

# Occupational pension scheme governance

A report on the 2011 (fifth)  
Scheme governance survey

May 2011



The Pensions  
Regulator

## Contents

1	Executive summary	1
2	About the survey	4
	2.1 Introduction	4
	2.2 Survey methodology	4
3	Trustee board performance	7
	3.1 Headline performance measures	7
	3.2 Areas where more could be done	9
4	Trustee development	12
	4.1 Learning and training among trustees	12
	4.2 Trustee toolkit	14
	4.3 Other measures of knowledge and understanding	17
5	Governance activities	20
	5.1 Frequency of board meetings and presence of subcommittees	20
	5.2 Record-keeping	21
	5.3 Scheme administration, including monitoring of service standards	23
	5.4 Use of external advisers	27
	5.5 Decision-making and conflicts of interest	29
	5.5.1 Risk transfer to members	31
	5.6 Risk management and internal controls	31
	5.6.1 DB schemes – specific employer controls	35
	5.7 Communications	36
	5.8 Fund choice	41
	5.9 The retirement process and open market option (OMO)	44
	5.10 Defined contribution scheme charges	46

## 1 Executive summary

This is the fifth report of The Pensions Regulator's ('the regulator') Scheme governance survey, conducted among trust-based occupational schemes.

The previous, fourth report was published in 2009<sup>1</sup>. This report represents the findings of the combined 2 waves of research that took place in March/April 2010 and February/March 2011.

Key findings of the survey, bringing together themes evident in the results, are as follows:

### 1. The overall picture from the survey is similar to that from the 2009 survey

Results for the headline indicators across the 11 areas of governance (where trends are available) have remained stable year-on-year. The only notable movement is a slight fall in the proportion of schemes who say they 'regularly review its investment strategy'.

Many other key measures in the survey have also remained relatively unchanged, including the areas of risk management/internal controls and learning/training for trustees.

### 2. Schemes believe that their trustee boards are governing effectively overall

Nearly all schemes (96%) think that the trustee board governs their scheme either very or fairly effectively overall. A very small proportion (3%) think their governance is not effective.

The equivalent results, seen in the previous 2009 report, were almost identical, 95% and 3% respectively; although the proportion of very effective responses was lower in 2009.

### 3. Small and defined contribution (DC) schemes are somewhat less confident about their governance

Half of small<sup>2</sup> schemes (49%) regard their overall governance as very effective, compared to 61% among medium and 74% for large schemes.

Approximately two-thirds (65%) of defined benefit (DB) schemes think their overall governance is very effective, compared to 40% among DC schemes (and 35% for small DC schemes).

<sup>1</sup> [www.thepensionsregulator.gov.uk/docs/governance-survey-report-2009.pdf](http://www.thepensionsregulator.gov.uk/docs/governance-survey-report-2009.pdf)

<sup>2</sup> Definitions of 'small', 'medium' and 'large' schemes are, respectively, 12-99 members; 100-999 members; 1,000+ members. These definitions remain consistent throughout this report.

#### **4. Small, and particularly small DC schemes, demonstrate weaker governance behaviours**

In areas of both trustee knowledge and training, and governance behaviours, medium-sized and particularly large schemes generally perform better than small schemes.

An important example that illustrates this is that 84% of large schemes say the trustees had documented or formally assessed the learning needs of some/all trustees over the previous 12 months. This compares to 65% among medium-sized schemes, and 34% for small schemes. Indeed, this figure of 34% of small schemes having undertaken this in the past 12 months remains very similar to the 30% level observed in 2008.

#### **5. The pattern of weaker performance among small schemes is a general longer term trend seen over several years of this survey**

Over the course of the 5 successive scheme governance surveys, small schemes and, in particular, small DC schemes have continued to stand out less positively on all measures of good governance. A greater proportion of these schemes are less likely to engage in training activities and be aware of the guidance issued by the regulator, which highlight the difficulties that the regulator faces in raising standards of governance across the board.

#### **6. The Trustee toolkit is an important learning tool for trustees**

Usage of the Trustee toolkit gradually continues to grow. The vast majority of schemes (91%) are now aware of it, with 74% having made use of it in some form. However, usage is lower among DC schemes (54%) and, in particular, small DC schemes (45%).

The value of the toolkit is clearly illustrated by the fact that 9 in 10 users (92%) said they had indeed found it useful.

#### **7. Awareness of the regulator's record-keeping guidance has risen**

Promoting quality record-keeping has been an important area of recent focus for the regulator. Accordingly, it would seem encouraging that approximately three-quarters (74%) of schemes, including 6 in 10 (59%) small DC schemes, say they are aware of the guidance 'recently-released on the regulator's website' (namely the June 2010 guidance).

This compares favourably with a figure of 48% seen in the 2009 survey report (when schemes were asked whether they had seen the guidance at that time).

**8. There is a degree of confusion regarding knowledge about, and perceived value for money of, DC scheme charges**

Among schemes with a DC element, under half (46%) rate their trustee board's collective understanding of annual management charges as at least very good. Understanding of other types of DC charging is actually lower than this.

A significant proportion, 1 in 5 (19%) for DC schemes, is unable to judge whether the charges incurred by members will represent value for money. A further 1 in 10 (12%) is not confident about these charges providing value for money to members.

**9. Communications to members remains a key area for potential improvement**

'Ensuring a high standard of member communications' remains, as identified in previous surveys, an area of relative weakness compared to other indicators, with 28% strongly agreeing that the trustee board ensures this, whilst 14% expressed disagreement. This continues to represent a particular area where the regulator would like to focus improvement.

