

September 2006

The Pensions
Regulator 

Occupational pension scheme governance

A report on the 2006
scheme governance survey

RS

Consulting

John Leston and Margaret Watmough

www.thepensionsregulator.gov.uk 

Contents

Foreword	page 3
Introduction	page 6
Main findings	page 7
Size matters	page 7
Composition of trustee boards	page 7
Trustee knowledge and learning activities	page 8
Familiarity with the Pensions Regulator's codes of practice	page 9
Behaviour of trustee boards	page 9
Communications and transparency with scheme members	page 10
Management of relations with the employer and advisers	page 10
Self-assessment of the board's performance	page 10
Other findings	page 11
Composition of trustee boards	page 11
Trustee knowledge and learning activities	page 17
Behaviour of trustee boards	page 22
Communications and transparency with scheme members	page 29
Management of relations with the employer and advisers	page 32
Self-assessment of the board's performance	page 36
DB schemes with 5,000 or more members are very different	page 40
Survey background	page 42
Methodology	page 42
The universe of eligible schemes	page 42
Glossary	page 45
Acknowledgements	page 46

Foreword

I am pleased to present the results of our first survey on the standards of governance of occupational schemes in the UK.

The Pensions Regulator has already carried out extensive work aimed at improving governance. We have recently published – after much consultation – our code of practice on trustee knowledge and understanding. We have also launched our e-learning programme which helps trustees to comply with the knowledge and understanding requirements. Six modules have already been produced. Completing the e-learning programme will provide, for the majority of trustees, a convenient way to bring their knowledge and understanding up to date in a way that also encourages them to become familiar with their own scheme.

The six other codes of practice we have issued since April 2005 are designed to help ensure that trustees and others are aware of our expectations, including of governance standards. For example, the code on reporting breaches sets out the circumstances when trustees or managers (and others) should report breaches of pensions legislation. Our codes on late payments set out when these should be reported to the regulator.

Building on this existing work this survey is our first full one on governance. We hope it will be an authoritative contribution to the governance debate.

Representatives from 1,235 schemes provided information in a short interview and trustees of 500 of these schemes participated in a full survey interview. We have been heartened by the co-operation of the trustees and managers who participated in the survey and helped us achieve an excellent response rate. We are grateful to all those who took part.

We engaged RS Consulting and their fieldwork partner, Critical Research, to undertake the survey on our behalf. The survey has therefore been a collaborative effort. We also wish to express our thanks for input from our survey advisory group that comprised representatives from across the pensions industry and from government departments.

Our involvement in governance issues extends to all the work-based pension schemes for which we have regulatory responsibility. This is regardless of the type of scheme such as defined benefit, defined contribution or group personal pension, or the size of scheme. Our e-learning programme, for example, is available free of charge to all. The intensity with which we regulate different schemes under our risk-based approach to regulation depends on the risk they pose to our objectives rather than their type.

This survey did not cover all schemes. Defined contribution schemes with fewer than 12 members were not included, nor were defined benefit schemes with fewer than five members, nor non-trust-based arrangements.

This does not imply, however, that we regard the schemes not covered by this particular survey as outside the scope of our work on governance issues. Indeed, many of the actions that we are already taking, such as the launch of the e-learning modules, are specifically targeted at the issues that we know exist among small and very small schemes. These will continue to be a focus for us, particularly in terms of improving knowledge and understanding among trustees.

We draw below some conclusions from the survey.

Key findings of the governance survey

(i) Better governance is associated with more training, having risk management processes in place and other factors

Good practice in governance is clearly associated with the extent of training and having risk management processes. This was demonstrated on training by a 43 percentage point difference between schemes whose trustees had had advanced training in the last 12 months, compared with those who had not, who strongly agreed that the trustee board regularly reviewed its investment strategy. There were also large differences in reviewing and updating scheme rules, taking steps to follow good practice in governance, and ensuring a high standard of member communications, between schemes whose trustees had had advanced training and those who had not.

A similar association was found on issues particularly relevant to defined contribution schemes: reviewing the appropriateness of investment choices, investment fund performance, fund charges and administrative services for individual members.

Other inputs which were associated with better governance included having risk management processes in place. Those schemes which did were considerably more confident that they had internal controls in place to monitor and mitigate a wide range of specific risks. Other inputs associated with better governance were the presence of a professional trustee and the frequency of board meetings.

(ii) Big schemes are better governed compared with small schemes

Perhaps not surprisingly, there was a clear association between scheme size and a range of governance measures, including trustee knowledge and commitment to training. This was particularly so for defined benefit schemes with more than 5,000 members. The survey did not, however, suggest that only big schemes are well governed or that they are well governed in every respect.

(iii) Trustees were confident in their self-assessment of governance

It was striking that, when asked to self-assess board performance on a range of issues such as conducting effective negotiations with the employer, managing the scheme's administration, and identifying potential risks to the scheme, trustees considered that on the whole they were performing well. On no issue did the proportion strongly agreeing or tending to agree fall below 75 per cent.

(iv) A significant minority of schemes have shortcomings in important areas

Particularly important for us is that, despite the generally confident self-assessment of trustees, the survey showed some important gaps in good practice on governance. For example, 70 per cent of defined benefit schemes have no specified policy to manage conflicts of interest; 37 per cent of defined benefit schemes do not review the sponsoring employer's credit rating or its covenant. On administration, 20 per cent of all schemes with a main provider of administrative services have no service level agreement with their administrator.

The Pensions Regulator's response to the survey

Our response will continue to reflect the high priority that the regulator attaches to governance issues in respect of all work-based schemes. We have already carried out extensive work on governance. It was one of the three challenges for the regulator which we identified in our medium term strategy published earlier this year. We see good governance as underlying the fulfilment of our statutory objectives.

We will also continue to take account of wider developments in carrying out further activities in relation to governance. Some governance issues, such as communications with members, are important for all schemes, regardless of benefit type. However, we also see clear links between governance and our other medium term challenges of strengthening the funding of defined benefit schemes and reducing the risks to members of defined contribution schemes. For example, the new scheme funding framework requires trustees and the employer to agree the scheme funding objective and, if appropriate, a recovery plan for the scheme to meet its technical provisions. In this environment trustees will need to know and understand funding and investment issues, to manage any conflicts of interest which arise, and to monitor the activities and strength of the employer.

Under defined contribution arrangements important governance issues include good administration and the offering of appropriate investment choices to members. This is increasingly so in light of the shift from defined benefit to defined contribution schemes.

More generally, we will use the opportunity of the survey to discuss governance issues with our key stakeholders.

Finally, we remain committed to our objective of being a proportionate and risk-based regulator. We are conscious of the diversity of schemes which we regulate and that, for example, the way in which good governance is achieved in a large scheme may not be appropriate for a small scheme.



Tony Hobman

Chief executive, the Pensions Regulator

Introduction

The research covers **'live' trust-based private sector occupational pension schemes**, ie they were not winding up, terminated or merging. The survey, which was conducted between January and March 2006, included 1,235 screening interviews and 500 main stage interviews, all conducted by telephone. Individual participants at the screening stage were either scheme trustees or key administrators. Full main stage interviews were conducted only with trustees who had been recruited on the basis of being knowledgeable to speak on behalf of the trustee board about its policies and practices in relation to scheme governance and administration.

The survey is based on a representative sample of schemes across the industry. The smallest defined contribution (DC)¹ schemes (ie those with fewer than 12 members) and the smallest defined benefit (DB)² schemes (ie those with fewer than five members) were excluded. These exclusions are estimated to account for around 80 per cent of all schemes, but these schemes are responsible for only around 1 per cent of all members. The decision to exclude them was taken on pragmatic grounds. It was known that the majority contacted would prove to be schemes where all members are trustees (ie Small Self Administered Schemes or Executive Schemes) or schemes that are winding up. It was also likely that the smallest schemes would include a high proportion of contract-based schemes that were incorrectly registered. Screening out such 'ineligible' schemes would incur substantial costs.

By mid 2008, all UK registered pension schemes will have been sent a scheme return which will provide the Pensions Regulator with comprehensive data on the size, status and benefits offered by occupational pension schemes in the UK. For this survey, however, it was necessary to first size the universe of trust-based private sector schemes, so that survey results could be weighted to this universe. The 1,235 screening interviews provided data to build this universe and they also gathered data on the legal form of schemes.

The 500 main survey interviews provided data on activity in scheme administration and governance: of these interviews 187 were with DC-only schemes, 218 with DB-only schemes, 64 with segregated schemes³ and 31 with hybrid schemes. Figure 1 shows the distribution of interviews in seven groups based on scheme type and size. Unless otherwise indicated, the survey reports on DC-only scheme activity versus activity in schemes that are either DB-only or, because they are hybrid or segregated, have a DB element. All survey results have been weighted to the estimated universe of trust-based private sector schemes built from the results of the screening process.

Figure 1
Main survey trustee interviews by scheme type and size (seven sub groups)

187 DC schemes			313 DB schemes (DB, hybrid and segregated)			
DC 12-99	DC 100-999	DC 1,000+	DB 5-99	DB 100-999	DB 1,000-4,999	DB 5,000+
67	82	38	67	75	85	86

¹ Also known as money purchase schemes.

² Also known as final salary or salary related schemes.

³ Segregated schemes are also known as sectionalised, ie schemes that have more than one section.

Main findings

Size matters

- The survey provides a picture of performance consistently strongest in schemes covering the greatest number of members.
- The largest DB schemes, in particular, stand out markedly from other schemes. They are more confident in their self-assessment and have frequently produced above average results across a wide range of 'objective' measures.
- The picture is certainly less strong among small schemes, and particularly small DC schemes, especially those which are wholly insured. Their resources, however, are fewer, as are the number of members potentially affected.

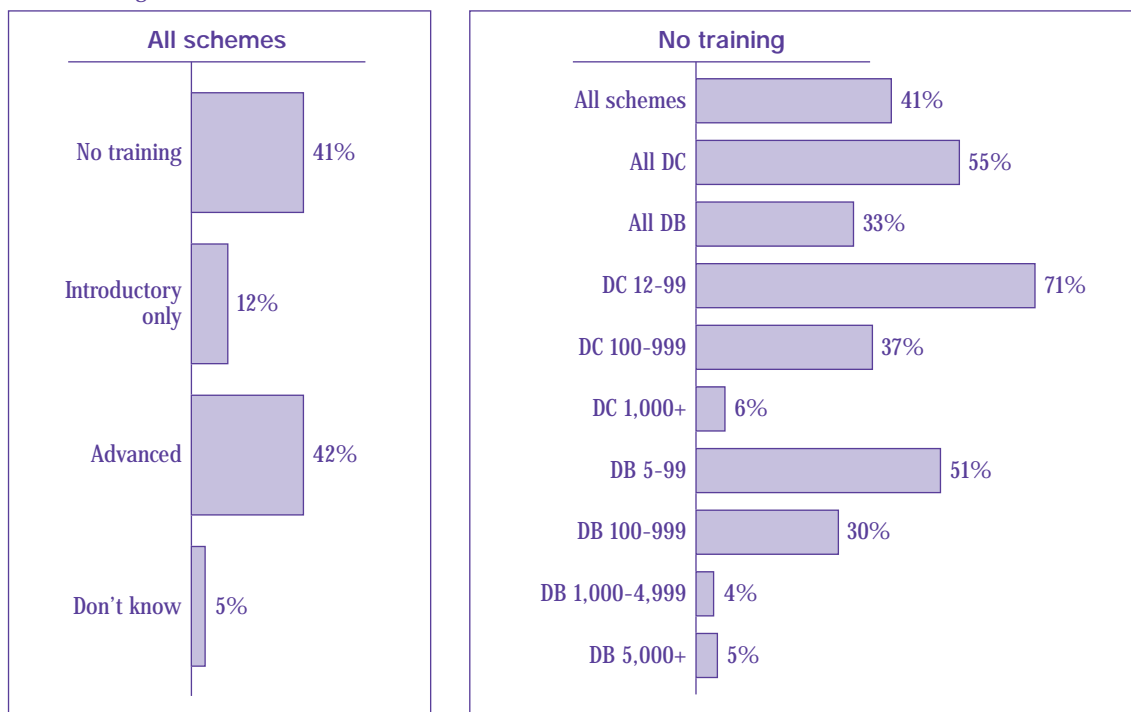
Composition of trustee boards

- The number of individual trustees on boards which have them typically increases in line with scheme size. The incidence of boards with corporate trustees only and no individual trustees (ie those to which MND rules apply) is also greater among larger schemes.
- Around one half of schemes with individual trustees (ie those to which MNT rules apply) claim already that at least one-third of trustees are member-nominated trustees. Similarly almost four-fifths of MND schemes that have a company formed specifically to act as trustee state that this company has at least one-third member-nominated directors.
- Around 10 per cent of schemes have professional trustees on their board, and these schemes have above average results, as would be expected, in a number of governance and administration areas.

