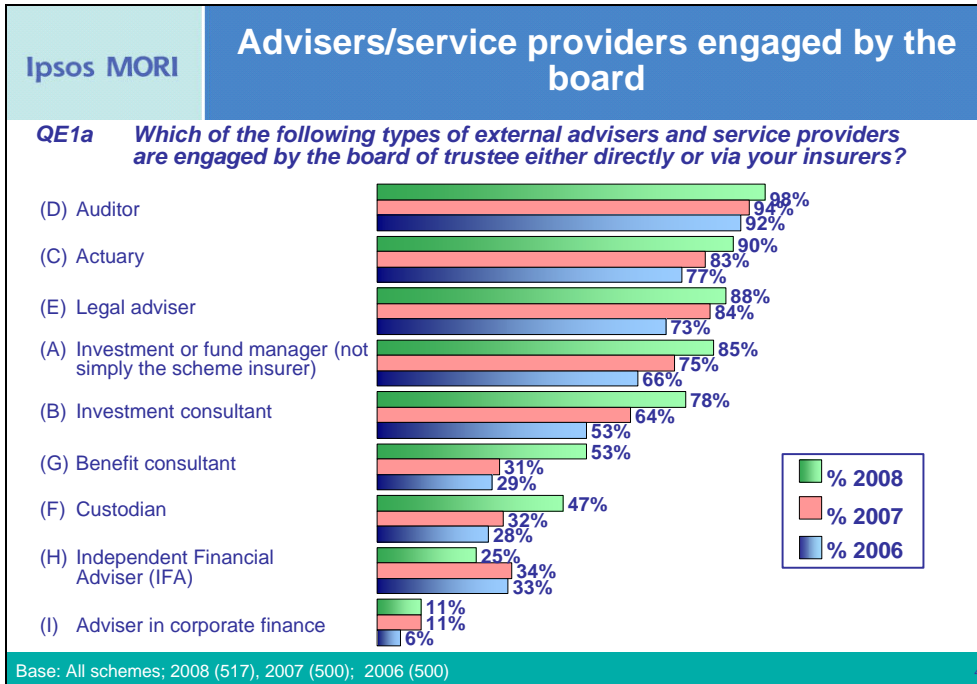
There is an even split overall between schemes whose administrator provides them with an assurance report in connection with an independent assessment of its internal controls (44%) and those who do not (49%). Around twice as many large schemes as small schemes say that they are provided with such a report (59% versus 29%) – see chart below.



3.8 Use of and relationships with advisers/service providers

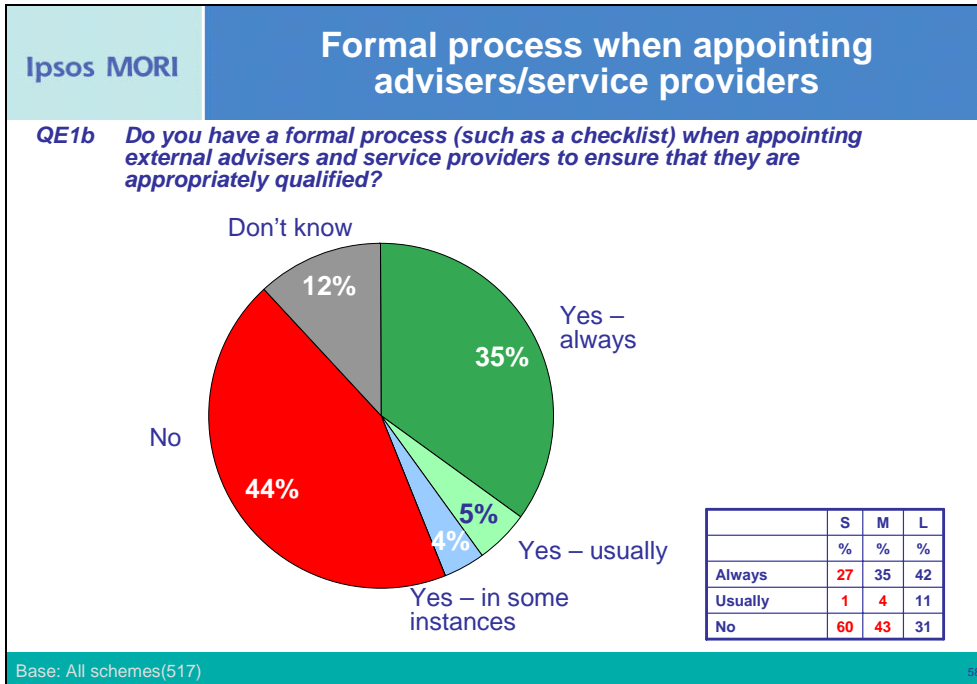
A range of external advisers/service providers are engaged by the board – see chart below.

Auditors remain the top mention – nearly all (98%) boards use them – followed by actuaries (90%) and legal advisers (88%). Overall, IFAs and advisers in corporate finance are used less widely (by 25% and 11% respectively of schemes overall). There have been some marked increases in the use of investment/benefit consultants and custodians this wave.