The proportion thinking that the board should do more in terms of ensuring a high standard of member communications is relatively even across small, medium and large schemes.

## 2 About the survey

### 2.1 Introduction

This is the fifth annual Scheme governance survey conducted by The Pensions Regulator ('the regulator') among a representative sample of trust-based occupational pension schemes.

The overarching aims of the survey are to:

- Monitor the governance and administration of this type of scheme
- Provide evidence to inform the regulator's development of strategy and implementation of interventions
- Provide measurement of the regulator against its statutory objectives
- Help identify areas of strength and improvement to our regulated community and the wider industry.

The research agency, Quadrangle, was appointed to conduct the survey this year. Following a review of the study, the questionnaire was developed and amended in some areas, but the great majority of the questions remain unchanged and can be tracked against previous years' findings.

The principal amendments made to the questionnaire have consisted of enhancements to response scales for certain questions, in order to make the response scales more sensitive and elicit a more accurate reflection of respondents' views. Specifically, 7-point scales have replaced 5-point scales in some places (from which respondents had fewer options they could choose when considering their answer).

Where new questions have been added to the survey, or existing questions amended, this is indicated within the main body of this report.

### 2.2 Survey methodology

The previous (fourth) annual report was published in 2009<sup>3</sup>. This fifth report represents the findings of the combined 2 waves of research that have taken place since then. These 2 waves were conducted as follows:

- Wave 1: 250 interviews conducted between 10 March and 1 April 2010
- Wave 2: 336 interviews<sup>4</sup> conducted between 2 February and 9 March 2011.

The data in this report is based on the combined findings across these 2 waves (ie the results for wave 1 and wave 2 are combined into 1 set of findings). For both wave 1 and 2 above, as in previous years, all schemes were sampled at random from the regulator's 'SCORE' database.

<sup>3</sup> [www.thepensionsregulator.gov.uk/docs/governance-survey-report-2009.pdf](http://www.thepensionsregulator.gov.uk/docs/governance-survey-report-2009.pdf)

<sup>4</sup> The increase in sample size in wave 2 represented a change in methodology to facilitate more robust comparative level analysis at the sub-group level, ie between different scheme types.

The exception to this was for larger schemes, where small universe sizes dictated that most schemes needed to be sampled in order to achieve an appropriate number of completed interviews.

All sampled schemes were sent an introductory letter by the regulator, as a means of providing some background information about the survey and to inform them in advance that they might be telephoned and invited to take part.

All interviews were conducted by telephone and lasted on average 25 minutes.

A detailed screening process was undertaken prior to administering the main survey itself, to ensure that the individual interviewed for each scheme was sufficiently knowledgeable to speak about its governance and administration.

Quotas were set during the fieldwork period to ensure that minimum numbers of interviews were achieved by type and size of scheme, and to achieve an appropriate spread overall for analysis purposes.

Figure 2.1 (on page 6) outlines the number of completed interviews for this fifth report (across waves 1 and 2), and how this compares against the achieved for the previous report in 2009. The differences in the sample sizes between the 2 reporting periods, reflect modifications to the sampling approach implemented progressively across the subsequent survey waves to ensure that some measure of comparison with previous waves is retained.

**Figure 2.1**

**Final interviews conducted by size and type of scheme (2010/2011 (combined) compared with 2009):**

		2010/11 (5 <sup>th</sup> Annual report)	2009 (4 <sup>th</sup> Annual Report)
Total number of interviews		586	795
DB Schemes <sup>1</sup>	12-99 members	70	85
	100-999 members	135	171
	1,000-4,999 members	101	150
	5,000+ members	102	151
DC Schemes	12-99 members	67	75
	100-999 members	64	87
	1,000+ members	47	76

<sup>1</sup> All schemes classifying themselves as 'hybrid' are included within the DB numbers above.

For this fifth annual report, as for previous reports, completed interviews have been weighted so that they reflect the profile of all schemes (with 12 or more members) according to the SCORE database.

The profile of the unweighted sample (ie raw numbers of interviews) versus the profile following this weighting process is illustrated in the Figure 2.2 below).

**Figure 2.2**

**Achieved sample profile compared to weighted sample profile:**

		Unweighted sample profile %	Weighted sample profile %
All schemes		100	100
DB Schemes	12-99 members	12	22
	100-999 members	23	34
	1,000-4,999 members	17	10
	5,000+ members	17	3
DC Schemes	12-99 members	11	21
	100-999 members	11	6
	1,000+ members	8	2

Any differences reported between sub-groups of the overall sample, or between annual survey findings, are statistically significant at the 95% confidence level, unless otherwise specified.

### 3 Trustee board performance

#### 3.1 Headline performance measures

Trustee board performance is generally stable overall when compared against 2009.

In common with previous years of the survey, in this report respondents were asked to summarise the performance of their trustee board on a range of governance measures. Additionally, as for the 2009 survey, respondents were asked to rate the overall effectiveness of their trustee board's governance.

Figure 3.1 below summarises ratings of how well respondents feel their board of trustees governs the scheme overall.

**Figure 3.1**

**Overall, how effectively do you think the trustee board governs the scheme?**

	ALL SCHEMES	SMALL schemes (12-99 members)	MEDIUM schemes (100-999 members)	LARGE schemes (1000+ members)
Very effectively	58%	49%	61%	74%
Fairly effectively	38%	46%	36%	25%
Not very effectively	3%	6%	1%	-
Not at all effectively	-	-	-	-
Don't know	1%	-	2%	1%

Base: All schemes 2011 (n=586) Small schemes (n=253)  
Medium schemes (n=233)  
Large schemes (n=101)

As Figure 3.1 illustrates, perceived levels of overall effectiveness in governance are high. Indeed, a very small proportion of schemes (3%) regard their performance as not effective.