Trustee knowledge and learning activities

- Most trustees are assessed to have some knowledge on key issues, but there is scope for improvement. The degree of appropriate knowledge ascribed to trustees generally increases with size of scheme.
- Trustees are confident that they are at least fairly well equipped to understand the role of scheme trustees, how schemes are funded, the provisions of their scheme rules and how assets are invested. Of these issues, they are least confident in their ability to understand how assets are invested.
- Schemes appear divided between those committed to training and those that are not. Just over half of schemes had provided some trustee training in the past year, including two-fifths that had implemented advanced training, ie training on detailed aspects of trustees' responsibilities rather than basic or introductory level training. Against this, two-fifths of schemes had provided no training. Commitment to training increases with scheme size, as Figure 2 illustrates.
- Commitment to training appears to have a positive impact. Advanced training, for example, was associated with greater confidence in the board's performance, ie in standards of governance, and more regular review of investment issues and higher levels of trustee knowledge and understanding.

Figure 2
Lack of training

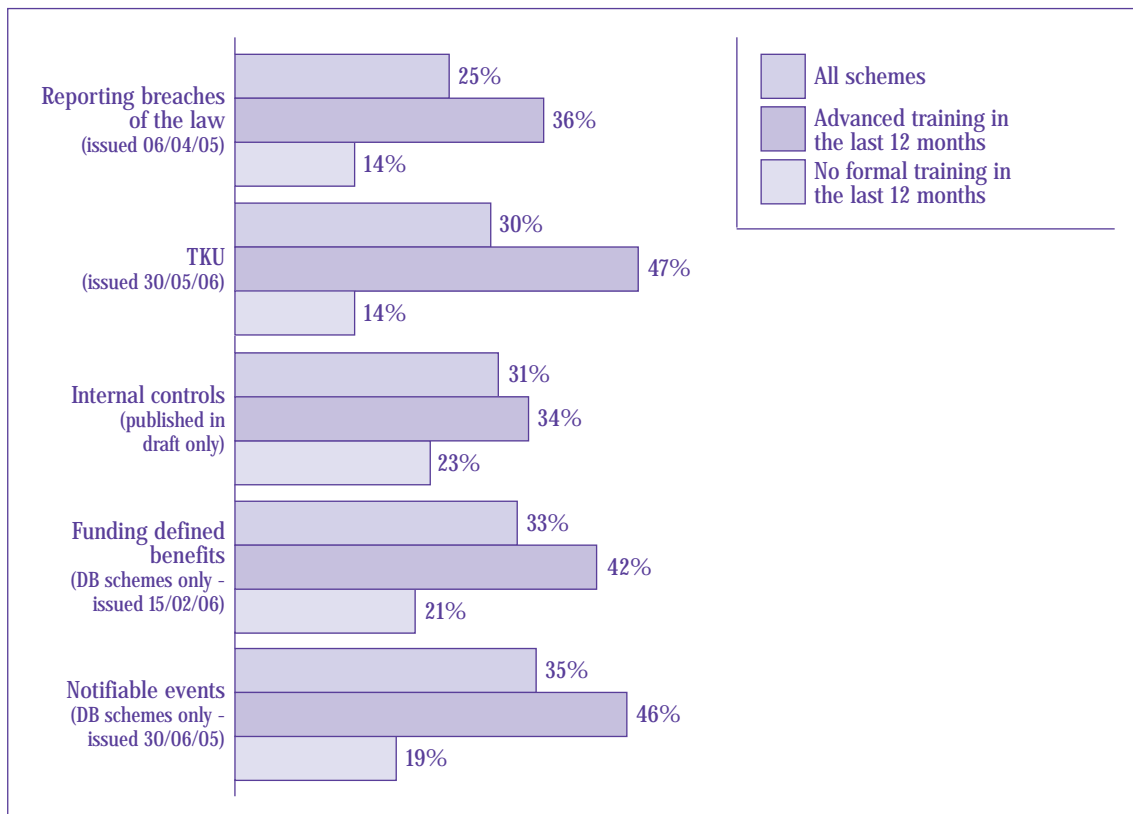


Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Familiarity with the Pensions Regulator's codes of practice

- Trustees were asked about familiarity with five Pensions Regulator's codes of practice. It should be noted that 30 per cent of 500 trustees who took part in the survey were board chairmen and 43 per cent were the longest-serving trustee on the board. The level of knowledge reported in Figure 3, therefore, is more likely to reflect the highest rather than typical levels of trustee knowledge.

Figure 3
Trustees are 'very familiar' with the Pensions Regulator's codes of practice



Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted). Note that only five codes had been issued at the time of the survey (January to March 2006). Trustee knowledge and understanding (code 07) was not in force at the time of the survey and Funding defined benefits (code 03) came into force during the fieldwork.

Behaviour of trustee boards

- Most boards meet at least every six months and almost all at least annually. Boards that meet at least every six months showed higher levels of activity in several governance and administration areas than boards meeting less regularly. It is not possible from the results, however, to know what contribution, if any, more regular meetings made to this.
- Most schemes 'always' keep records of decisions and ensure they are implemented.
- Only two-fifths of boards reported having in place a formal process to identify significant risks.
- Where formal processes are in place to identify risks, schemes display greater confidence in their ability to monitor and mitigate a wide range of specific risks.
- Trustee boards are generally confident in their ability to manage scheme administration providers and are largely satisfied with the standard of services received.

Communications and transparency with scheme members

- Ninety-seven per cent of all schemes had communicated with members in one or more ways over the past two years, activity being greater among large schemes.

Management of relations with the employer and advisers

- Relatively low proportions of schemes were found to have policies in the important area of handling potential conflicts of interest. Even among the largest DB schemes (5,000+ members), a fifth had as yet taken no action to monitor and manage conflicts of interest.
- DB schemes are confident they can negotiate effectively with the sponsoring employer, yet monitoring the financial standing of the employer is not standard practice. Around two-fifths of DB schemes do not regularly review the employer's accounts and a similar proportion do not regularly review their credit rating or covenant.
- More than half of schemes engaging auditors, actuaries and IFAs reported using the same firm of advisers as the sponsoring employer.
- Reviewing scheme advisers is common practice, and standard in large DB schemes. Around two-thirds of schemes have held formal reviews in the last three years of key advisers such as investment managers, actuaries and investment consultants.

Self-assessment of the board's performance

- A clear majority of trustees were confident that their board is performing well in areas such as 'managing administration well' and 'following good governance practice'. Even in more specific areas such as 'having appropriate processes to manage conflicts of interest' and 'addressing trustee learning gaps' the proportion of schemes reporting they 'strongly agreed' or 'tended to agree' that they were doing so did not fall below three-quarters of schemes. Confidence was greater among large schemes, DB schemes and those with in-house administration.
- Trustees' self-assessment of their performance appeared to be accurate. To the extent that it is possible to compare self-assessment with actual practice, schemes that were most confident in their performance appeared justified in that opinion.

Other findings

Composition of trustee boards

Two key objectives of the research were to estimate the size of the universe of schemes under survey and to explore the composition and size of their boards of trustees.

The size of the universe of 'live' trust-based private sector occupational pension schemes was estimated as 9,901 schemes at March 2006.⁴

The screening interview gathered detailed information on the number and type of trustees on the board of each scheme. The focus of this exercise was on the incidence of individual and corporate trustees:

- Each individual trustee is counted as one trustee.
- Any company acting as a trustee is counted as a single trustee.
- All professional trustees who are trustees in their own right are counted as a single corporate trustee.

Monitoring the incidence of individual and corporate trustees enabled the survey to identify the proportion of schemes which:

- Have an individual trustee or trustees on the board
 - Member-nominated trustee rules (MNT rules) are applicable to such schemes: at least one-third of the trustees should be nominated by the pension scheme members, unless the employer has formally applied to opt out of this requirement.
- Have corporate trustees only, and no individual trustees, on the board
 - Member-nominated director rules (MND rules) apply to such schemes: at least one-third of the directors of any corporate trustees, other than a professional trustee company, should be nominated by the pension scheme members, unless the employer has formally applied to opt out of this requirement.

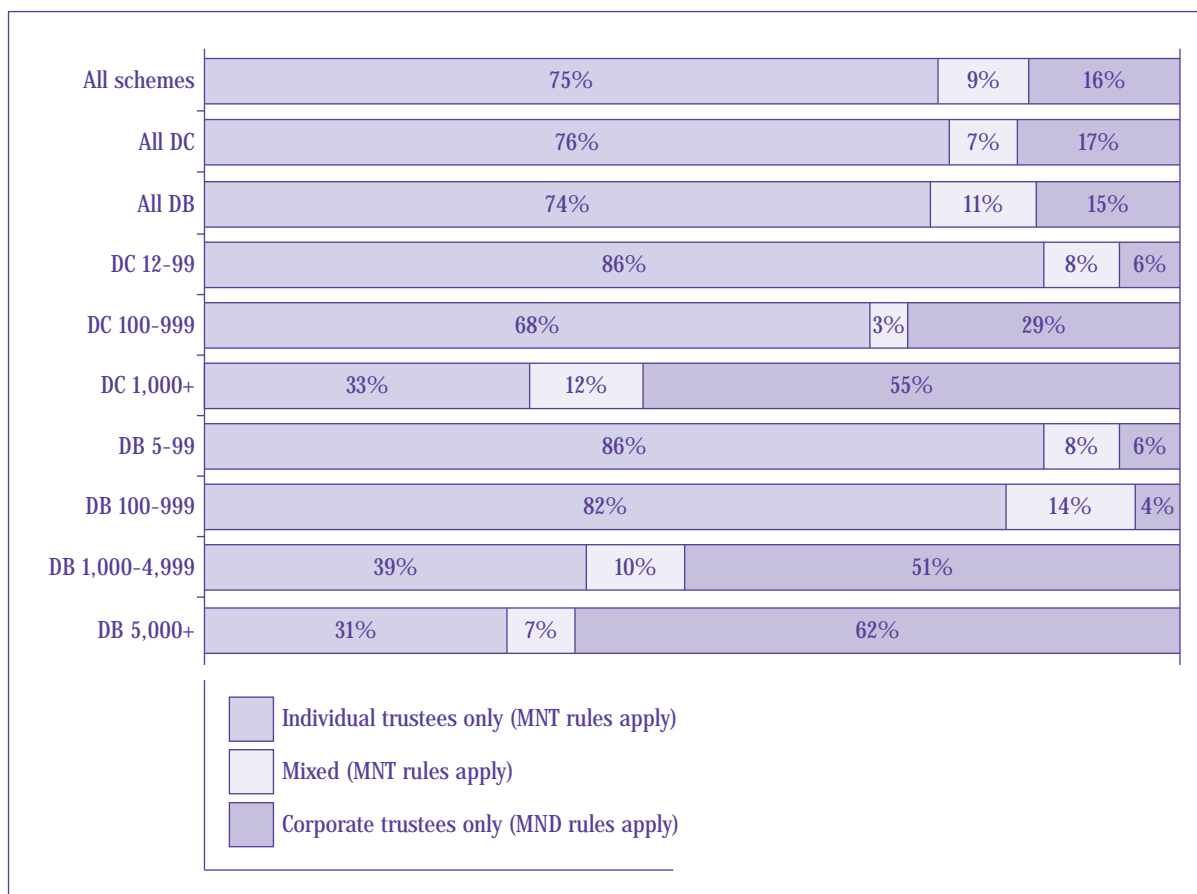
Incidence of corporate trustees

The survey found that the pattern of board structure (corporate trustees only versus individual trustees only versus a mix of individual and corporate trustees) varied generally according to scheme size in terms of number of members.

As shown in Figure 4, the incidence of schemes that only have corporate trustees (to which MND rules therefore apply) increases with scheme size. Overall, MNT rules apply to 84 per cent of schemes (8,311 schemes) and MND rules to 16 per cent (1,589 schemes).

⁴ Further details of how this estimate was developed are provided in the Survey background section of this report and also in separate Technical appendices (see www.thepensionsregulator.gov.uk/pdf/opSchemeGovernanceReport01app.pdf).

Figure 4
Incidence of corporate trustees



Base: 890 screening interviews (covering eligible schemes only)

Average numbers of trustees on trustee boards

The average number of trustees in schemes that have individual trustees increases clearly in line with scheme size.

However, as shown in Figure 4, the proportion of schemes to which MND rules apply also increases with scheme size. These schemes typically have only a single company acting as trustee.

Consequently, the average number of trustees in total (individuals and companies) does not show as clear an increase in line with scheme size as does the number of individual trustees. This is because among larger schemes the impact of an increase in the number of individual trustees in MNT schemes is to some extent counter-balanced by the greater proportion of schemes with only one, or possibly two, corporate trustees. This is illustrated in Figure 5.