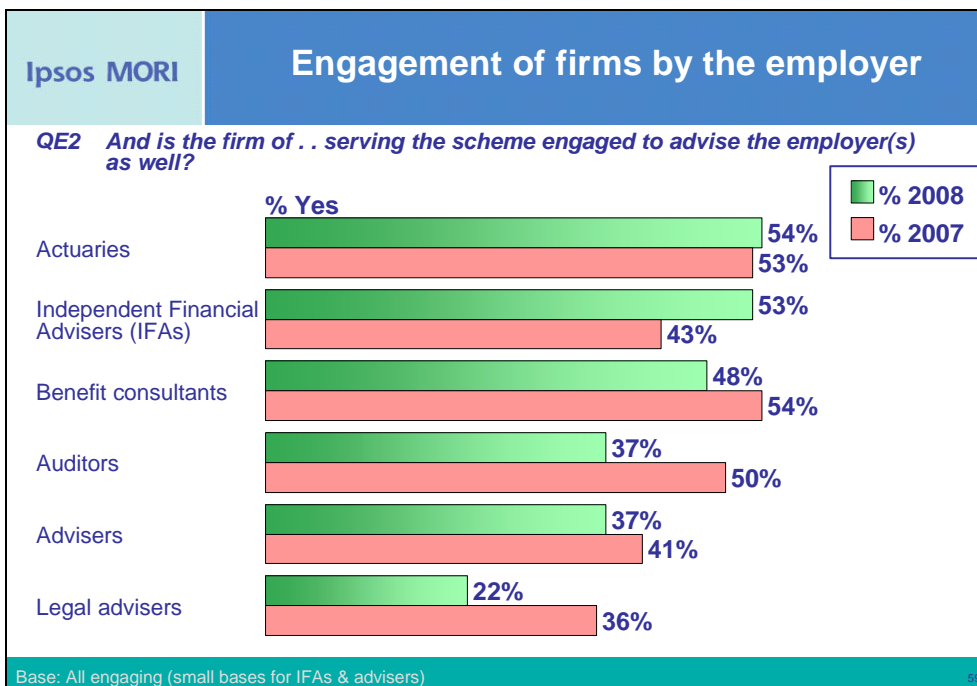


Differences in scheme size are reflected in differences in the types of advisers and service providers used. The majority of medium-size and large schemes (95% and 99% respectively) tend to use the services of a legal adviser, compared to two-thirds (67%) of smaller schemes. Just over half (53%) of smaller schemes use IFAs compared to 12% of larger schemes.

Just over a third (35%) of schemes always have a formal process (such as a checklist) when appointing external advisers or service providers. Three-fifths (60%) of smaller schemes have not put this type of formal process in place, whereas two-fifths (42%) of larger schemes always have a formal process when appointing external advisers/service providers.

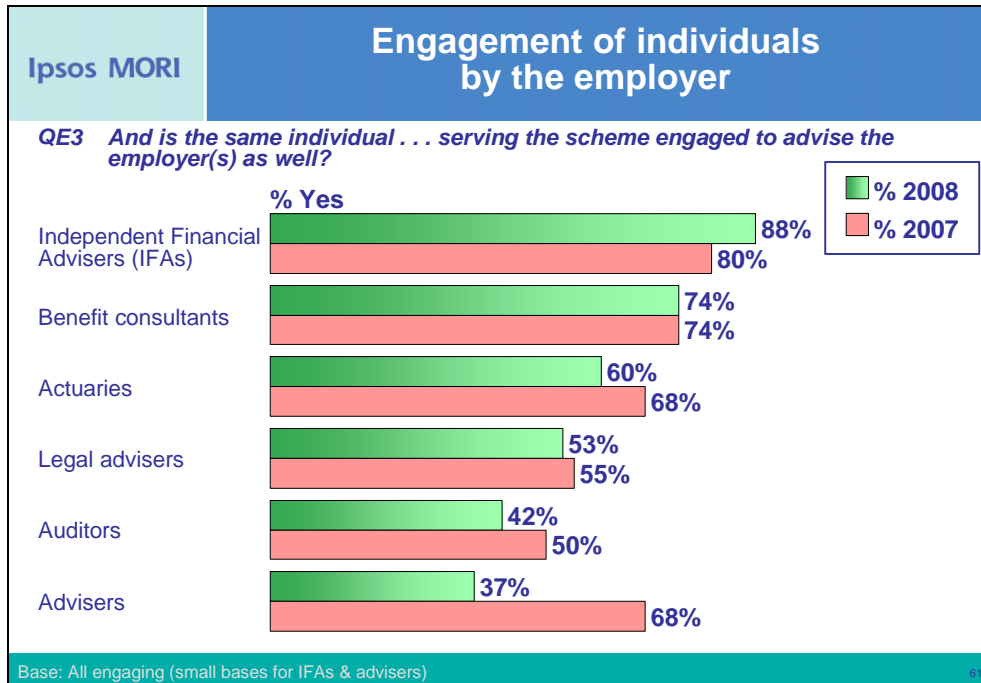


As illustrated in the chart below there is a mixture of wider engagement of service provider firms by the employer with some differences by scheme size. In around half of cases (between 48% and 54%), the firms of actuaries, IFAs and benefit consultants are engaged to advise the employer as well. This 'dual engagement' is more frequent among small schemes with regard to auditors and legal advisers (for example, twice as many small schemes as large schemes have auditors both serving the scheme and advising the employer – 58% versus 29%).