Around 6 in 10 overall (58%) regard their governance as 'very effective', and this varies quite considerably by scheme size (from 74% for large schemes, down to 49% for small schemes).

When compared against the 2009 survey, the overall effectiveness measure among all schemes has remained relatively consistent (57%).

While the above measure is available for 2009 and 2011 only, the level of perceived performance of the trustee board on a number of specific governance measures has been measured since the survey's inception in 2006. These findings are highlighted in Figure 3.2 (on page 8).

In addition, Figure 3.2 also includes 5 new measures, which have been included in the survey for the first time in 2011.

**Figure 3.2**

**The proportion 'strongly agreeing' that the board of trustees:  
(significant differences to/from previous year indicated by shaded cell)**

Governance area	Year				
	2006	2007	2008	2009	2011
Is able to conduct effective negotiations with the employer in relation to scheme funding requirements <sup>1</sup>	70	65	57	70	71
Works together as an effective unit	74	71	72	72	69
Monitors effectively the employer's covenant <sup>2</sup>	N/A	N/A	50 <sup>4</sup>	66	62
Manages the scheme's administration to ensure an acceptable level of service	67	65	57	61	60
Has appropriate processes in place to manage conflicts of interest	35	44	45	60	59
Actively monitors and manages service providers and professional advisors	55	52 <sup>3</sup>	40	53	48
Has effective internal controls to manage risk	45	51	47	51	49
Reviews scheme rules at regular intervals and updates these requirements	55	56	49	46	45
Regularly reviews its investment strategy	62	63	68	56	47
Has identified potential financial or governance risks to the scheme	47	46	44	47	45
Ensures a high standard of member communications	36	33	33	28	28
Regularly reviews the scheme's investment performance	N/A	N/A	N/A	N/A	62 <sup>5</sup>
Believe that risk management contributes to raising standards of scheme governance	N/A	N/A	N/A	N/A	44 <sup>6</sup>
Knows how changes in employer circumstances can impact scheme funding requirements	N/A	N/A	N/A	N/A	75 <sup>5</sup>
Understands the risks to DC schemes	N/A	N/A	N/A	N/A	48 <sup>5</sup>
Effectively manages the scheme's retirement processes	N/A	N/A	N/A	N/A	59 <sup>5</sup>

Base: All schemes 2011 (n=586), 2009 (n=795), 2008 (n=500), 2007 (n=500), 2006 (n=500)

- 1 All schemes with a DB element 2011 (n=414), 2009 (606) – 2009 base differs from past surveys where this question was asked of pure DB schemes only
- 2 All schemes with a DB element 2011 (n=414), 2009 (n=606), 2008 (n=370)
- 3 Slight wording change from 2006
- 4 New question in 2008
- 5 New question in 2010
- 6 New question in wave 2 2011

Overall, the latest results are relatively consistent when compared against 2009 figures.

Furthermore, when also taking into account the pattern of pre-2009 data, it is clear that the only notable movement in 2011 is in the slightly lower proportion strongly agreeing that the board 'regularly reviews its investment strategy' (47%).

It remains the case that, in terms of those measures that can be tracked over time, the board of trustees rated highest on:

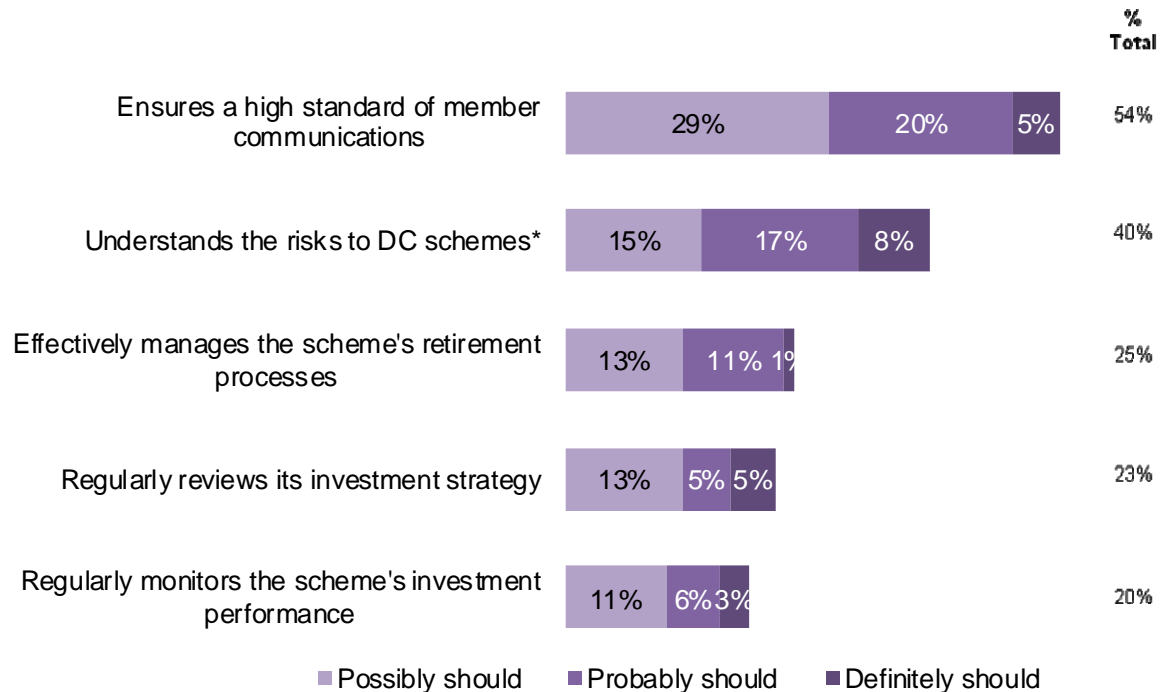
- Being able to conduct effective negotiations with the employer in relation to scheme funding requirements for DB schemes (71%)
- Working together as an effective unit (69%).