Figure 5
Average number of trustees by trustee board structure and overall

	All schemes	Individual trustees only (MNT rules apply)	Mixed (MNT rules apply)	Corporate trustees only (MND rules apply)
All schemes	3.56	3.96	4.62	1.08
All DC	3.04	3.47	4.25	1.04
All DB	3.84	4.24	4.74	1.11
DC 12-99	2.73	3.11	3.60	1.00
DC 100-999	3.54	4.14	5.33	1.08
DC 1,000+	4.43	5.48	6.38	1.00
DB 5-99	2.88	3.11	3.20	1.00
DB 100-999	4.50	4.64	4.70	1.29
DB 1,000-4,999	4.68	6.42	7.09	1.11
DB 5,000+	3.69	8.36	7.83	1.09

Base: 890 screening interviews (covering eligible schemes only)

Meeting MNT rules

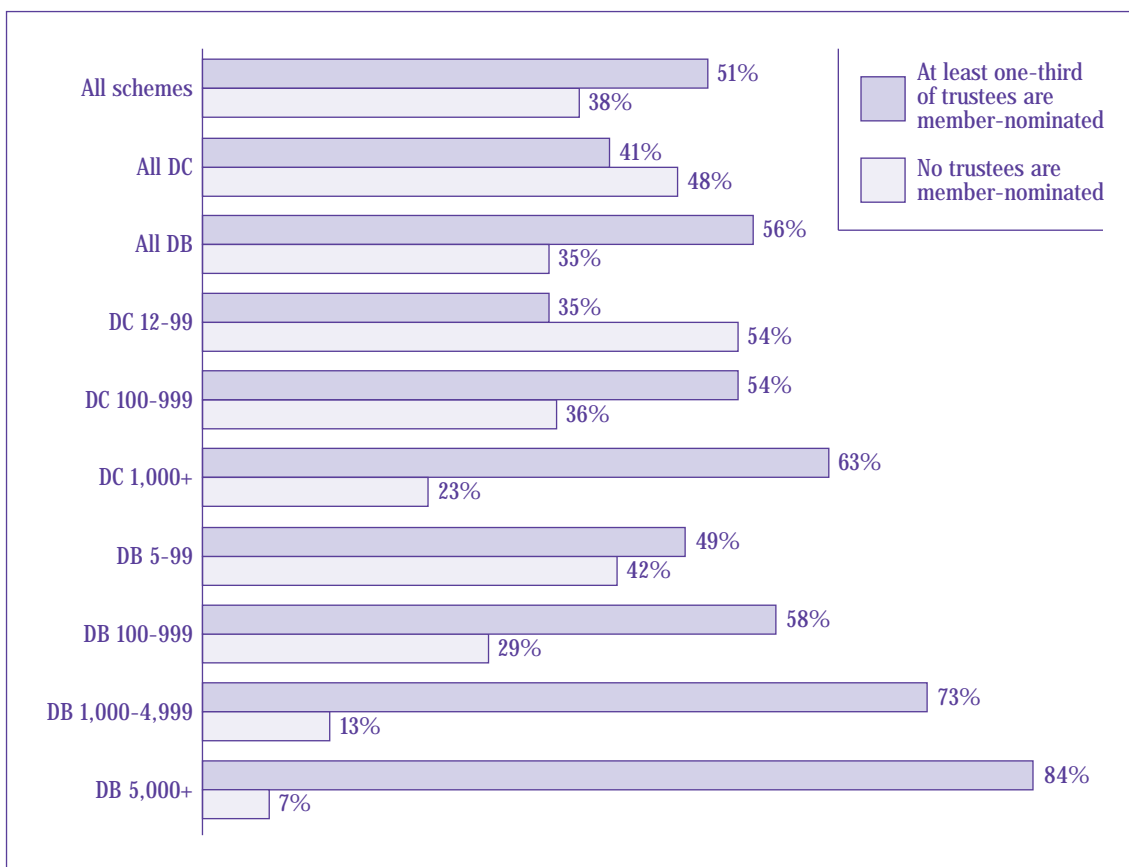
All schemes to which MNT rules apply will be required, once the current opt-out provisions end in October 2007, to have arrangements in place to appoint at least one-third member-nominated trustees. The survey shows that, currently, without having to rely on opt-out provisions, around half (51 per cent) of the 8,311 schemes claim already to be meeting this requirement.

There was a clear pattern by scheme size. The larger the scheme, the more likely it was already to have the required proportion of member-nominated trustees, as shown in Figure 6.

Questions were not asked in the 2006 survey as to the reasons for the low representation of member-nominated trustees in the smaller schemes. This may be due to schemes having not, as yet, attempted to appoint member-nominated trustees or to recruitment difficulties, perhaps in the face of perceived increases in trustees' responsibilities. Future waves of the survey will be used to monitor trends in this area and to identify the reasons for them.

The survey results also reveal a sharp divide in that, while 51 per cent of schemes claimed to have at least one-third member-nominated trustees currently, 38 per cent had none at all. Six per cent had member-nominated trustees totalling less than one-third of the board membership, while the remaining five per cent were unable to provide an estimate.

Figure 6
Schemes already meeting MNT rules without relying on opt-out provisions



Base: 621 screening interviews (covering eligible MNT schemes only)

Meeting MND rules

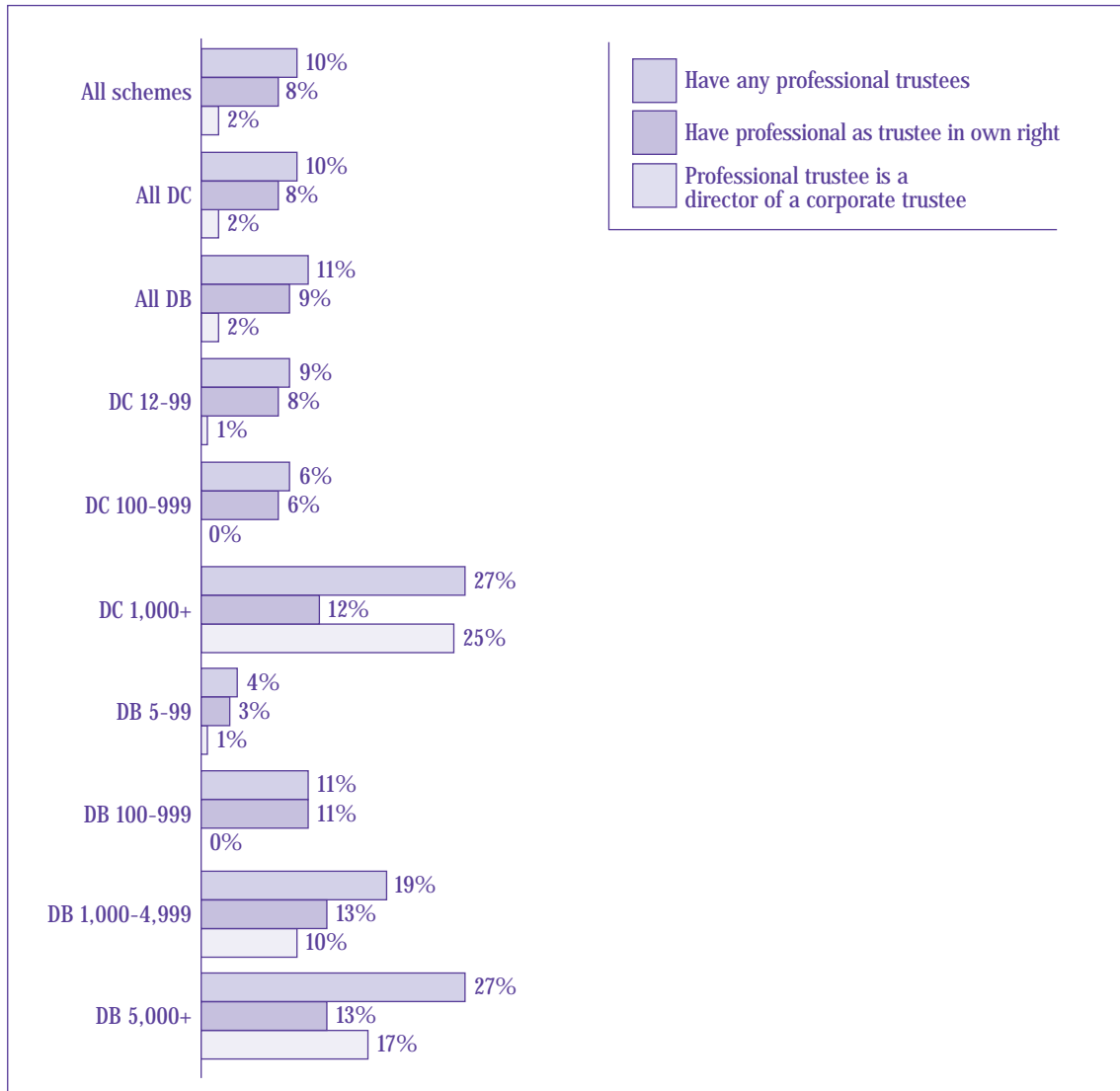
Among the 1,589 schemes to which MND rules apply, some 70 per cent (1,112 schemes) had a company formed specifically to act as trustee. Four-fifths (79 per cent) of these schemes estimated that they were already meeting the requirement for at least one-third of their directors to be member-nominated. In this case, however, no clear pattern emerged by scheme size.

Professional trustees

The incidence of professional trustees

Professional trustees could be present on scheme boards either in their own right or as one of the directors of a company formed specifically to act as trustee. Taking these two routes onto the trustee board in combination, overall 10 per cent of schemes had a professional trustee. The proportion was similar among DC and DB schemes and, in both cases, increased with scheme size, as shown in Figure 7. This figure also reveals that professional trustees on the boards of smaller schemes were mainly there as trustees in their own right, while the picture was more mixed in the larger schemes.

Figure 7
Schemes with professional trustees on the board



Base: 890 screening interviews (covering eligible schemes only)

The presence of a professional trustee appears to boost governance and administration standards

Understandably results across a range of different measures showed that schemes with a professional trustee were more likely to demonstrate higher standards of governance and administration. Examples of some of these areas are given in Figure 8. However, the results did not show that only schemes with a professional trustee demonstrated higher standards.

Figure 8
Differences in performance between schemes with professional trustees on the board and those without

	All schemes: row percentages		
	With professional trustee	No professional trustee	Difference in percentage points
Taken formal board decision to assess trustee training needs	79	48	+31
Have a formal process to identify significant risks	67	39	+28
Have undertaken advanced training in the past 12 months	63	40	+23
Have a service level agreement in place with main provider of administrative services	87	72	+15

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Although professional trustees were more commonly found in larger schemes, nevertheless they were also employed by small schemes. There was some evidence that their impact might be greater on small schemes than on large ones. This finding was based on small sample sizes and may justify further attention in future research.

Professional trustees also seem to have an impact on a board's confidence about its procedures to monitor and mitigate some, but not all, risks

Schemes with professional trustees are also generally more likely to be confident they have ensured that appropriate internal controls are in place to monitor and mitigate risks. Figure 9 shows the proportion of schemes stating they were 'very confident' about this on a range of topics.

The results provide an interesting insight into where professional trustees appear to make the most difference to boards. The differences are greatest in the areas of investment strategies and avoiding non-compliance with scheme rules and legislation, and weakest in protecting against computer failure, fraud and maladministration.

Figure 9
Differences in proportions of schemes describing themselves as 'very confident' that they have appropriate internal controls in specific areas between schemes with professional trustees and those without

	All schemes: row percentages		
	With professional trustee	No professional trustee	Difference in percentage points
Inappropriate investment strategies	68	51	+17
Non-compliance with scheme rules	66	49	+17
Non-compliance with legislation and regulations	56	42	+14
Shortcomings in arrangements and procedures for the custody and security of assets	59	48	+11
Deterioration in the employer's covenant and in the employer's willingness or ability to meet its obligations (DB schemes only)	69	59	+10
Existing controls not operating effectively	49	42	+7
Maladministration by scheme administrators	55	50	+5
Fraud	56	54	+2
Computer system and database failures	36	39	-3

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Trustee knowledge and learning activities

Trustee knowledge

Most trustees are assessed to have some knowledge on key issues, but there is scope for improvement

The survey asked the trustees participating how well equipped in terms of knowledge they felt fellow trustees (excluding any paid, professional trustees) were to understand relevant issues. The topics covered were:

- How scheme assets are invested;
- How schemes are funded (DB schemes only);
- The provisions of the scheme rules; and
- The role of the scheme trustees themselves.

On each of these topics the pattern of responses was the same. In a very clear majority of cases respondents felt their fellow trustees were either 'very well' or 'fairly well' equipped to understand issues relevant to the topic. The proportion describing trustees specifically as 'very well equipped' ranged from around a quarter to just over two-fifths.