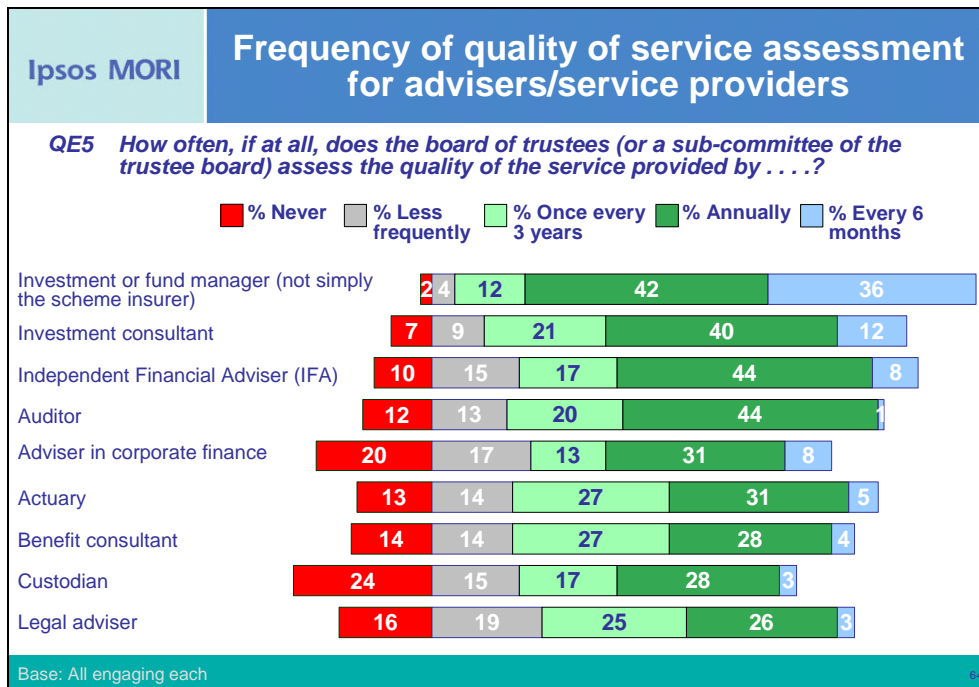
In terms of an individual serving the scheme and being engaged to advise the employer as well, the main areas for overlap appear to be with IFAs (in 88% of

cases) and benefit consultants (74%). Again, differences can be seen across different scheme sizes, with auditors much more likely to be acting in these dual roles with small schemes (in 57% of cases, compared to 14% of large schemes). The only significant drop here is for advisers (down from 68% in 2007 to 37% this year).



Most schemes appear confident about potential conflicts of interest in this area. Fewer than a third (29%) are of the opinion that conflicts of interest could arise when engaging the same individual as the employer(s) and a very small proportion (4%) have actually changed the advisers they engaged because of potential or actual conflicts.

Investment or fund managers, investment consultants and IFAs are assessed by over half the schemes' boards or sub-committees at least annually, with the most frequent checks being carried out on *investment or fund managers* – over one-third (36%) of checks are carried out every six months, as shown in the chart below. In contrast, roughly a quarter (24%) of *custodians* and a similar proportion of *advisers in corporate finance* (20%) are never assessed – see chart below.

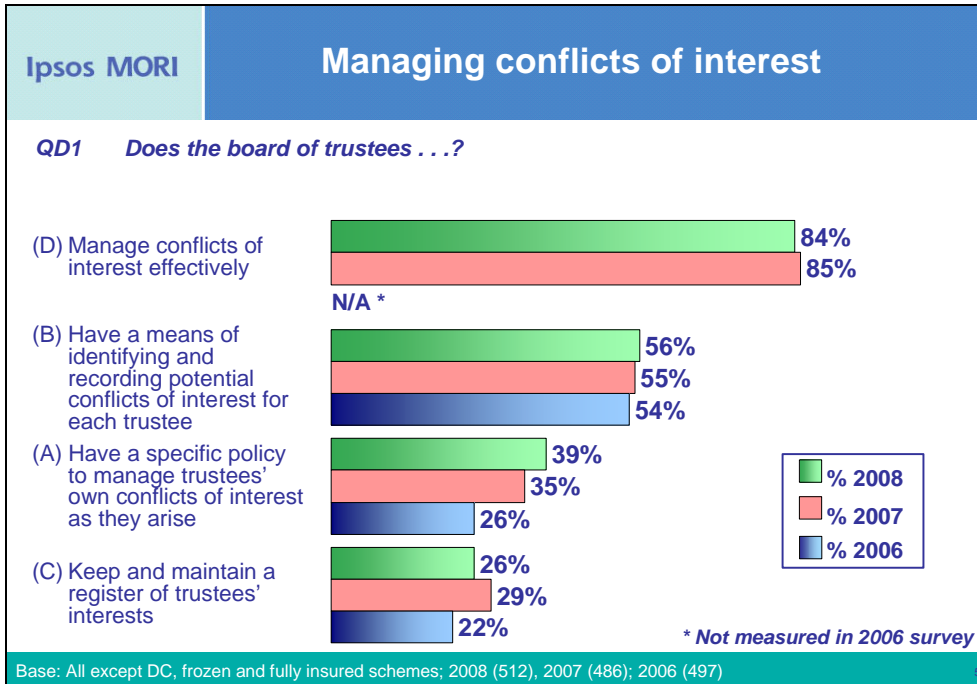


Around 1 in 12 (8%) have had a corporate transaction with regard to the sponsoring employer in the last year. Where no corporate transactions have occurred in the last year, a fifth of these schemes (21%) have brought *potential* corporate transactions to the attention of the board. Larger schemes are most likely to have undertaken these transactions (14%) and are also more likely to have brought *potential* transactions to the attention of the board (30%). Where actual or potential corporate transactions were brought to the attention of the board, approximately three-quarters (76%) sought professional advice.

When legal advice was sought, legal advisers or actuaries tended to be consulted (in two-thirds and over half of cases, respectively). Of those who sought professional advice, a significant majority tended to adopt the advice in total or in part, while 1 in 10 chose to ignore the advice.