Whereas 'ensuring a high standard of member communication' continues to constitute an area where the board of trustees are rated lowest. A finding that was consistent among both DB and DC schemes. However, large schemes (41%) tended to rate their board of trustees more positively on this measure, as compared to both small (27%) and medium (24%) sized schemes.

### **3.2 Areas where more could be done**

The new type of questioning introduced in this area illustrates where it is felt trustee boards can make more progress in areas of knowledge/performance.

A new question was introduced on the survey in 2011, to gauge whether respondents feel that their board should do more than it currently does in selected areas. Figure 3.3 (on page 10) summarises the findings to this new question.

**Figure 3.3****Proportion of schemes that feel the board should do more than it currently does:**

New question asked in Wave 2 2011 – NB question not asked of the total sample.

Base: All schemes 2011 (n=229)

\* All schemes with a DC element (n=104)

As illustrated, a significant proportion think their board either 'definitely', or 'probably', should do more than currently in terms of:

- Understanding the risks to DC schemes (25%)<sup>5</sup>
- Ensuring a high standard of member communications (25%).

The proportion thinking that the board should do more in terms of 'ensuring a high standard of member communications' is relatively consistent across all schemes, irrespective of their size.

In terms of effectively managing the scheme's retirement process, small schemes are most likely to think the board should be doing more than it currently does: 32% think it should ('definitely'/'probably'/'possibly') do more, as compared to 18% of medium-sized and 22% of large schemes.

<sup>5</sup> DC schemes only.

A similar pattern is observed for 'regularly monitors the scheme's investment performance'. In this instance, 26% of small schemes think their board should do more than it currently does, a figure that drops to 18% for medium-sized scheme and 6% for large schemes.

Around 1 in 4 small schemes (28%) think the board should do more in terms of regularly-reviewing its investment strategy. A similar proportion, 24%, is seen for medium-sized, with a figure of 8% among large schemes.

## 4 Trustee development

This section of the report focuses on levels of knowledge and understanding among trustee boards, and activities undertaken by them to develop this.

This represents a key area from the regulator's perspective. Previous governance survey reports have highlighted the importance of good knowledge and understanding among trustees in promoting good scheme governance.

The regulator's Trustee Knowledge and Understanding (TKU) framework exists to assist trustees with their responsibilities in terms of:

- Knowledge and understanding of the law relating to pensions and trusts
- The principles relating to the funding of occupational schemes and the investment of scheme assets
- Being conversant with their own scheme's policy documents.

Importantly, to ensure that all schemes, regardless of size, have access to educational material, the regulator has made available guidance and resources, not least the Trustee toolkit and an e-learning programme.

The following findings provide an overview of the degree to which knowledge, understanding and learning is evidenced among trustee boards.

### 4.1 Learning and training among trustees

Levels are generally consistent since last measured in the 2009 survey.

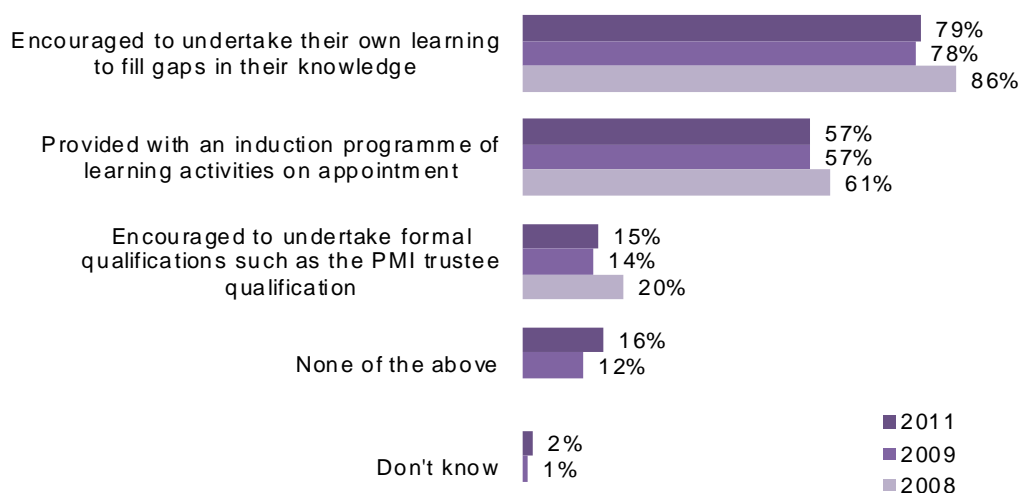
A key responsibility of trustee boards is to ensure that all trustees possess the requisite level of knowledge and understanding to undertake their role.

Over half (55%) of all schemes reported that the trustees have documented or formally-assessed the learning needs of some, or all, of the scheme's trustees over the previous 12 months. This proportion is consistent to that observed in 2009 (58%).

There is a close correlation between size of scheme and the propensity of trustees to manage learning needs in this manner – 34% of small schemes had reported doing so, compared to 65% medium-sized schemes, and 84% of large schemes.