Detailed figures are given in Figure 10 which also reveals that this assessment is more confident in the area of trustees' knowledge of their own role than on the other topics.

Figure 10
Evaluation of how well equipped trustees are believed to be to understand selected key issues

	All schemes: row percentages				
	'Very well equipped'	'Fairly well equipped'	'Very well' or 'Fairly well equipped'	'Not well equipped' or 'Not at all equipped'	Don't know
How scheme assets are invested	24	58	82	15	3
The provisions of the scheme rules	28	62	90	9	1
How schemes are funded (DB schemes only)	36	60	96	4	0
The role of the scheme trustees	43	50	93	5	2

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

The degree of appropriate knowledge ascribed to trustees generally increased with size of scheme. These differences were most marked on the topic of knowledge regarding the role of the trustee. The proportion of schemes where it was estimated that trustees were 'very well equipped' to deal with issues relevant to this ranged from 19 per cent in the smallest DC schemes to 73 per cent in the largest DB schemes and 81 per cent in the largest DC schemes.

Trustee learning activities

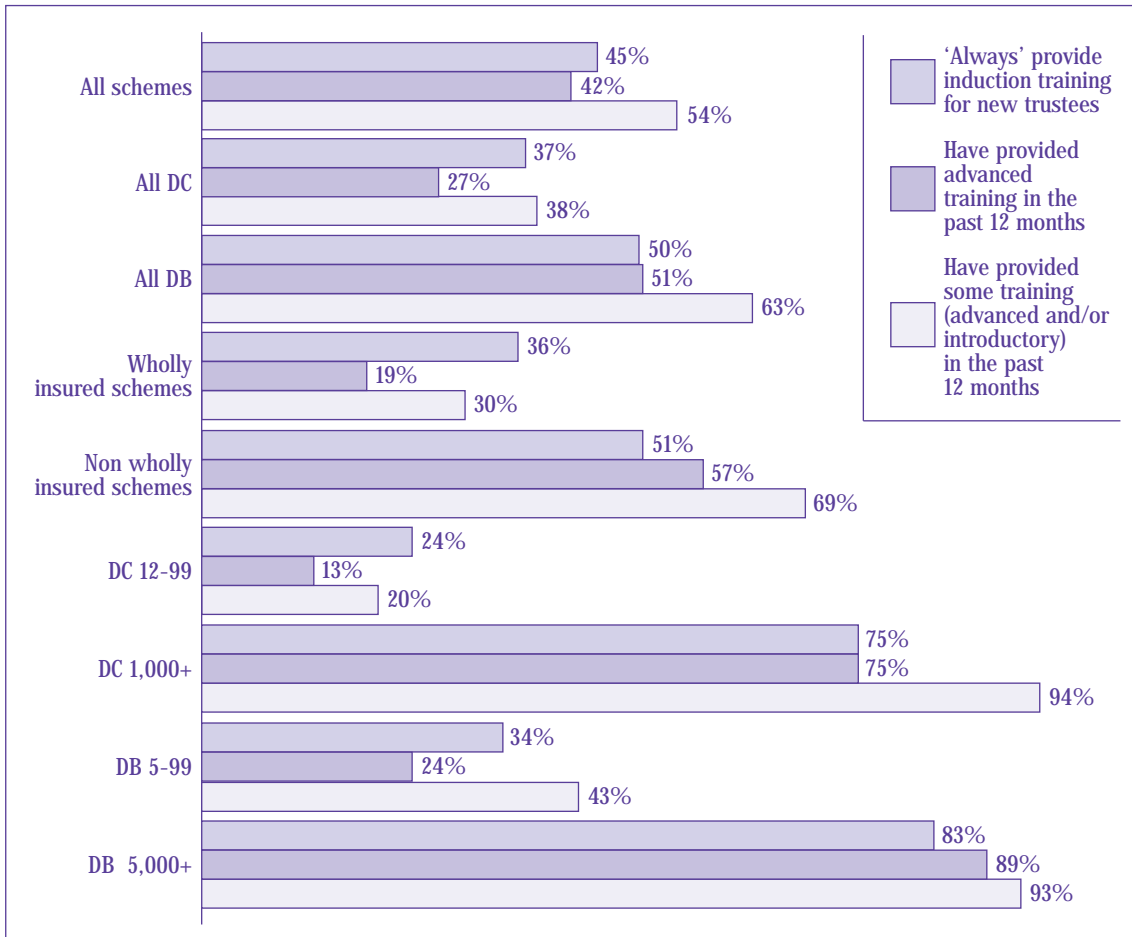
Pension schemes are divided between those that are committed to training and those that currently do little or nothing

Looking first at induction training for new trustees, just under half (45 per cent) of all schemes said they 'always' offer this, while a third (36 per cent) 'rarely or never' offer it. Assessing training other than induction training, no trustees from two-fifths (41 per cent) of schemes had had any formal training in the past 12 months, either via attendance at courses or specific training arranged as a separate item at a board meeting. Where training had been organised, at least some trustees from 42 per cent of schemes had had advanced training⁵ in the year prior to the survey, while those at a further 12 per cent had attended training at an introductory level.

Clear patterns emerged in where training was, and was not, taking place. Training levels were higher where, arguably, the responsibilities of trustees are greatest, namely at larger schemes, DB schemes and schemes that are not wholly insured. Key patterns in the incidence of training which illustrate this are shown in Figure 11.

⁵ Advanced training is defined in the survey questionnaires as training that is more advanced than introductory level: 'ie for trustees who have had prior training and experience and wish to consider more detailed aspects of their responsibilities'.

Figure 11
Provision of training for trustees



Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

One aspect of training which is rare at schemes of all types and sizes, however, is active encouragement for trustees to undertake formal qualifications. Encouragement to take formal qualifications was described as being standard or usual practice at only 13 per cent of schemes. However, 40 per cent of DB schemes with at least 5,000 members and 23 per cent of DC schemes with 1,000 or more members always or usually encourage trustees to take formal qualifications.

The impact of training

As shown, the provision of induction and ongoing training is by no means standard practice. This raises the question as to whether there is any evidence of differences in attitudes and behaviour between those schemes that do train and those that do not. In the event, clear differences did emerge on several topics, all in the direction that schemes which train are more confident about their performance and/or demonstrate higher standards of governance.

Advanced training is associated with greater confidence in the board's performance

Schemes that had committed to advanced training in the last 12 months clearly asserted higher confidence in the board's performance across very many issues. The more striking examples are given in Figure 12.

Figure 12
Trustees 'strongly agreeing' that the board performs in four selected areas

	All schemes: column percentages			
	All schemes	Advanced training in the last 12 months	No formal training in the last 12 months	Difference in percentage points
Regularly reviews its investment strategy	62	84	41	+43
Reviews the scheme rules at regular intervals and updates these as required	55	72	42	+30
Takes steps to ensure it follows good practice in governance	67	81	52	+29
Ensures a high standard of member communications	36	49	22	+27

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Advanced training also tallies with higher proportions of DC and segregated schemes reviewing investment topics

More DC and segregated schemes where trustees have attended advanced training in the last 12 months have formally reviewed investment issues in the last three years, in particular the appropriateness of the investments on offer and their performance. Details are summarised in Figure 13.

Figure 13
Formal review at least every three years by DC and segregated schemes

	All schemes: row percentages		
	Advanced training in the last 12 months	No training in the last 12 months	Difference in percentage points
Appropriateness of investment choices offered to members	93	66	+27
Performance of investment funds offered to members	91	71	+20
Level of fund charges	89	64	+25
Administrative services for individual members with DC benefits	69	60	+9

Base: interviews with trustees representing 251 DC and segregated schemes (unweighted), 4,461 DC and segregated schemes (weighted)

Schemes offering advanced training record higher levels of trustee knowledge and understanding

Significantly greater proportions of trustees from schemes where advanced training had taken place in the last 12 months were said to have a high level of ability to understand each of three important technical issues. Details are summarised in Figure 14.

Figure 14
Schemes in which trustees are deemed 'very well equipped' to understand three particular technical issues

	All schemes: column percentages			
	All schemes	Advanced training in the last 12 months	No formal training in the last 12 months	Difference in percentage points
How assets are invested	24	35	14	+21
Provisions of the scheme rules	28	34	23	+11
How schemes are funded (DB schemes only)	36	47	24	+23

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Familiarity with specific codes of practice

On this topic alone the survey asked about the knowledge of the individual respondents themselves rather than of the board of trustees as a body. Therefore, in interpreting these findings, it is important to recall that knowledgeable trustees had been recruited who would be able to speak with authority about the aims and practices of the board as a whole.

In the event, 30 per cent of the 500 trustees who took part in the main survey were board chairmen and, but not mutually exclusively, 43 per cent were the longest-serving trustee on the board. The level of knowledge of these trustees, therefore, is more likely to reflect the highest rather than typical levels of trustee knowledge. Similar outcomes were recorded for each of the codes of practice covered in the survey, with most trustees claiming to be at least fairly familiar with the overall aims and objectives of the codes, while only a minority said they were 'very familiar'. The results are summarised in Figure 15.

Figure 15
Evaluation of how knowledgeable survey respondents felt themselves to be on five of the Pensions Regulator's codes of practice

	All schemes: row percentages		
	'Very familiar'	'Fairly familiar'	'Somewhat' or 'Not at all familiar'
Reporting breaches of the law	25	44	31
Trustee knowledge and understanding (TKU)	30	52	18
Internal controls	31	45	22
Funding defined benefits	33	48	18
Notifiable events (DB schemes only)	35	44	21

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

The proportion of trustees describing themselves as 'very familiar' showed the common trend of increasing by scheme size. This was particularly the case regarding the code on trustee knowledge and understanding (TKU). Here the results varied from 10 per cent of small DC schemes with up to 99 members being 'very familiar' with the code to 64 per cent of large DC schemes with 1,000 or more members.

Behaviour of trustee boards

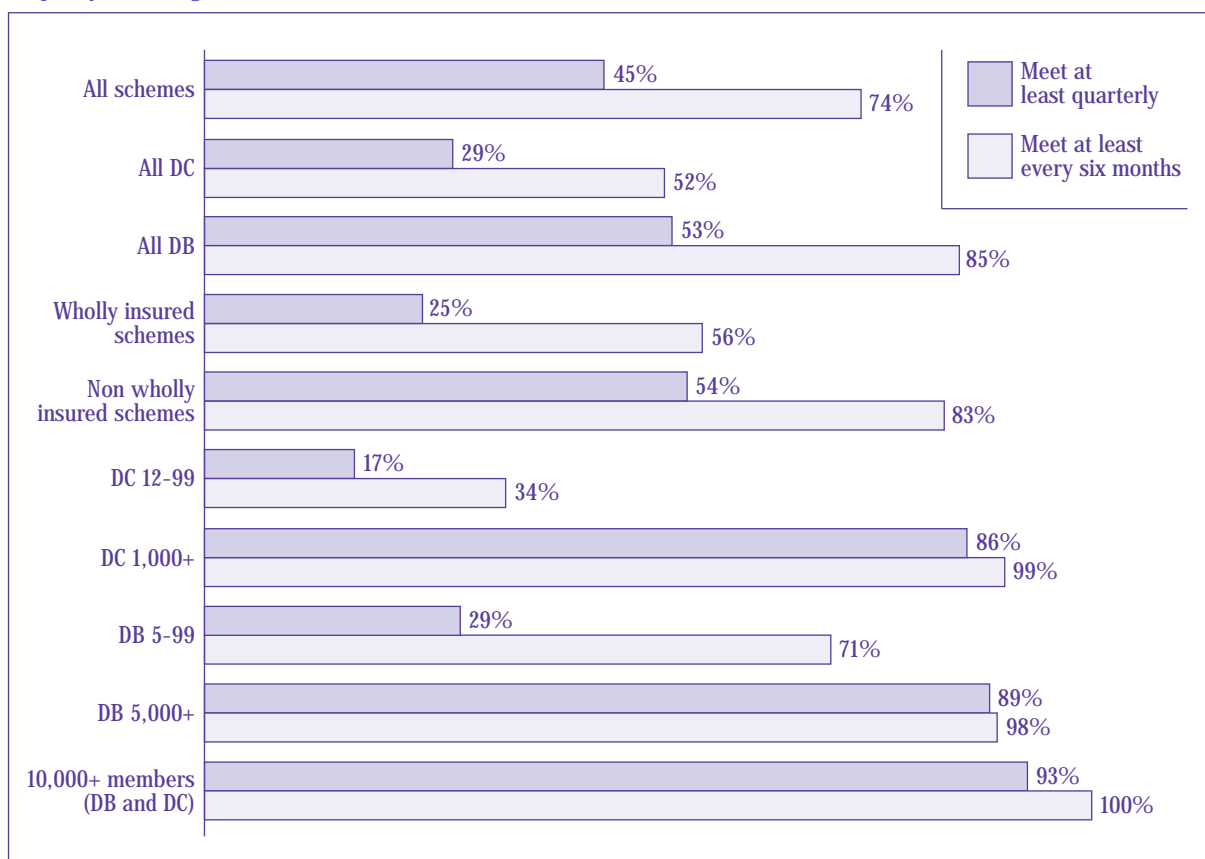
Trustee meetings

Most boards meet at least every six months, and almost all at least annually

The survey found that boards are meeting at least annually in all but a small minority (6 per cent) of cases. Only 2 per cent of schemes had failed to hold a full meeting of the trustee board at all.