3.9 Decision making and conflicts of interest

The clear majority of schemes (84%) attest that the board of trustees *manages conflicts of interest effectively* (unchanged from last year) – see chart below. However, views are somewhat more mixed with regard to how that resolution of conflict is implemented. Just over half (56%) continue to say that the board has a *means of identifying and recording potential conflicts of interest* for each trustee (leaving a significant minority who do not or who are unsure). Around two-fifths (39%) have a *specific policy for such conflicts of interest* and just a quarter (26%) *keep and maintain a register of trustees' interests*.



Once more, wide variations can be seen across different scheme sizes – see table below. It may be of concern that while both small and medium-size schemes are similarly bullish about the ability of their boards to manage conflicts effectively, fewer than a third (30% and 31% respectively) have a *conflicts of interest policy* in place and even smaller numbers *keep and maintain a register of trustees' interests* (26% and 18% respectively). In these areas, there is a clear distinction between small/medium-size schemes and their large scheme counterparts.

Ipsos MORI **Managing conflicts of interest – by scheme size**

QD1 Does the board of trustees . . . Have a specific policy to manage trustees' own conflicts of interest as they arise?

	Small	Medium	Large
	%	%	%
Manage conflicts effectively	81	84	87
Have a means of identifying and recording potential conflicts of interest for each trustee	46	52	72
Have a specific policy to manage trustees' own conflicts of interest as they arise	30	31	59
Keep and maintain a register of trustees' interests	26	18	40

Base: All except DC, frozen and fully insured schemes; 2008 (512), 2007 (486)

DB schemes are more likely than DC schemes to say they *manage conflicts of interest effectively* (87% versus 68%) but similar proportions actually *have a specific policy in place* (37% and 39% respectively).

Just under a third of schemes (30%) overall have had an actual or perceived conflict of interest in the past 12 months – this rises to over two-fifths (42%) among large schemes. The issue here, as in previous years, is most frequently that a *trustee is a company director or ENT* (in 40% of cases), followed by the *trustee being an FD or being a scheme member* (23% for each). The main actions taken as a result of this actual or perceived conflict were to *exclude the trustee from a vote or discussion*, or (in fewer cases) the *trustee stood down*.

3.10 Incentives or inducements

One in 20 DB schemes (5%) state that the sponsoring employer offered an incentive or inducement to members to either transfer out of the scheme or accept reduced benefits in the last two years. In a third of those cases (for five respondents in total), the offer was felt to present the respondent with concerns for the members' benefits. The verbatim comments explaining those concerns are outlined below:

"The cash amount was not enough"

"Try to ensure that changes in benefits have the least impact as possible on the age profile. Try to get the employer to offer death in service when going on to DC"

"Whether it was fair for members"

"Transfer terms would not be the same as if the scheme continued"

"We felt as trustees there was no need to reduce benefits. XXX was taken over by YYY and their plan was in deficit. They wanted a common approach to all schemes and so stopped on-going service accrual on the XXX plan. Some active members' plans were protected and we were not happy about it but had to agree"

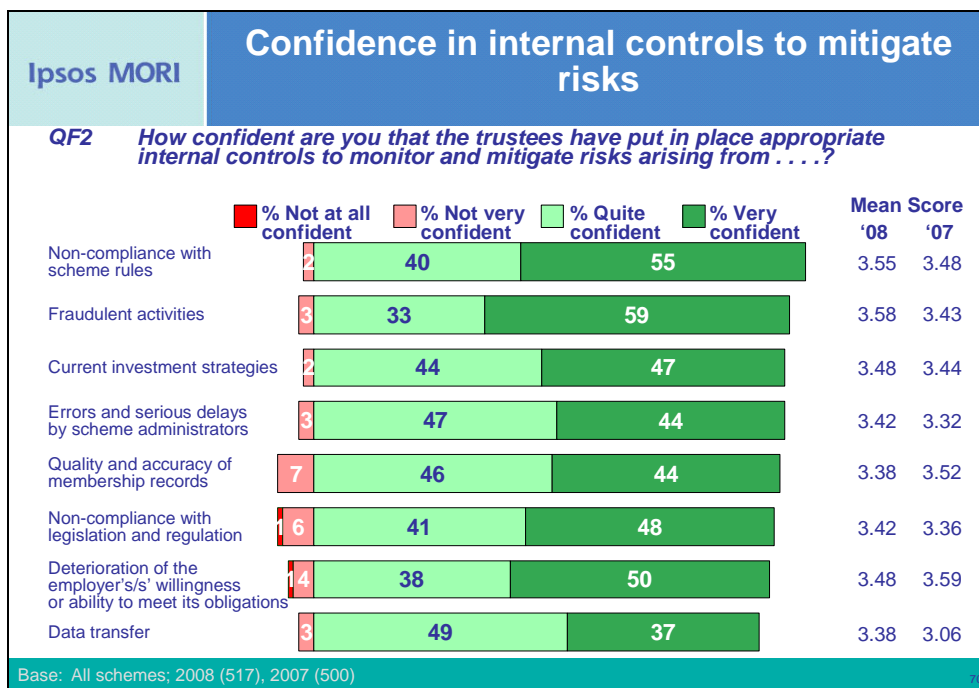
Four of the five respondents were aware of the inducements guidance which is published on the regulator's website. All referred to it, with one finding it 'very useful', two 'quite useful' and one 'not very useful'.