Furthermore, 39% of schemes reported having a training plan in place for trustees, ranging from 18% among small schemes to 66% among large schemes.

Whilst a significant proportion of schemes do not formally document learning needs or possess training plans, Figure 4.1 (on page 13) illustrates that 8 in 10 (79%) of all schemes do encourage trustees to undertake their own learning to fill knowledge gaps. This proportion ranges from 63% among small schemes to 96% among large schemes.

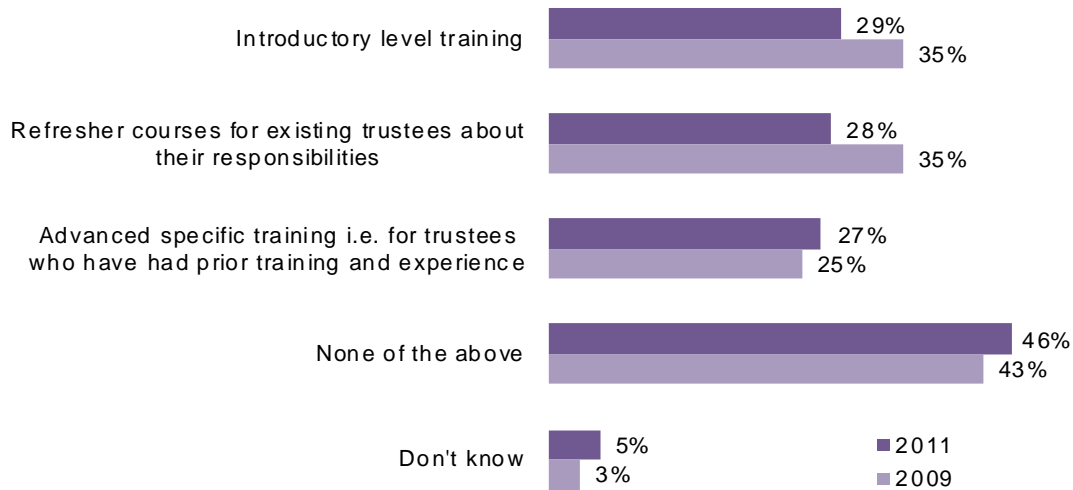
**Figure 4.1****Thinking about learning activities offered to trustees:**

Base: All schemes 2011 (n=586), 2009 (n=795), 2008 (n=500)

As highlighted above, around 6 in 10 (57%) schemes reported that trustees are provided with an induction programme of learning activities on appointment. Again, there is a large difference by scheme size ranging from 35% among small schemes, through to 67% for medium-sized and 91% for large schemes.

Overall, the learning activities reported on in Figure 4.1 above have remained consistent since last measured in 2009.

As Figure 4.2 (on page 14) indicates, the prevalence of formal, structured training undertaken by trustees at an overall level is also broadly comparable with that reported in 2009, with no statistical differences discernable.

**Figure 4.2****Formal, structured training undertaken in the last 12 months:**

Base: All schemes 2011 (n=586), 2009 (n=795)

As indicated in Figure 4.2, for around 3 in 10 schemes, introductory level training (29%) or refresher courses (28%) had been undertaken over the previous 12 months.

Interestingly, a focus on scheme type revealed that two-thirds (64%) of DC schemes reported undertaking none of these training activities during this period, compared to 38% of DB schemes. There was also variation to scheme size in this context with 69% of small schemes reporting that they had not undertaken 'none of the above', as compared to 15% of large schemes.

#### 4.2 Trustee toolkit

An overall positive trend continues, although there is a notable difference in use between DB and DC schemes.

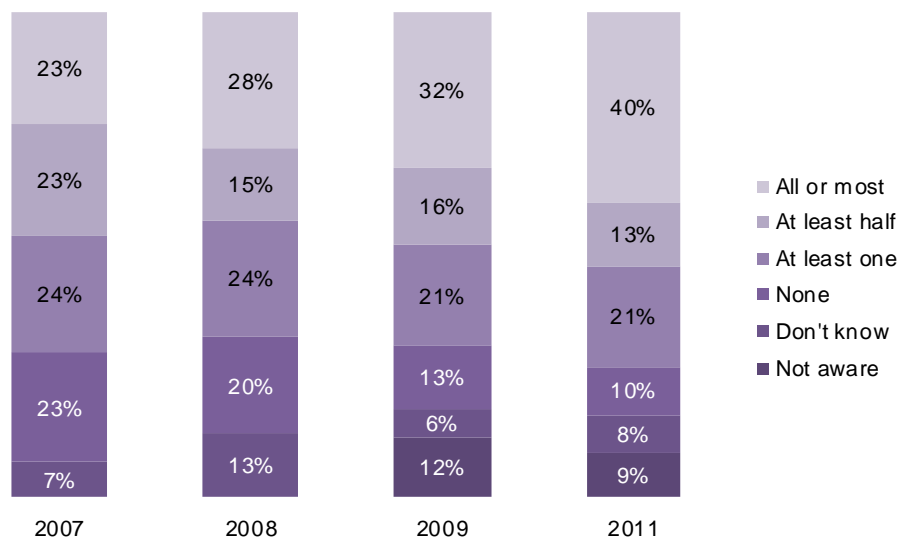
The Trustee toolkit is made available by the regulator as an important means of helping trustees to understand their role. It also helps trustees to identify any gaps in their knowledge and understanding, and how they can be remedied.

Awareness of the Trustee toolkit has increased from 88% in 2009 to 91% in 2011, although this finding is not statistically significant. Such awareness is near universal among medium and large schemes (98% and 99% respectively), but is significantly lower among small schemes (82%) and, in particular, small DC schemes (74%).