Overall, 45 per cent of schemes reported that the trustee board meets at least quarterly and a further 29 per cent at least every six months, so that in total three-quarters (74 per cent) of trustee boards meet every six months. Of the rest most (20 per cent) meet at least once a year. Frequency of meeting is higher among larger schemes, both DB and DC, and among schemes that are not wholly insured. Data are summarised in Figure 16.

Figure 16
Frequency of meetings of the full trustee board



Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Frequency of meeting is associated with greater activity in several aspects of governance

The survey results were analysed to see whether or not any differences in behaviour emerged between schemes where the board meets regularly and those where they do not. From the survey we can conclude that frequency of meeting is associated with level of activity, but not that it necessarily contributes to it.

When findings were compared for boards that met at least quarterly and those that met less than quarterly but at least every six months, in most cases the boards that met with greater frequency did not record significantly higher activity or confidence.

It was generally the case, however, that boards meeting less frequently than once every six months showed lower levels of activity in important areas of governance and administration than did those who met more frequently.

Figure 17 provides examples of important areas where the performance of schemes whose boards meet infrequently is substantially below that of those schemes whose board meets at least every six months.

Figure 17
Differences in findings between schemes where the board meets less frequently than every six months and those meeting at least every six months

	All schemes: row percentages		
	Meet at least every six months	Meet less frequently	Difference in percentage points
Held formal structured training for trustees in past 12 months	67	18	+49
Strongly agree the board regularly reviews its investment strategy	73	36	+37
Trustees are very well equipped to understand the role of scheme trustees	52	21	+31
Have a means of identifying and recording potential conflicts of interest	61	35	+26
Have a formal process to identify significant risks	47	26	+21
Produced a scheme newsletter in past two years	45	25	+20
Trustees are very well equipped to understand how scheme assets are invested	28	12	+16
Conducted formal structured review of administrative services	79	61	+13

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

However, there were a couple of interesting exceptions to this pattern. Fewer significant differences emerged according to how frequently scheme boards meet in the proportion of schemes holding formal reviews of most categories of advisers and in their confidence about the efficacy of their internal controls to protect against a range of risks. This is illustrated in Figure 18, which also identifies three examples where a difference did emerge.

Figure 18
Lack of significant differences in findings between schemes where the board meets less frequently than every six months and those meeting at least every six months

	All schemes: row percentages		
	Meet at least every six months	Meet less frequently	Difference in percentage points
Formal review process in place with a minimum frequency of every three years:			
Actuary	67	69	-2
Auditor	62	63	-1
Investment consultant	64	64	0
Investment manager	77	58	+19
'Very confident' have appropriate internal controls to monitor and mitigate risks arising from:			
Fraud	55	54	+1
Deterioration in the employer's covenant and in the employer's willingness or ability to meet its obligations (DB schemes only)	61	58	+3
Maladministration by scheme administrators	52	46	+6
Non-compliance with legislation and regulations	46	38	+8
Non-compliance with scheme rules	56	38	+18
Inappropriate investment strategies	60	36	+24

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Decision-making

Most schemes state they 'always' keep records of decisions and ensure they are implemented

Ensuring records are kept of all the decisions the board makes and taking steps to ensure these decisions are implemented is standard practice across the industry, with in each case 93 per cent of schemes agreeing that they 'always' do so. Recording the reasons for the decisions taken is somewhat less common, and a third (31 per cent) of schemes said they do not always record the reasons behind decisions. From discussions with the survey advisory group, the Pensions Regulator understands that boards may be seeking to avoid legal challenges that might be made if the reasons why a decision was reached were set down in minutes of meetings.

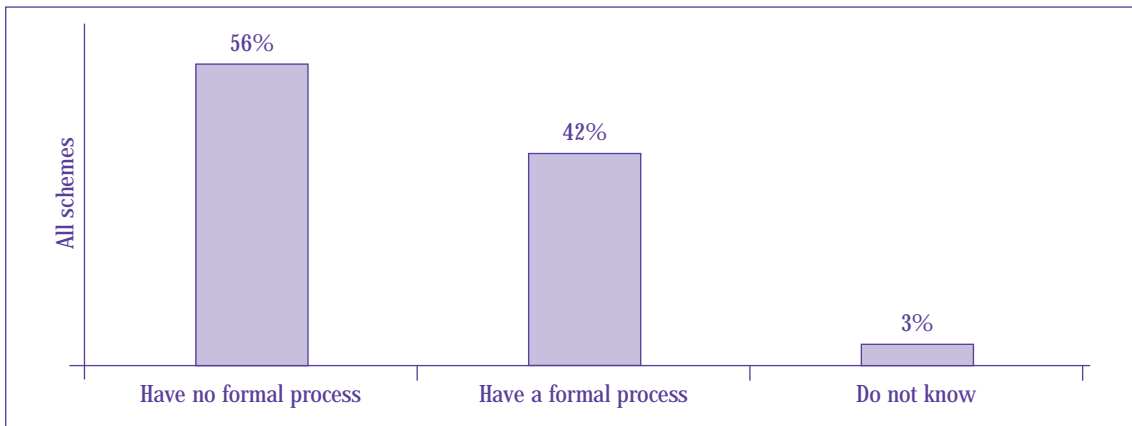
The survey neither covered whether boards had a specific motivation for deciding not to record the reasons why decisions were made, nor did it assess the quality of decisions.

Risk management

Formal processes to identify risks are only common among the largest schemes

Figure 19 shows only two-fifths (42 per cent) of trustee boards reported having in place a formal process to identify significant risks that could affect the scheme and its members. Fifty-six per cent of boards have no formal process, while trustees representing another 3 per cent of schemes did not know whether their board has formal processes in place.

Figure 19
A majority of schemes have no formal process to identify risks



Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Half (46 per cent) of all DB schemes and a third (33 per cent) of all DC schemes have formal processes in place. Wholly insured schemes (31 per cent) are less likely than non wholly insured schemes (48 per cent) to have a formal process to identify risks. As Figure 20 also shows, larger schemes, especially among DB schemes, are most organised in this area.

The 2006 survey did not investigate the nature or the quality of the processes to identify risks that trustee boards have in place. We therefore advise caution in the interpretation of these results. It is possible, for instance, that some respondents may have been thinking of the scheme audit rather than a separate risk identification process.

Figure 20
Schemes with formal processes in place to identify risks

	All schemes: row percentages
All schemes	42
All DC	33
All DB	46
Wholly insured schemes	31
Non wholly insured schemes	48
DC 12-99	24
DC 1,000+	51
DB 5-99	33
DB 5,000+	75
10,000+ members (DB and DC)	85

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Formal risk management processes contribute to greater confidence that the scheme is able to monitor and mitigate specific risks

As Figure 21 shows, those schemes that did have a process to identify risks were considerably more confident that they had internal controls in place to monitor and mitigate a wide range of specific risks. Trustees from a half to two-thirds of schemes with a formal process in place were 'very confident' in the scheme's ability to handle these potential risks, whereas the same was true for only a third to a half of schemes without a formal risk identification process.

Of all the potential risks covered in the survey, computer system and database failure was the topic on which schemes were least confident.

The most marked differences in confidence between schemes with and without formal risk management processes in place were to do with:

- Mitigating risks arising from inappropriate investment strategies;
- Non-compliance with scheme rules; and
- Non-compliance with legislation and regulations.

Figure 21
Schemes that are 'very confident' that they have appropriate internal controls in place to monitor and mitigate risks arising from the following issues

	All schemes: row percentages		
	All schemes	Schemes with formal process to identify risks	Schemes with no formal process to identify risks
Computer system and database failures	38	45	34
Existing controls not operating effectively	43	56	34
Non-compliance with legislation and regulations	44	57	33
Shortcomings in arrangements and procedures for the custody and security of assets	49	60	42
Maladministration by scheme administrators	50	63	41
Non-compliance with scheme rules	51	66	39
Inappropriate investment strategies	53	68	40
Fraud	55	62	49
Deterioration in the employer's covenant and in the employer's willingness or ability to meet its obligations (DB schemes only)	60	68	53

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Managing scheme administration

Scheme insurance status influences the choice of administrator

Two-thirds (66 per cent) of all schemes reported that they use a firm of third party administrators (TPAs) as the main provider of administration services, while:

A fifth (17 per cent) of schemes use the services of the scheme insurer;

- An eighth (12 per cent) have a dedicated in-house administration team;
- The trustees themselves handle scheme administration in 3 per cent of schemes, all of which were schemes with less than 1,000 members; and
- The remaining 2 per cent either had no main provider or named another category of organisation.

Figure 22 shows variations in behaviour according to insurance status. More non wholly insured schemes (71 per cent) than wholly insured schemes (56 per cent) use TPAs.

Figure 22
Main providers of scheme administration services

	All schemes: column percentages		
	All schemes	Wholly insured schemes	Non wholly insured schemes
Third party administrator (TPA)	66	56	71
Scheme insurer	17	29	10
In-house admin team	12	9	15

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Service level agreements (SLAs) are common, except where the main provider of administration is an in-house team

Three-quarters (73 per cent) of all schemes with a main provider of administrative services have an SLA in place with that provider. A fifth (20 per cent) of schemes have no SLA in place, while the rest (6 per cent) do not know whether an SLA exists or not.

As expected, the incidence of SLAs varies considerably by service provider. Most schemes (85 per cent) using a TPA have a service agreement with the provider. The same is true of three-fifths (58 per cent) of schemes using the services of the scheme insurer, but only of a third (33 per cent) of the schemes that rely on in-house administrators.

The 2006 survey did not explore the content of SLAs, to establish whether they focused on particular measures, such as whether SLAs purely measure service based upon timescales or whether they also assess the quality and accuracy of service.

Trustees are generally satisfied with the standard of administrative services received, and the existence of an SLA appears to impact satisfaction only in the area of compliance and meeting legal requirements

Trustees are generally pleased with the administrative back-up they receive across a range of measures including accuracy, member satisfaction and timeliness. Two-thirds to three-quarters rated current standards of service as 'excellent' or 'good'. They are most satisfied with administration in respect of compliance and meeting legal requirements, with nine-tenths (90 per cent) of schemes rating service in this area as 'excellent' or 'good'.

Satisfaction is consistently highest in DB schemes that have 5,000 or more members and in schemes where an in-house team provides the administrative services. Lowest satisfaction ratings were found among small DC schemes and where the scheme insurer is responsible for administration.

On one issue only does the existence of an SLA appear to be associated with higher satisfaction rating of the service provider. Forty-five per cent of schemes that have an SLA, but only 29 per cent of those without one, rated their service provider as 'excellent' on compliance and meeting legal requirements.

Review of investments by DC and segregated schemes

Review is common, and advisers also appear to have a positive role

Three-quarters of all DC and segregated schemes have held formal reviews of the funds offered to their members (75 per cent), and their performance (76 per cent) and charges (75 per cent), in the last three years. The proportion of DC and segregated schemes reviewing these investment topics is lower among schemes with fewer than 100 members, as shown in Figure 23.

In the last three years two-thirds (64 per cent) of all DC and segregated schemes have formally reviewed the quality of administration provided for individual members.

Figure 23
Formal review at least every three years: differences by scheme size

	All DC and segregated schemes: row percentages			
	All schemes	12-99	100-999	1,000+
Appropriateness of investment choices offered to members	75	61	89	90
Performance of investment funds offered to members	76	65	88	91
Level of fund charges	75	67	82	88
Administrative services for individual members with DC benefits	64	59	71	63

Base: interviews with trustees representing 251 DC and segregated schemes (unweighted), 4,461 DC and segregated schemes (weighted)

Additionally, as Figure 24 shows, the presence of an investment manager or investment consultant as an adviser to the scheme appears to be associated with having processes in place to formally review investment issues.

Figure 24
Formal review at least every three years: differences associated with presence of investment consultant and investment manager

	All DC and segregated schemes: row percentages			
	Have investment consultant	Have no investment consultant	Have investment manager	Have no investment manager
Appropriateness of investment choices offered to members	84	66	87	61
Performance of investment funds offered to members	84	69	87	64
Level of fund charges	81	69	83	66
Administrative services for individual members with DC benefits	68	60	72	55

Base: interviews with trustees representing 251 DC and segregated schemes (unweighted), 4,461 DC and segregated schemes (weighted)

Communications and transparency with scheme members

Scheme communications

In reviewing the findings regarding communications with members, it is important to remember that scheme trustees ought not to be bearing the whole burden of communications. There is, as well, usually an important role for the employer's human resources department in communicating to employees regarding the company scheme.