3.11 Risk management and internal controls

Three-fifths of schemes (59%) say that they have a process in place to identify and review risks that could affect the scheme and its members. This figure has remained

static when comparing wave on wave. Of those that have the process in place, the clear majority (89%) state that they have this documented.

Strength of confidence has generally improved this year for internal controls that have been put in place – see chart below. Over 9 in 10 schemes are confident that trustees have put in place appropriate internal controls to monitor and mitigate risks arising from: *non-compliance with scheme rules; fraudulent activities; current investment strategies; and errors and serious delays by scheme and administrators* – as illustrated in the chart below. Confidence in controls against *non-compliance with scheme rules* and *fraudulent activities* is particularly high (55% and 59% respectively are ‘very confident’ in controls for these areas). It might be argued that confidence in some of these measures, such as controls against *data transfer* risks, are somewhat more ‘lukewarm’ (eg only 37% are ‘very confident’, against 49% who are ‘fairly confident’).



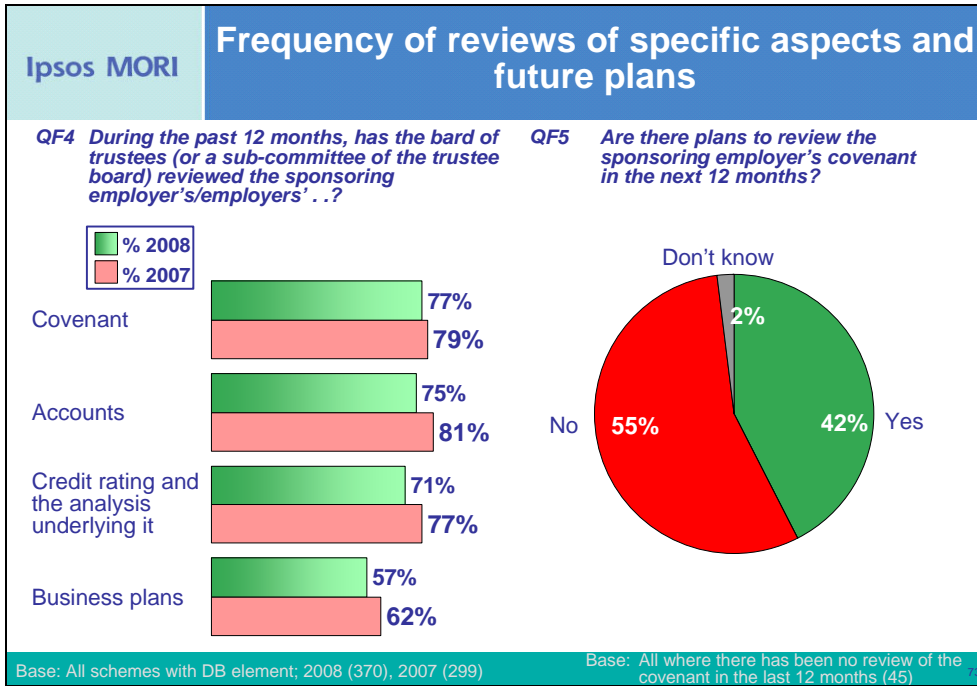
When investigating the risk management and internal controls that have been put in place by organization type, perceptions of confidence are generally lower among the smaller schemes – see table below. Perhaps the clearest example of this is for controls for *current investment strategies*, with nearly twice as many as large schemes as small schemes stating that they are ‘very confident’ here (32% versus 60%). A similar picture emerges for *errors and serious delays by scheme administrators* (34% versus 52%).

Ipsos MORI		Confidence in internal controls to mitigate risks – by scheme size				
QF2		How confident are you that the trustees have put in place appropriate internal controls to monitor and mitigate risks arising from ?				
				Very confident		
				Small	Medium	Large
				%	%	%
Non-compliance with scheme rules				48	53	64
Fraudulent activities				61	53	65
Current investment strategies				32	48	60
Errors and serious delays by scheme administrators				34	46	52
Quality and accuracy of membership records				45	45	41
Non-compliance with legislation and regulation				36	51	53
Deterioration of the employer's/s' willingness or ability to meet its obligations				38	50	59
Data transfer				31	41	37