The previous report in 2009 highlighted the general trend in increased usage of the Trustee toolkit that had taken place over time. This trend has continued, as seen in Figure 4.3 below – 4 in 10 schemes (40%) say that all or most members of the trustee board have ever made use of the toolkit, compared with 23% reported on in 2007. Three-quarters (74%) say that any trustees have done so.

**Figure 4.3**

**Proportion of trustee board members who have ever made use of the Trustee toolkit:**

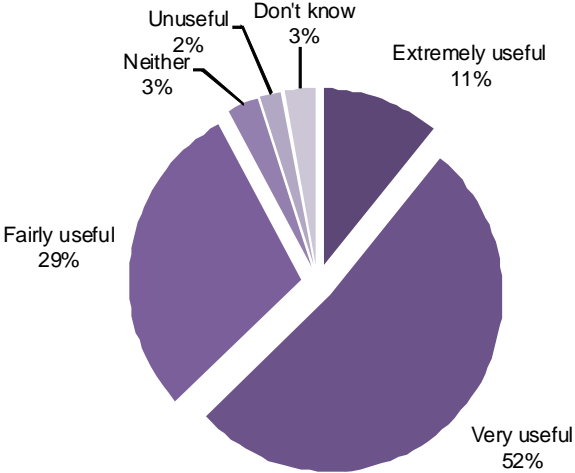


Base: All schemes 2011 (n=586), 2009 (n=795), 2008 (n=500), 2007 (n=500). "Not aware" code relates to 2009/11 only

However, usage of the toolkit was discovered to vary in relation to scheme type. DB schemes (82%) were significantly more likely to report that 'some members of the trustees board' have ever made use of it, as compared to 54% of DC schemes.

The 2011 survey introduced a new question requesting users of the toolkit to assess their experiences of using it. Whilst the majority (92%) proceeded to provide a positive assessment, just under two-thirds (63%) reported to have found it either 'extremely' or 'very' useful. Such a positive level of assessment was discovered to be consistent across both DB and DC schemes, and similarly did not vary in relation to scheme size.

**Figure 4.4**  
**How useful the trustees found the Trustee toolkit:**



New question asked in Wave 2 2011.  
Base: Schemes who have made use of the toolkit (n=261)

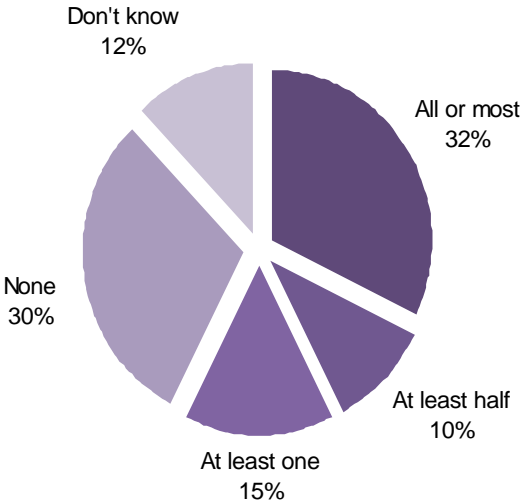
Irrespective of scheme type or size, there was no variation with regards to how schemes assessed the toolkit's usefulness.

**4.3 Other measures of knowledge and understanding**

Usage of the regulator’s codes of practice has risen slightly overall, but knowledge gaps exists around provisions of scheme rules/procedures/policies and regarding clearance.

As highlighted before, 74% of schemes have made use of the Trustee toolkit. When asked whether they have ever used other externally-sourced training tools aside from the Trustee toolkit, around 6 in 10 schemes (57%) reported that they have done so.

**Figure 4.5**  
**Number of trustee board members using externally sourced training tools other than the Trustee toolkit:**



Base: All schemes (n=586)

This usage of other external tools ranges from 75% among large DB schemes to 34% for small DC schemes.

Schemes who reported to be users of the Trustee toolkit were also more likely to report use of externally-sourced training tools. Among schemes where all or most of trustee boards have made use of the toolkit, only 1 in 5 (19%) report that ‘none (of the members) have used externally-sourced training tools’. However, for schemes where no members of the board of trustees have used the toolkit, 68% proceed to state that ‘none have used externally-sourced training tools’ either.

Another important indicator in this area is whether trustee boards have a formal, documented policy on Trustee Knowledge and Understanding (TKU). However, just over one-third of 36% of all schemes reported the presence of such a policy, an almost identical figure to that reported in 2009 (35%), but still lower than that recorded in 2008 (41%).

The link between having a formal policy on TKU and the positive behaviour exhibited by the trustee board is illustrated by the fact that among those with a formal TKU policy, 76% reported that they have documented/formally assessed trustee learning needs over the last year. This compares to 43% among schemes without such a policy.

A further key indicator is whether trustee boards have made use of the codes of practice and guidance issued by the regulator, to assist them in undertaking their duties. Just over three-quarters (77%) claimed to have made use of such resources, an improvement on the 70% reported in 2009.