Virtually all schemes (97 per cent) had communicated with their members in one or more ways over the past two years. The most frequently used methods are writing letters to members (75 per cent) and sending additional information with an annual statement (67 per cent). At the other end of the scale, use of scheme websites or intranets was not widespread, with only 18 per cent of schemes reporting they are operating one.

Little variation was found between DB and DC schemes. One exception was providing access to external advisers: this is more common in DC schemes (70 per cent) than DB schemes (50 per cent) as a result of the role of IFAs in smaller DC schemes in particular.

As with many other findings from the survey, activity was greater among larger schemes. Higher than average levels of communications activity were found, as expected, in the largest DB schemes with 5,000 or more members. Among these schemes it is very common for the annual report or a summary of it to be sent automatically to members, and a half of these schemes provide a scheme website or intranet. Workplace presentations were also provided by two-thirds of these schemes.

As Figure 25 shows, segregated schemes also emerged with above average levels of activity.

Figure 25
Schemes' use of different means of member communications in the past two years

	All schemes: row percentages		
	All schemes	DB 5,000+	Segregated schemes
Letters sent to members	75	83	77
Additional information sent with annual statement	67	76	79
Access to advice from external advisers	57	32	54
Workplace presentations	46	68	64
Either full report or summary of trustees' report sent automatically to all members	42	81	59
Scheme newsletter	40	88	57
Workplace notices and posters	35	66	38
Member forums	32	44	41
Scheme website/intranet	18	50	29

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Crucial messages are not reaching all members in DC and segregated schemes

Members of DC schemes and the DC sections of segregated schemes are often faced with important choices relating to the level of contributions they make and how these contributions are invested within the scheme. These decisions impact on the levels of benefits they will receive from the scheme, and therefore it is important that members understand the significance of the decisions they have to make and when to seek professional advice.

Among DC and segregated schemes, the research explored the extent to which trustees felt that efforts had been successful in communicating specific information to members:

- As appropriate, that either only one fund was on offer or that there was a range of funds from which members could choose;
- If appropriate, that different funds have different levels of risk; and
- The level of contribution members require to meet their individual retirement objectives.

Seventy per cent of DC and segregated schemes offer more than one fund. Among these schemes, somewhat over half stated that 'virtually all' or 'most' members were aware of the range of funds from which they could choose (53 per cent) and recognised that different funds have different levels of risk (61 per cent).

DC and segregated scheme trustees were much less confident that their members understand the level of contribution they need to make to meet their individual retirement objectives. Here the proportion of schemes saying they felt either ‘virtually all’ or ‘most’ of their members had such an understanding was less than a third (27 per cent). Interestingly, despite the higher levels of communications activity reported by segregated schemes (see Figure 25), the proportion here was only 13 per cent, compared with 31 per cent of DC schemes.

The potential value of good communications is, however, illustrated, as Figure 26 shows, by the finding that those schemes that ‘strongly agreed’ that the board ensures a high standard of member communications were more positive in their assessment of how many of their members were aware of key aspects of the funds offered and of contribution levels required.

Figure 26
Variation in perceived level of awareness and knowledge of members according to trustees’ level of confidence in the board’s performance on member communications

Trustees stating ‘virtually all’ or ‘most’ members are aware	All DC and segregated schemes: row percentages		
	Aware of range of funds	Aware different funds have different risk	Aware of required contribution levels
All schemes	53	61	27
Schemes that ‘strongly agree’ that board ensures a high standard of member communications	63	70	38
Schemes that ‘tend to agree’ that board ensures a high standard of member communications	47	55	25

Base: interviews with trustees representing 251 DC and segregated schemes (unweighted), 4,461 DC and segregated schemes (weighted)

Governance statement

Three-fifths of schemes report including a governance statement in their annual report

Trustees, other than those at DC schemes which were both frozen and fully insured, were asked specifically if they had included in their annual report a governance statement that ‘describes how the scheme is directed and controlled’.

In total, 59 per cent said they had included a governance statement, ranging from 41 per cent of small DC schemes with 12-99 members to 81 per cent of DB schemes with 5,000+ members.

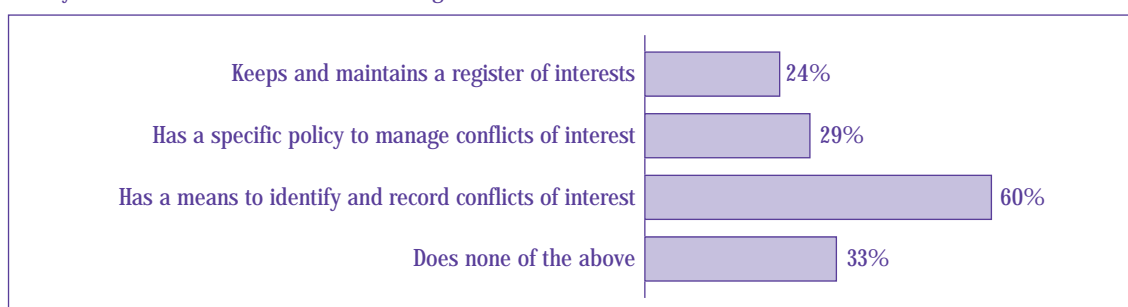
Management of relations with the employer and advisers

Conflicts of interest

DB schemes' management of conflicts of interest: gaps in procedures exist in this area, even in the largest DB schemes

Relatively low proportions of schemes were found to have policies in this important area. As Figure 27 shows, only around a quarter of DB schemes had each of a register of interests (24 per cent) and a specific policy to manage conflicts (29 per cent). However, three-fifths (60 per cent) of DB schemes said they had the ability to identify and record conflicts of interest.

Figure 27
Activity in the area of conflicts of interest among all DB schemes



Base: interviews with trustees representing 313 DB schemes (unweighted), 6,454 DB schemes (weighted)

Although larger schemes as well as ones with in-house administration teams perform better in this area, a fifth (21 per cent) of the largest DB schemes with over 5,000 members had as yet taken no action at all to monitor and manage conflicts of interest. Among these same large DB schemes only half (53 per cent) had a specific policy to manage conflicts. Although three-quarters (74 per cent) indicated they could identify and record conflicts, a register of interests was rare even in this group, with only a third (30 per cent) indicating they kept one. The extent to which boards of trustees have procedures to identify and handle conflicts is illustrated in Figure 28.

Figure 28
Activity in the area of conflicts of interest among different sizes of DB schemes

The board of trustees...	All DB schemes: row percentages				
	All DB	DB 5-99	DB 100-999	DB 1,000-4,999	DB 5,000+
Keeps and maintains a register of interests	24	24	24	23	30
Has a specific policy to manage conflicts of interest	29	23	26	38	53
Has a means to identify and record conflicts of interest	60	47	64	74	74
Does none of the above	33	39	34	18	21

Base: interviews with trustees representing 313 DB schemes (unweighted), 6,454 DB schemes (weighted)

We should bear in mind that the survey, which did not specifically ask if schemes had produced written documentation on their policy in this area, may overstate the activity of DB pension schemes.

Dialogue on scheme funding issues with the sponsoring employer of DB schemes Trustees state that they are confident their scheme can negotiate effectively with the sponsoring employer, yet monitoring the financial standing of the employer is not standard practice

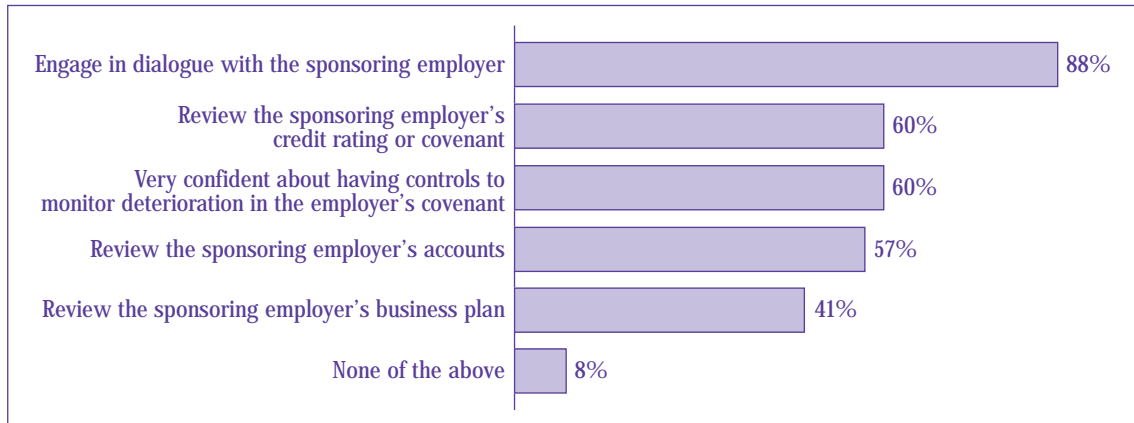
Over two-thirds (70 per cent) of all DB schemes strongly agree that they can conduct effective negotiations with the employer in relation to scheme funding requirements. There are no significant variations in this result by scheme size.

Over nine-tenths (92 per cent) of schemes have engaged in dialogue with the employer or undertaken some form of monitoring the financial standing of the employer. The extent of this activity differs by scheme size:

- Smaller schemes are more likely than larger ones to review the employer's accounts and business plans; and
- Larger schemes are more likely to review the employer's credit rating and covenant.

As Figure 29 shows, around two-fifths of DB schemes do not regularly review the employer's accounts or credit rating or covenant. This key part of the new scheme funding regime is set out in the Pensions Regulator's code of practice on funding defined benefits. It is an area, however, on which trustees have previously not been obliged to focus, and this may explain why these findings are low at this point in time.

Figure 29
Dialogue or engagement with the employer in respect of scheme funding among all DB schemes



Base: interviews with trustees representing 313 DB schemes (unweighted), 6,454 DB schemes (weighted)

Figure 30 summarises these finding by scheme size.

Even among the largest DB schemes with over 5,000 members, a fifth does not regularly review the employer covenant or credit rating. Six per cent of DB schemes with over 5,000 members do not engage with the employer at all.

Figure 30
Dialogue or engagement with the employer in respect of scheme funding among different sizes of DB schemes

	Schemes: row percentages				
	All DB	DB 5-99	DB 100-999	DB 1,000-4,999	DB 5,000+
Engage in dialogue with the sponsoring employer	88	82	92	91	94
Review the sponsoring employer's credit rating or covenant	60	56	57	70	79
Very confident about having controls to monitor deterioration in the employer's covenant	60	52	68	56	67
Review the sponsoring employer's accounts	57	64	54	48	51
Review the sponsoring employer's business plans	41	55	37	22	36
None of the above	8	10	8	4	6

Base: interviews with trustees representing 313 DB schemes (unweighted), 6,454 DB schemes (weighted)

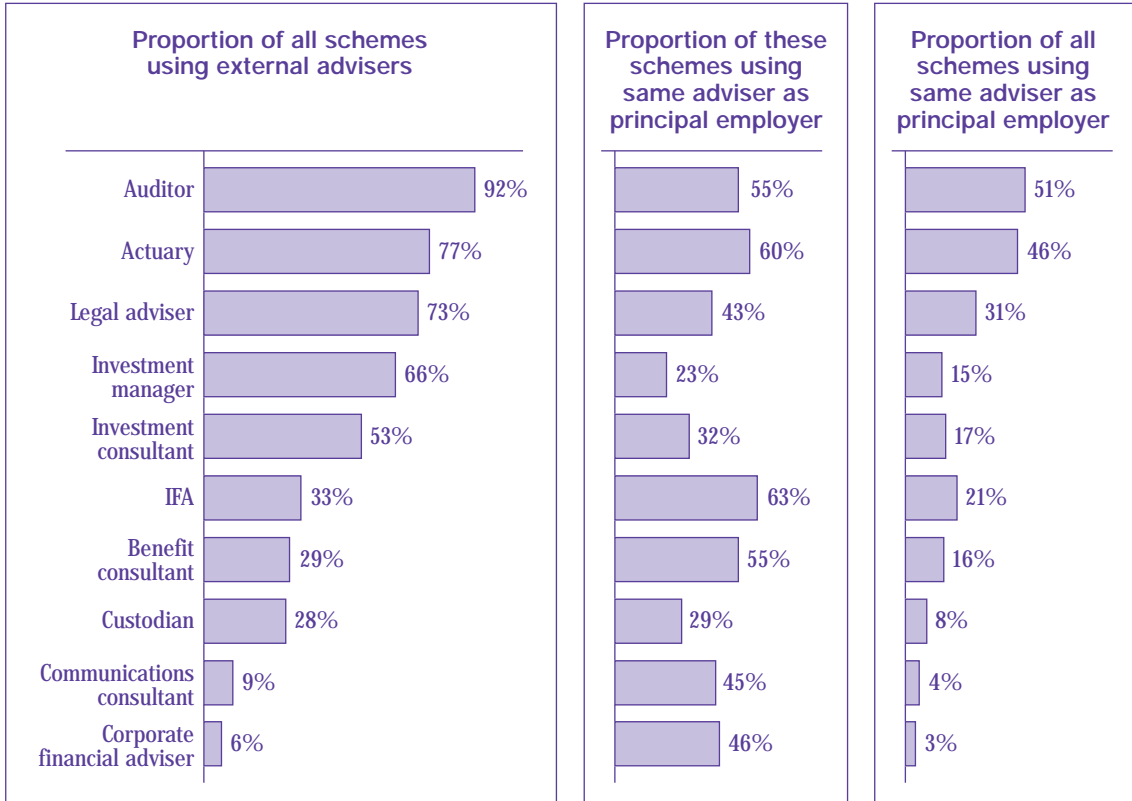
Use of advisers

Many schemes use the same advisers as their sponsoring employer

More than half of all schemes engaging auditors (55 per cent), actuaries (60 per cent) and IFAs (63 per cent) said that they use the same firm of advisers, although not necessarily the same individuals, that is engaged by the sponsoring employer. Incidence of using the same adviser is higher in smaller schemes and ones that are wholly insured.