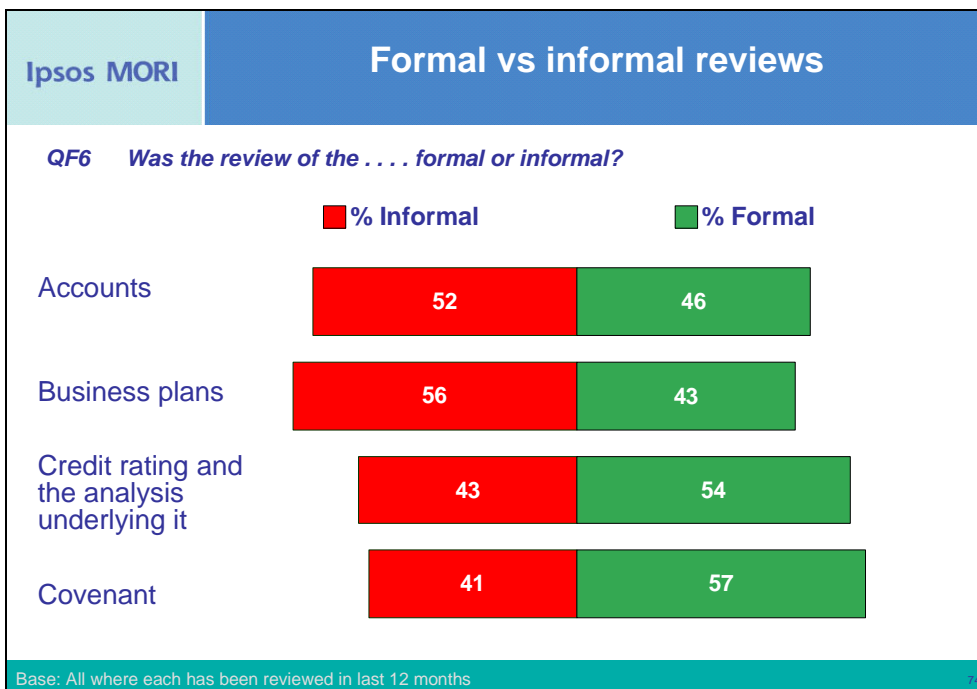
Base: All schemes (517) 71

Two-thirds of boards (67%) review their internal risk controls at least annually – showing no marked difference since the last wave of research. Larger schemes are roughly twice as likely to review their internal risk controls ‘at least annually’ than small schemes (84% versus 45%), while 1 in 10 smaller schemes have ‘never’ reviewed their internal controls.

The *covenant*, *accounts* and *credit rating* of the sponsoring employer have generally been reviewed in the last year by the trustee board of schemes with a DB element (in around three-quarters of cases) and these figures are broadly in line with the 2007 wave of the survey. Reviews of the sponsoring employer’s *business plans* by the trustee board are somewhat less widespread (in just over half of cases) – see chart below. Where an annual review of the covenant has not been performed, plans to review this in the next 12 months are fairly low – only two-fifths (42%) say that they are planning to review it.



When reviews are performed, there tends to be no set degree of formality – see chart below. There are almost even splits between those taking formal and those taking informal approaches.



During the past 12 months independent professional advice has been sought by a minority of schemes with a DB element, showing slight but consistent declines year on year.

Fewer than two-fifths (35%) have obtained advice to *enable the board to assess the employer's/employers' ability to make pension deficit contributions at the agreed*

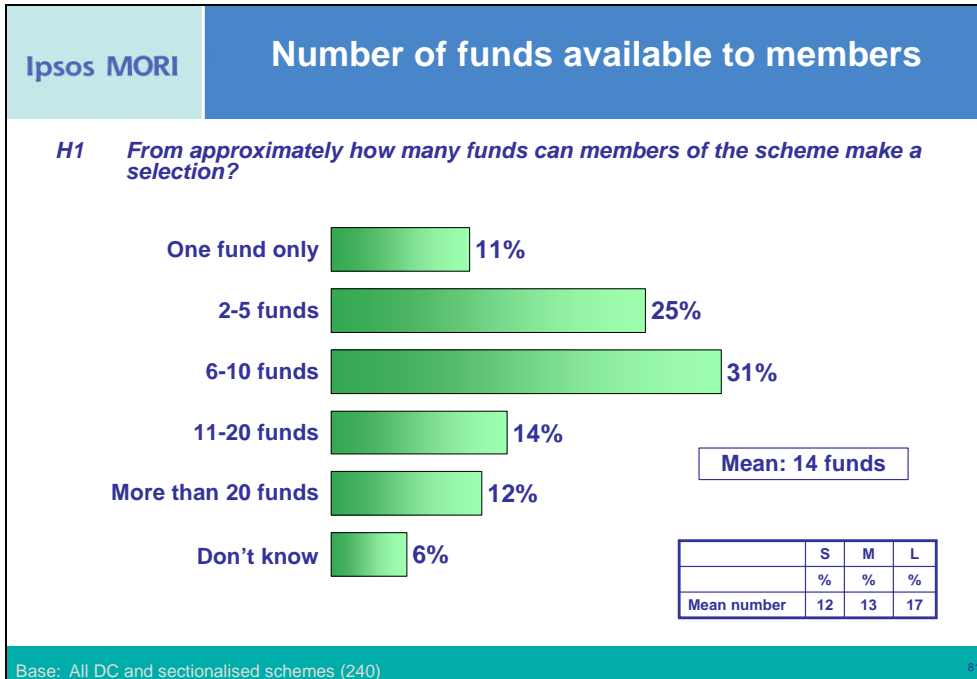
level or assist the board in negotiations with the employer/s over the funding of any pension deficit – see chart below. Just over a quarter (26%) have sought advice on strengths and weaknesses of the employer/s. Larger schemes are much more likely to seek independent advice compared to smaller schemes; a marked difference is on funding negotiations, where only 18% of small schemes obtained independent advice compared to 53% of larger schemes.



Where no advice has been sought in these areas in the last year, there is little expectation about definite plans to obtain professional independent advice in the future.