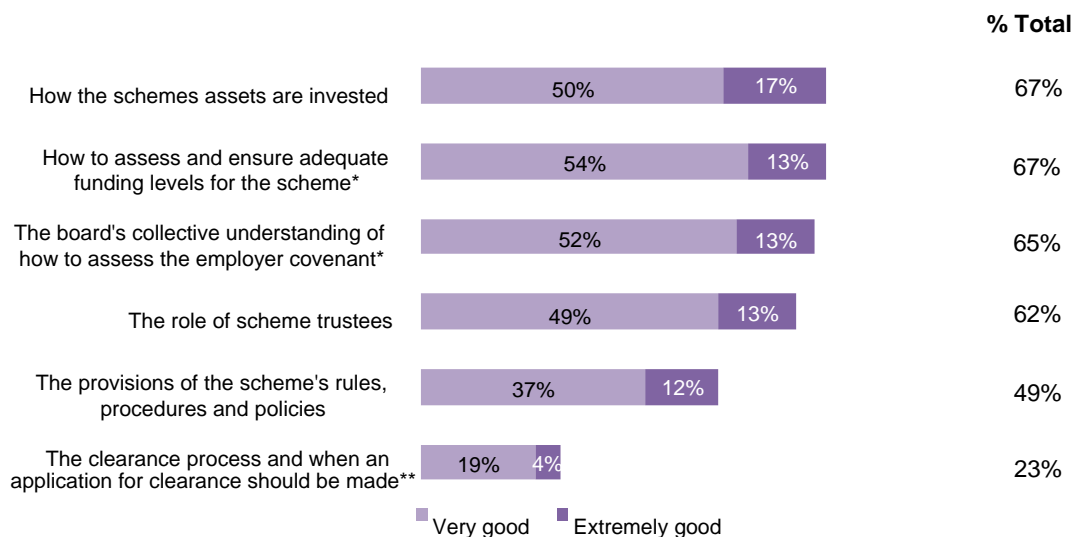
However, there was wide variance evidenced here in scores by both the size and type of scheme – ranging from 94% among large DB and DC schemes to 58% among small DC schemes.

Notably, only 50% of DC schemes said they had made use of these codes when last measured in 2009 – a figure which has now increased to 64%.

Finally in this section, the chart below (Figure 4.6) summarises how respondents view their trustee board's collective understanding on a range of important knowledge indicators. However, trend data is unavailable for this particular series of measures due to amendments to question design in 2011.

**Figure 4.6**

**Proportion of schemes who describe the board's collective understanding as 'extremely' or 'very good' in the following areas:**



Scale changed in Wave 2 2011.

Base: All schemes (n=336)

\*Schemes with any DB element (n=222)

\*\*DB schemes (211)

In terms of understanding the role of the scheme trustees, while 62% say this is 'extremely'/'very good', the remainder tend to regard it as 'fairly good' (30%) rather than 'poor' (2%). There are some differences by scheme size – with the 'extremely'/'very good' figure ranging from 51% for small schemes, through to 69% for medium and 75% for large schemes.

While direct comparisons with previous waves are not possible, it would appear that the assessment of board of trustees' collective understanding remains lower in the following 2 areas:

- The provisions of the scheme's rules, procedures and policies (49%)
- The clearance process and when an application for clearance should be made (23%).

A focus on the former reveals that whilst 3% of schemes assess the collective understanding of the board of trustees as 'poor', a significant proportion (42%) assesses it as 'fairly good'.

In terms of the clearance process, 36% assess the boards' collective knowledge as 'fairly good', whilst a further 18% indicated that they 'don't know' and 12% actively assessed the board's collective understanding as 'poor'. Notably, large schemes (15%) are almost as likely as small schemes (19%) to rate their understanding in this area as 'poor'.

Updated guidance on clearance procedures was provided by the regulator in June 2009 ([www.thepensionsregulator.gov.uk/guidance/guidance-clearance.aspx](http://www.thepensionsregulator.gov.uk/guidance/guidance-clearance.aspx)).

## 5 Governance activities

This section of the report provides an overview of governance behaviours, and thereby a means of assessing the degree to which aspects of good governance are currently exhibited by schemes.

### 5.1 Frequency of board meetings and presence of subcommittees

These measures have remained very stable since 2009.

The frequency with which the full trustee board has formal meetings has been identified in recent governance survey reports as an important underlying indicator of good governance.

Among those schemes that report that the board meets 'at least quarterly', 70% assess the board of trustees as effective in terms of how they govern the scheme. In contrast, those who meet less frequently 'at least annually', 33% assess the board of trustees as effective.

Overall, frequency of meetings has remained stable since being last measured in 2009. The proportion of schemes where the board meets every 6 months or more often, 76%, is almost identical to a year ago. Looking further back, this measure has remained relatively unchanged since first being included in the survey.

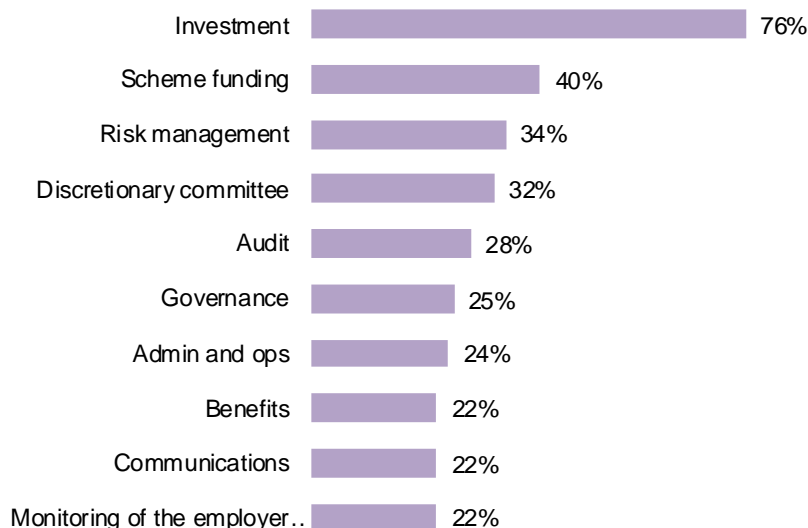
Board meetings occur less often among smaller schemes and happen least often among small DC schemes (36% every 6 months or more often).