Figure 31 shows the proportion of all schemes whose trustees use each type of adviser and then the proportion of those where the same firm is used by both the scheme and the sponsoring employer. By combining these two pieces of data the figure also shows the proportion of all schemes where a shared adviser is being used.

Figure 31
In the case of both auditor and actuary around a half of schemes are using the same firm as is engaged by their principal employer



Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

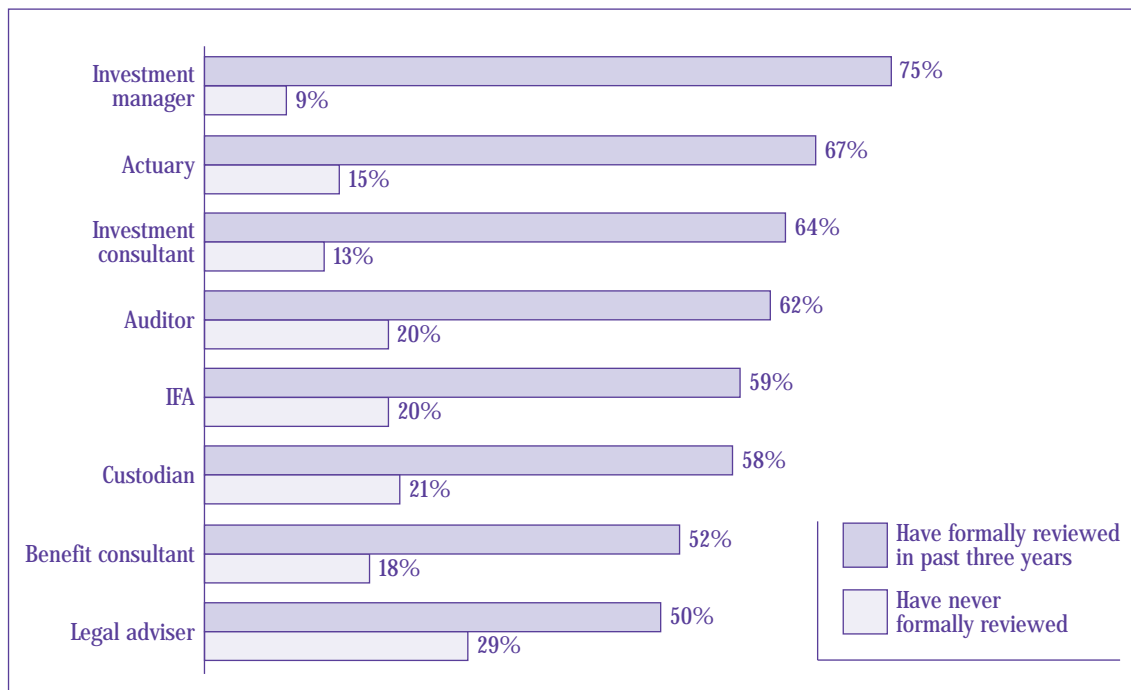
Reviewing scheme advisers is common practice, and standard in large DB schemes

Around two-thirds of schemes have held formal reviews in the last three years for each of the key types of adviser: investment managers (75 per cent), actuaries (67 per cent), investment consultants (64 per cent) and auditors (62 per cent).

Over four-fifths of large DB schemes with 5,000 or more members have formally reviewed these advisers in the last three years: investment managers 98 per cent; actuaries 85 per cent; investment consultants 84 per cent, and auditors 84 per cent. At the other end of the scale, around one in ten schemes (9 per cent) have never reviewed their investment manager. Approximately one in seven (15 per cent) have not reviewed their actuary nor one in five (20 per cent) their auditor.

Figure 32 provides details on the proportions of schemes that have conducted a formal review in the past three years of the individual advisers that they are using. It also shows the proportions of schemes that have never held such a review.

Figure 32
Formal review of advisers



Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Self-assessment of the board’s performance

Confidence is higher on general issues, but lower on specific topics

As well as asking objectively about actions, the survey also provided the opportunity for participants to offer self-assessment of their board’s performance.

A clear majority of trustees were confident that their board is performing well in general areas such as ‘working together effectively’, ‘negotiating well with the principal employer’, ‘managing administration well’ and ‘following good governance practice’. This confidence was greater among large schemes, DB schemes, and those administered by an in-house team. Confidence was lower in small schemes, DC schemes and those relying on a scheme insurer to provide administrative services.

On more specific topics, however, such as ‘having appropriate processes in place to manage conflicts of interest’ and ‘addressing trustee learning gaps’ self-reported confidence levels were a little lower, as recorded in Figure 33.

Nonetheless, on no issue did the proportion of schemes reporting that they ‘strongly agreed’ or ‘tended to agree’ fall below three-quarters of schemes.

Figure 33
Self-assessment of how well the trustee board is performing in different areas

The board...	All schemes: row percentages		
	'Strongly agree'	'Tend to agree'	'Tend to disagree' or 'Strongly disagree' or 'Don't know'
Works together as an effective unit	74	23	3
Conducts effective negotiations with the employer	70	25	5
Focuses attention specifically on both DB and DC sections (hybrid and segregated schemes only)	70	22	8
Understands its role and responsibilities in relation to the scheme	68	30	2
Takes steps to ensure it follows good practice in the governance of the scheme	67	32	1
Manages the scheme's administration to ensure an acceptable level of service	67	31	2
Regularly reviews its investment strategy	62	20	18
Actively monitors service providers and professional advisers	55	34	11
Reviews the scheme rules at regular intervals and updates these as required	55	32	13
Has identified potential risks to the scheme	47	40	13
Has appropriate internal controls to manage risks	45	43	12
Is adequately prepared for A-day	40	47	13
Ensures a high standard of member communications	36	49	15
Addresses trustee learning gaps	35	42	23
Has appropriate processes in place to manage conflicts of interest	35	41	24

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

The extent to which trustees' self-assessment of the performance of their board appears to be accurate

Where it is possible to compare the self-assessment responses with replies to questions regarding actual practices, in most cases schemes that are more confident in their performance appear justified in that opinion.

Specifically, the practices and behaviour of those who indicated they 'strongly agreed' or were 'very confident' that their board was performing well were significantly ahead even of those who instead either 'tended to agree' or were 'fairly confident'.

As a result, it is possible to have confidence in the findings based on 'self-assessment' and specifically in the differentiation between schemes willing, or not, to commit themselves more strongly in their responses.

The topics on which performance and self-assessment were compared were:

- Assessing trustee learning gaps;
- Managing conflicts of interest;
- Monitoring advisers;
- Managing scheme administration; and
- Member communications.⁶

In the area of trustee learning gaps, among those schemes 'strongly agreeing' that they were addressing these 74 per cent said they had taken a formal board decision to do so in the past 12 months, compared with 51 per cent of those who 'tended to agree' and only 16 per cent of those who 'tended to disagree'.

A similar pattern of findings emerges regarding actions being taken to manage conflicts of interest. These are summarised in Figure 34, which shows that those who 'strongly agree' that the board 'has appropriate processes in place to manage conflicts of interest' were significantly more active in this area.

Figure 34
Actions to tackle conflicts of interest by confidence in the board's performance in this area

	All schemes: row percentages		
	Self-assessment on having appropriate processes in place to manage conflicts of interest		
	'Strongly agree'	'Tend to agree'	'Tend to disagree'
Have a means of identifying and recording potential conflicts of interest	77	57	17
Have a specific policy to manage conflicts of interest	42	25	2
Keep and maintain a register of interests	34	21	5

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

⁶ On this topic, please see Figure 26.

Similarly, regarding the active review of professional scheme advisers, those who 'strongly agree' that the board 'has appropriate processes in place to manage conflicts of interest' were significantly more active. Findings are recorded in Figure 35.

Figure 35
Formal review of advisers by confidence in the board's performance in this area

Have conducted a formal review in the past three years of scheme's:	All schemes: row percentages	
	Self-assessment on having appropriate processes in place to manage conflicts of interest ⁷	
	'Strongly agree'	'Tend to agree'
Actuary	76	60
Auditor	69	59
Legal adviser	59	42
Custodian	69	40
Investment manager	82	70
Investment consultant	72	55

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

The levels of satisfaction recorded with scheme administration also varied clearly in line with the extent to which the surveyed schemes agreed that they 'managed the scheme's administration to ensure an acceptable level of service'. As shown in Figure 36, those who 'strongly agreed' with this self-assessment described the service received as 'excellent' much more frequently.

Figure 36
Satisfaction with aspects of administrative service

Consider service to be 'excellent' on:	All schemes: row percentages	
	Self-assessment on managing the scheme's administration to ensure an acceptable level of service ⁸	
	'Strongly agree'	'Tend to agree'
Timeliness	33	8
Value for money	21	10
Accuracy	39	16
Member satisfaction	27	7
Compliance and meeting legal requirements	51	19

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

⁷ Data not shown for those saying 'tend to disagree' due to small sample size.

⁸ Data not shown for those saying 'tend to disagree' due to small sample size.

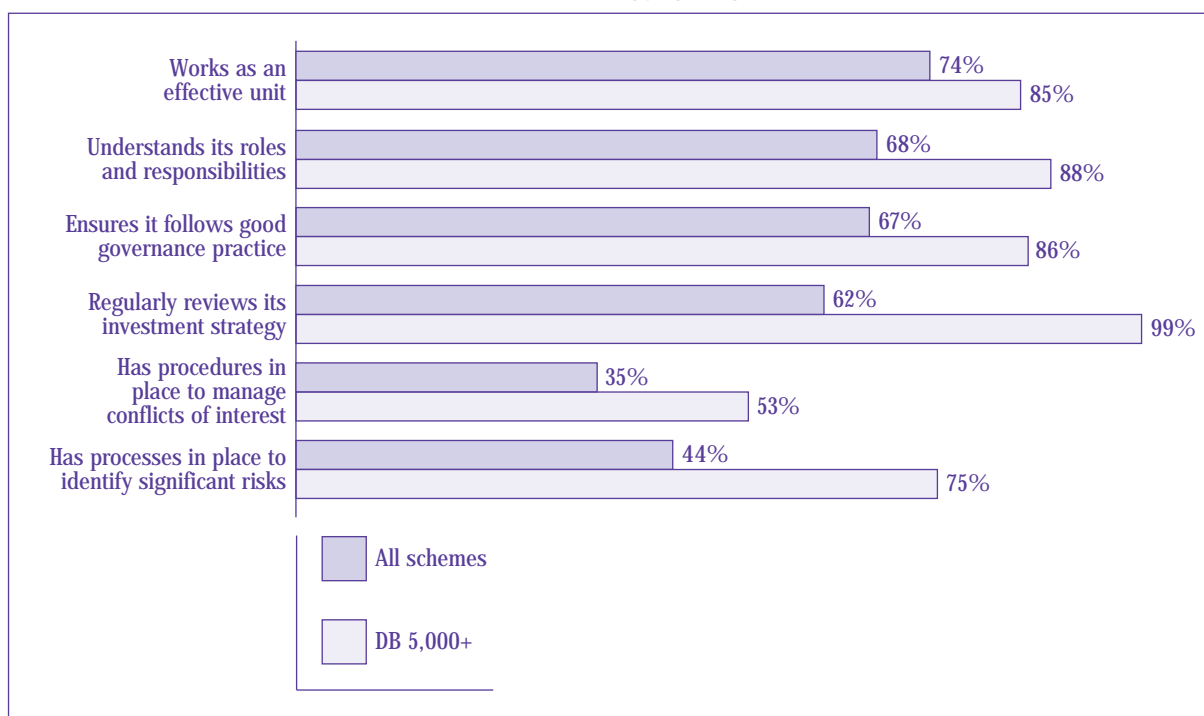
DB schemes with 5,000 or more members are very different

Attention has been drawn throughout the report to the manner in which behaviour varies according to scheme benefit type and, in particular, size. In most areas of governance and administration that have been reviewed larger schemes have emerged as more active and more confident in their self-assessment.