3.12 Fund choice

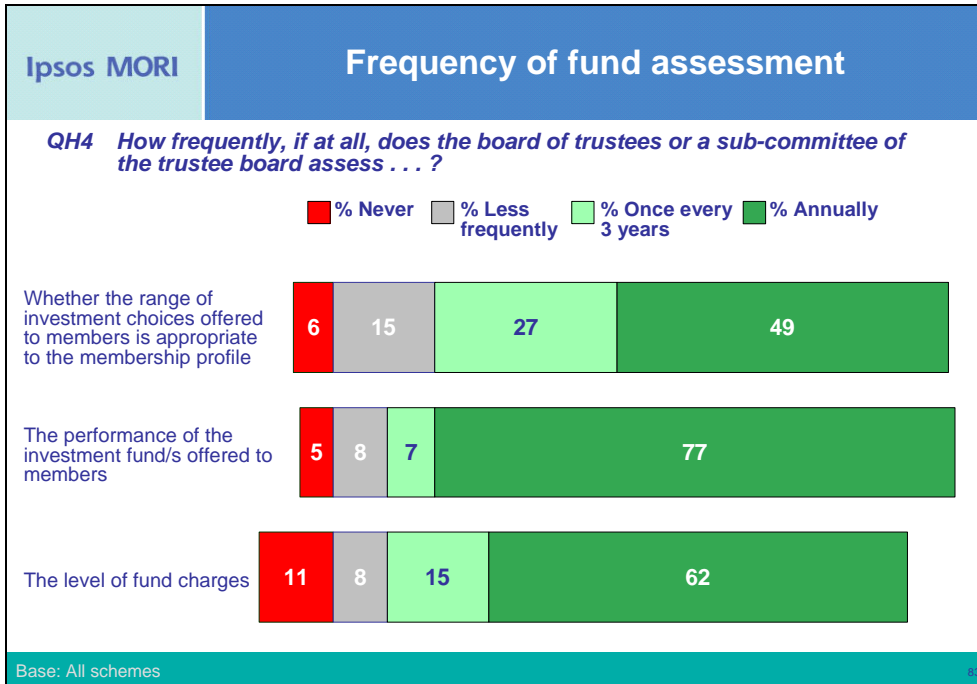
In most cases, members of DC and sectionalised schemes have a selection of between 2 and 10 funds to choose from. Approximately 1 in 10 have only one fund available and roughly the same proportion (12%) have more than 20 funds to make a selection from. The average number of funds for schemes overall is 14 funds – see chart below.



As might be expected, larger schemes have a greater choice of funds available – the mean number of funds available for these schemes’ members is 17 with members of smaller schemes having an average of 12 funds to select from. Four-fifths of members who have more than one fund available (81%) have a default fund and two-fifths (41%) have 90% to 100% in that fund. Fewer than one in five (14%) have between 20% and 69% in their default fund.

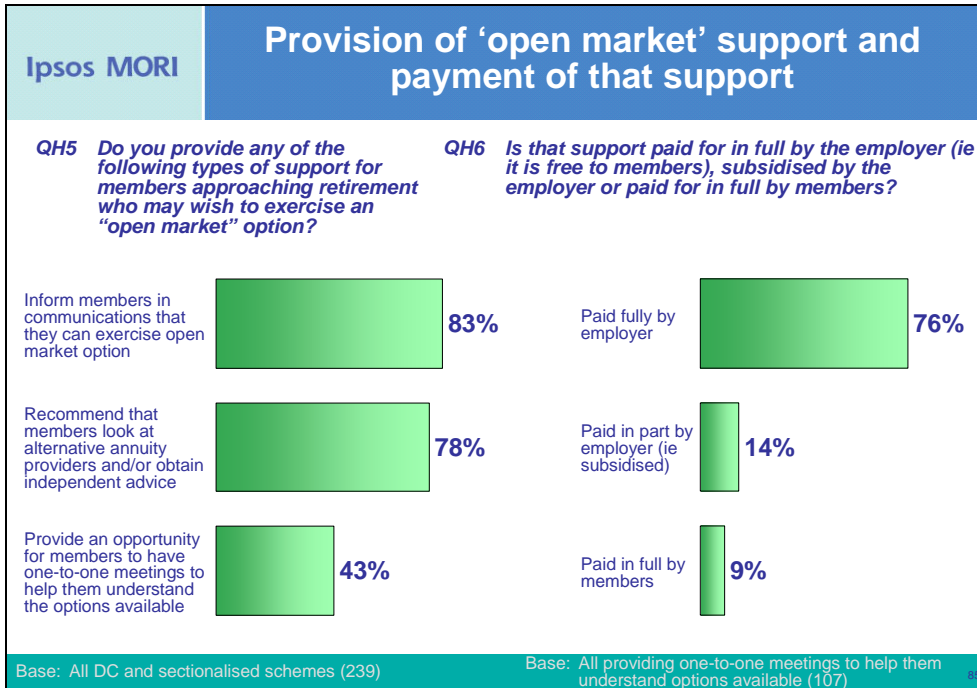
The performance of the investment fund/s offered to members generally tends to be reviewed annually – three-quarters (77%) of members agreeing that this applies. Approximately three-fifths (62%) believe the level of fund charges is assessed annually, although just over 1 in 10 (11%) report that it is never assessed as shown in the chart below.

The board of trustees/sub-committee are perceived to assess *whether the range of investment choices offered to members is appropriate to the membership profile* less frequently. Just under half (49%) assess this aspect annually but over two-fifths (42%) say that it is assessed either once every three years or less frequently.



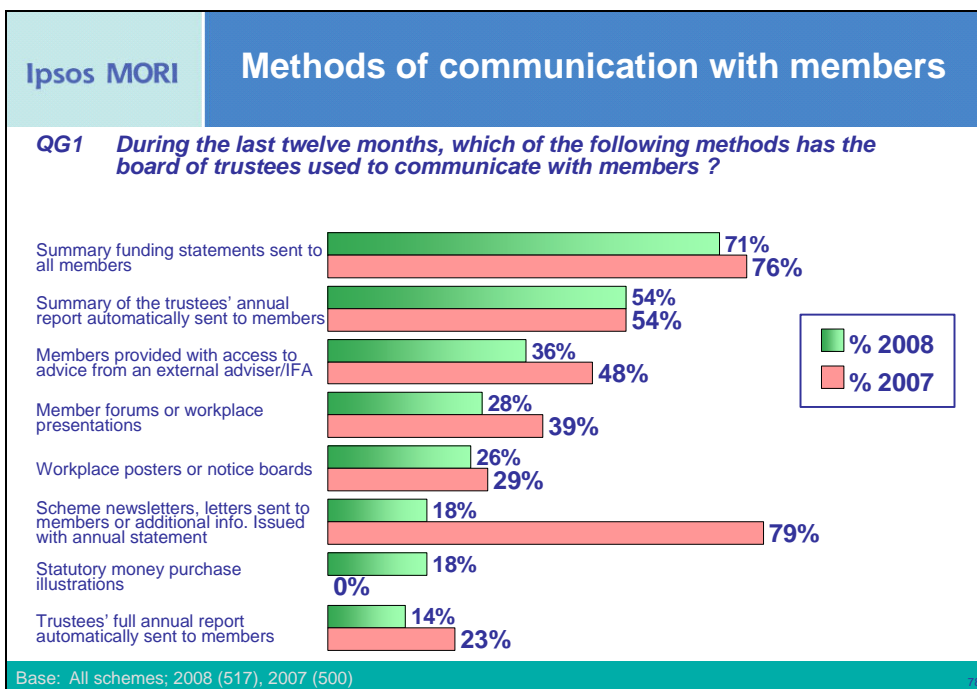
Smaller schemes are less likely to undertake regular assessments. For example, just over half (53%) of small schemes assess *the performance of the investment fund/s offered to members* at least annually or once every three years, compared to the majority of medium-size or large schemes (91% and 81% respectively).

As illustrated in the chart below, members approaching retirement are more likely to be informed about *exercising an open market option* (83%) and *recommendations for looking at alternative annuity providers and/or obtain independent advice* (78%) rather than being *provided an opportunity to have one-to-one meetings* (43%). Of those who are given the opportunity to have one-to-one meetings to help them understand the options available, these tend to be paid fully by the employer (76% of cases). Around 1 in 10 (9%) of members have to pay for these meetings themselves.



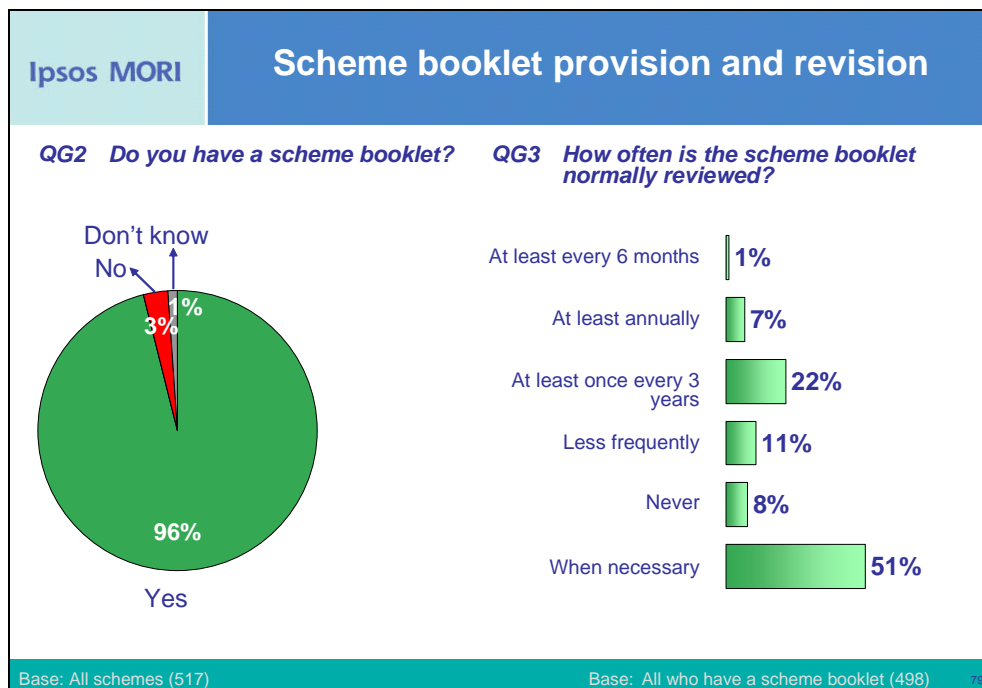
3.13 Communications

Summary funding statements are the most popular method of communication with members in the past 12 months, with nearly three-quarters of members using this approach (71%), followed by a summary of the trustees' annual report (54%) – see chart below. Members of small schemes most frequently receive communications in the form of advice from an external adviser or IFA (56% of cases).



Wave-on-wave differences in the survey data are generally small, with the exception of *advice from external advisers or IFAs* (down 12 percentage points) and *member forums or workplace presentations* (down 11 percentage points). The most marked change concerns *scheme newsletters or additional information issued with the annual statement* where there has been a significant decline since 2007 in the proportion of schemes using that method to communicate with members (down from 79% to 18%) – the unusually high level of activity reported in the 2007 survey findings probably reflected recent changes to the pensions tax regime.¹

The majority of members (96%) have a scheme booklet which is generally reviewed as and when required (in around half of cases). This level of provision is relatively consistent across different sizes of schemes – whether small, medium or large.



Ipsos MORI/J31732

Checked & Approved:

Nick Pettigrew

Checked & Approved:

David Axford

¹ In April 2005 HMRC introduced pensions tax simplifications which led to significant changes relating to issues such as how much could be paid into pension schemes and how benefits could be withdrawn. Many schemes may have communicated the impact of these changes following on from this.