The survey findings further show that the largest DB schemes, those with 5,000 or more members, are particularly different. They consistently record much higher than average levels of commitment to administration and governance activities.

Looking first at self-assessment, DB 5,000+ schemes are much more confident than average that they are performing well. Selected examples are shown in Figure 37.

Figure 37
Self-assessment of the board's performance based on schemes 'strongly agreeing' with each statement



Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Now reviewing a range of more 'objective' measures, once more the picture to emerge is of a majority of these large schemes performing to a high standard. Again, selected examples are provided in Figure 38.

Figure 38
Selected findings on governance and administration practices, comparing DB 5000+ schemes with all schemes

	All schemes: row percentages		
	All schemes	DB 5,000+	Difference in percentage points
Board structure			
MNT schemes with at least one-third member-nominated trustees	51	84	+23
MND schemes with at least one-third member-nominated directors in the trust company	79	89	+10
Management and governance			
Meet at least quarterly	45	89	+44
Have provided either full trustees' report or summary to all members in past two years	42	81	+39
Review the credit rating or covenant of the employer at regular, set intervals	60	79	+19
Assess members' satisfaction with administration services as 'excellent' or 'good'	74	92	+18
Review performance of administration provider at least annually	56	67	+11
Formal reviews at least every three years			
Investment manager	75	98	+23
Auditor	62	84	+22
Investment consultant	64	84	+20
Training and knowledge			
Provided advanced training in past 12 months	42	89	+47
'Always' offer induction training to new trustees	45	83	+39

Base: interviews with trustees representing 500 schemes (unweighted), 9,901 schemes (weighted)

Survey background

Methodology

Full details of the research approach and survey coverage are provided in separate Technical appendices.

The 2006 review, the first of a series of planned annual surveys, has established initial data, so that, going forward, the Pensions Regulator can take an informed view on the performance of pension schemes in the area of governance, looking at differences by size and type of scheme. The Pensions Regulator can also identify where it wishes to target activity, and, by comparing results year on year, can assess change.

Since coverage was wide-ranging, the 2006 survey questionnaire was fully structured. Limits on interview length prevented depth discussion of the reasons trustees gave for their answers. The breadth of coverage may be reduced in future surveys, to allow for greater discussion of key points.

One important requirement of the survey was to mitigate against the risk of respondents being unwilling to provide full or accurate information in talking to the Pensions Regulator about governance standards. This was addressed by the survey being conducted by an independent third party that guaranteed individual respondents' anonymity. We believe that trustees' openness in describing limited activity currently on some important issues speaks for the credibility and success of the research in this regard.

The universe of eligible schemes

The pension schemes registry (PSR) database, as at 31 March 2005, provided the starting estimate of the universe of trust-based private sector occupational pension schemes. There was a total of 15,272 schemes listed in the appropriate benefit and size ranges. The 1,235 screening interviews were conducted with random samples of these schemes.

The PSR database was known to contain some inaccuracies, and not to identify schemes as being Small Self-administered Schemes. The incidences of schemes screened and found to be eligible in each of the seven sub groups (ie they were trust-based private sector schemes, and they were not winding up, terminated or merging) were then used to calculate a revised estimate of the universe as comprising approximately 9,900 schemes.

The data from the PSR database are compared in Figure 39 with the new estimates generated from the screening phase of this research.

Figure 39
PSR database and survey estimates of the universe of eligible schemes

	Universe of live trust-based private sector occupational pension schemes (open, closed and frozen schemes)		
	PSR database	Survey-based estimate	Survey-based estimate as a proportion of PSR database records: row percentages
	Number of schemes		
All schemes	15,272	9,901	64.8
All DC	7,334	3,447	47.0
All DB	7,938	6,454	81.3
DC 12-99	5,395	2,348	43.5
DC 100-999	1,634	916	56.0
DC 1,000+	305	183	59.9
DB 5-99	3,346	2,495	74.6
DB 100-999	3,328	2,854	85.8
DB 1,000-4,999	872	681	78.1
DB 5,000+	392	424	108.2

Base: 1,235 screening interviews (covering 890 eligible and 345 ineligible schemes)

The universes of schemes to which MNT and MND rules apply

MNT rules apply to schemes with one or more individual trustees. MND rules apply to those schemes that have only corporate trustees and no individual trustees.

Most schemes have individual trustees and so MND rules apply in only a minority (16 per cent) of cases. This represents an estimated 1,589 schemes.

The full breakdown of the estimated universe of 9,901 schemes into those to which MNT rules and MND rules apply is given in Figure 40. This shows that schemes to which MND rules apply are a majority only among DB schemes with 5,000 or more members.

Figure 40
Number and proportion of schemes to which MNT and MND rules apply

	All schemes	Schemes to which MNT rules apply		Schemes to which MND rules apply	
	Number	Number	Row percentage	Number	Row percentage
All schemes	9,901	8,311	83.9	1,589	16.1
All DC	3,447	2,855	82.8	592	17.2
All DB	6,454	5,457	84.6	997	15.4
DC 12-99	2,348	1,987	84.6	361	15.4
DC 100-999	916	739	80.7	177	19.3
DC 1,000+	183	129	70.3	54	29.7
DB 5-99	2,495	2,203	88.3	292	11.7
DB 100-999	2,854	2,638	92.4	216	7.6
DB 1,000-4,999	681	453	66.5	228	33.5
DB 5,000+	424	163	38.5	261	61.5

Base: 890 screening interviews (covering eligible schemes only)

The number of trustees in the universe, and the number of directors of companies formed specifically to act as trustee

Based solely on the research, an estimate has been made of the total number of trustees in the universe, broken down by individual trustees and corporate trustees. Overall, in the universe of 9,901 schemes it is projected that there are a total of 35,244 trustees, of which 32,483 are individual trustees and 2,761 corporate trustees.

In addition, but only for schemes where MND rules apply, an estimate has also been made of the number of directors of companies formed specifically to act as trustee. The total number of directors of these corporate trustees is estimated to be 7,253.

Combining these survey-generated data with estimates, provided by the Pensions Regulator, for the average number of members for each scheme type and size, demonstrates that out of the total number of trustees the small minority from the largest schemes are particularly important. These trustees are responsible for a high proportion of total members.

All these data are brought together in Figure 41.

Figure 41
Number of individual and corporate trustees in all schemes, and number of directors of companies specifically formed to act as trustee in schemes where MND rules apply

	Total trustees	Individual trustees	Corporate trustees	Estimated number of members per trustee	Directors of companies specifically formed to act as trustees (MND schemes only)
All schemes	35,244	32,483	2,761	426	7,253
All DC	10,463	9,555	908	103	1,353
All DB	24,780	22,928	1,853	599	5,882
DC 12-99	6,410	5,870	540	12	455
DC 100-999	3,243	2,968	275	95	564
DC 1,000+	811	717	93	1,302	334
DB 5-99	7,186	6,687	499	13	1,253
DB 100-999	12,843	12,158	685	78	864
DB 1,000-4,999	3,187	2,853	334	477	1,535
DB 5,000+	1,565	1,230	335	7,755	2,230

Base: 890 screening interviews (covering eligible schemes only)

Glossary

Defined benefit scheme	An occupational pension scheme where members' benefits are determined by a formula involving pay and service with the employer. Also known as a salary related scheme. Although rare, there are some defined benefit schemes which provide a fixed amount of benefit for each year of service with the employer, eg a benefit of £100 pa for each year of service
Defined contribution scheme	An occupational pension scheme where, except for death benefits, only money purchase benefits are provided. These schemes may be referred to as money purchase schemes
Hybrid scheme	A scheme that provides either some defined benefit and some defined contribution benefits, or the better of the two (an underpin)
MNT (member-nominated trustee)	A trustee chosen by members of an occupational pension scheme under the provisions of Section 241 of The Pensions Act 2004
MND (member-nominated director)	A person chosen by the members of an occupational pension scheme, under the provisions of Section 242 of The Pensions Act 2004 to be a director of a company which acts as a scheme trustee
Opt-out provisions	The Pensions Act 1995 first introduced requirements for member-nominated trustees (MNTs) and member-nominated directors (MNDs). Under the requirements in the Pensions Act 1995, the employer could 'opt-out' of the requirements and propose their own arrangements for choosing trustees, provided they obtain the members' approval of the arrangements. This is commonly known as an 'opt-out'. Under the requirements for MNTs and MNDs in the Pensions Act 2004, employers can no longer 'opt-out' and propose their own arrangements
Segregated scheme	A multi-employer occupational pension scheme that is segregated so that all employer and member contributions are allocated to that employer's or that member's section and a specified proportion of the scheme's assets is exclusively attributable to each section

Acknowledgements

We have several people to thank from within the Pensions Regulator. Warren Staley has been responsible for liaison between the project sponsors and RS Consulting and has provided clear and helpful guidance throughout an eight-month project period. The contributions of many others in the organisation have been helpful. We would like to express particular thanks for their useful input to John Ashcroft, Jane Lyons, Rachel Stevens, Rebecca Swarbrick and Justin Wray, and to Jon Thorne who is on secondment with the Pensions Regulator from the Charity Commission.

An external advisory group has provided input on the design of the questionnaire and provided helpful commentary while attending a presentation of the survey findings. We would like to thank all the members of the advisory group, and in particular Allan Course of Watson Wyatt and Rachel Brougham of Mercer Human Resource Consulting who kindly reviewed this report ahead of publication. Other members of the group are Peter Askins, Department for Work and Pensions; Chris Daffin, Office for National Statistics; Arthur Fleiss, Department for Work and Pensions; Martin Lunn, Government Actuary's Department; Ken MacIntyre, National Association of Pension Funds; Stephen Pegg, Pensions Management Institute; John Reeve, Raising Standards of Pensions Administration Group; Elizabeth Renshaw and the governance consulting team, Mercer Human Resource Consulting, and Joanna Rose, Association of British Insurers.

From RS Consulting Sarah Horack contributed to research design and Mark Samuel to project management. Hannah Vokes was the main executive working with us, and in particular took responsibility for liaison with our fieldwork partner, Critical Research. Critical Research conducted the telephone interviews with great efficiency and effectiveness. We thank James Hopkins for excellent field direction and, together with Nigel Marriott and Derek Farr, for programming and the production of data sets. We also thank Critical's extremely able team of interviewers.

Any remaining deficiencies are the responsibility of the report authors.

Finally, we are pleased to be able to thank all the trustees and other respondents who gave their time to participate in this survey.

RS Consulting report authors

The RS Consulting Group has carried out numerous pieces of pensions research for government and the industry, including an assessment of the impact of the Myners Principles, and other assignments for the Pensions Commission, DWP, HM Treasury and DEFRA among others.

John Leston, one of the founder directors, in 1984, of RS Consulting, is an expert in the design of large-scale consumer and business-to-business research programmes that include forecasting and modelling outputs. John has a First in PPE from Oxford and undertook postgraduate research in social science at Nuffield College. During an eight-year tenure as a County Councillor in Berkshire, he served on the Social Services Committee.

John heads RS Consulting's Pensions division.

Email: JLeston@rsconsulting.com

Tel: 020 7627 7759

Dr Margaret Watmough, Associate Director, has recently co-authored reports for the Department for Work and Pensions and the Pensions Regulator. In addition to wide experience of business research and with considerable expertise in consultancy-based qualitative and case study research, Margaret also maintains a strong interest in academia by way of research and teaching at The British Museum. She is a Junior Research Fellow of the Institute of Classical Studies.

Margaret manages RS Consulting's Corporate Finance & Public Policy division.

Email: MWatmough@rsconsulting.com

Tel: 020 7627 7728

Occupational pension scheme governance

A report on the 2006 scheme governance survey

We can produce this report in Braille, in large print or on audiotope. We can also produce it in other languages.

On 6 April 2005 the Pensions Regulator replaced Opra as the UK regulator of work-based pensions.

How to get in touch with us

The Pensions Regulator

Napier House

Trafalgar Place

Brighton

BN1 4DW

www.thepensionsregulator.gov.uk

Customer support

Phone: 0870 6063636

9am to 5pm, Monday to Friday

Textphone: 0870 2433123

Fax: 0870 2411144

Email: customersupport@thepensionsregulator.gov.uk