In contrast, 9 in 10 large schemes (88%) meet either 'at least quarterly' or 'at least monthly' – perhaps a reflection of the relative complexity of running schemes with 1,000+ members.

The survey also measured the propensity for schemes to use subcommittees as a mechanism to assume responsibility for specific areas of governance. This report reveals that 19% of all schemes say they have set up some form of a subcommittee – a figure which is consistent with previous measures going back to 2007.

Once again, as might be expected given the generally greater complexity of larger schemes and the associated resource required, the presence of a subcommittee is closely related to scheme size ranging from 3% among small schemes (consistent with the 4% seen in 2009), through to 18% of medium-sized schemes, and 64% among large schemes (60% in 2009).

As in 2009, a subcommittee tends most likely to be set up to assume responsibility for investment activities (76%).

**Figure 5.1****Issues/areas where subcommittees have been set up:**

Base: All schemes who have subcommittees (n=206)

Compared to 2009, the proportion of subcommittees set up to take responsibility for administration and operations have fallen slightly (from 35% to 24%).

In contrast, there has been an increase in the number of subcommittees set up to take responsibility for discretionary matters (from 21% to 32%), risk management (23% to 34%) and scheme funding (24% to 40%).

## 5.2 Record-keeping

Awareness of the regulator's guidance in this area has risen.

Record-keeping is viewed by the regulator as an essential feature of good scheme administration. Accordingly, the regulator has issued guidance in this area – most recently in June 2010 ([www.thepensionsregulator.gov.uk/guidance/guidance-record-keeping.aspx](http://www.thepensionsregulator.gov.uk/guidance/guidance-record-keeping.aspx)).

Approximately three-quarters (74%) of all schemes, indicated that they are aware of the guidance regarding record-keeping 'recently released on the regulator's website'.

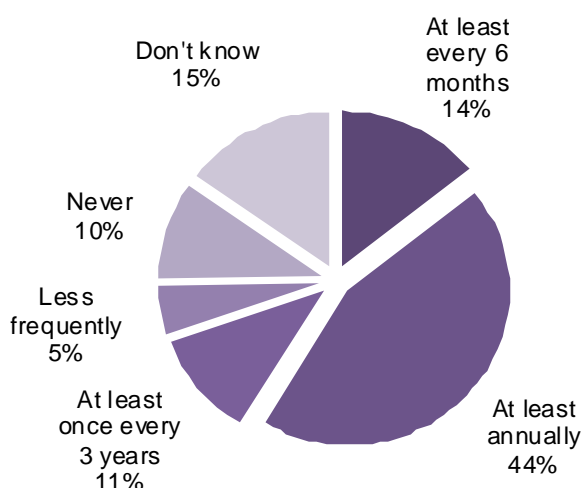
This compares to a figure of 48% reported in 2009 (when schemes were asked whether they had seen similar guidance at that time on the regulator's website).

Awareness was discovered to be lowest among small DC schemes (59%). By contrast, 93% of large DB schemes indicated that they were aware of the guidance regarding record-keeping recently-released on the regulator's website.

Respondents were subsequently asked how often formal reviews of the accuracy of scheme data, on data evaluation and cleansing, are undertaken by the main provider of administration services to the scheme. These results are summarised in Figure 5.2 below.

**Figure 5.2**

**Frequency of scheme data accuracy reviews, in accordance with The Pensions Regulator's guidance**



Base: All schemes (n=586)

Around 6 in 10 schemes (58%) reported that the scheme data accuracy reviews occur 'at least annually', or more frequently. Interestingly, this proportion remains relatively consistent across schemes, both in terms of type (DC versus DB) and size.

There is also little difference in the frequency of data accuracy reviews between schemes who are aware of the recent record-keeping guidance, and those who are not.

Among schemes who say these formal data accuracy reviews take place annually or more often, around half (48%) confirmed that they have an agreed action plan in relation to this. This figure ranges from 39% among small schemes, to 68% among large schemes.

A new question in the area of record-keeping was added to the 2011 survey. This reveals that among those using a firm of third-party administrators (and who are aware of the regulator's recent guidance on record-keeping), two-thirds (66%) report they have a service level agreement (SLA) in place to ensure that the regulator's record-keeping requirements will be met. A further 13% stated that this type of SLA is currently being planned.

### 5.3 Scheme administration, including monitoring of service standards

Findings in this area are generally consistent with 2009.

High-quality administration is absolutely fundamental to good scheme governance.

This latest report reveals that 67% of all schemes use a firm of third party administrators (TPA) as the main provider of admin services. This is consistent with the 65% figure seen in the previous 2009 report. Similarly:

- 16% use a dedicated in-house admin team (compared to 18% in 2009)
- 13% use the scheme insurer (14% in 2009).

8 in 10 schemes (81%) reported that they have documented service standards in relation to the administration of the scheme. This is higher than the 72% of schemes when last measured in 2009.

Among schemes which have documented service standards, 86% say the trustees receive formal reports on standards of administration received 'at least annually'. However, 9% say they 'never' receive such reports – rising to a peak of 20% among small DC schemes. Overall, the findings here are generally consistent with those observed in 2009.

Figure 5.3 below illustrates the specific types of items covered by these formal administration reports.

**Figure 5.3**

**Items covered by formal admin reports:**



Question not asked in Wave 1 2010.

Base: All receiving formal reports (n=274)

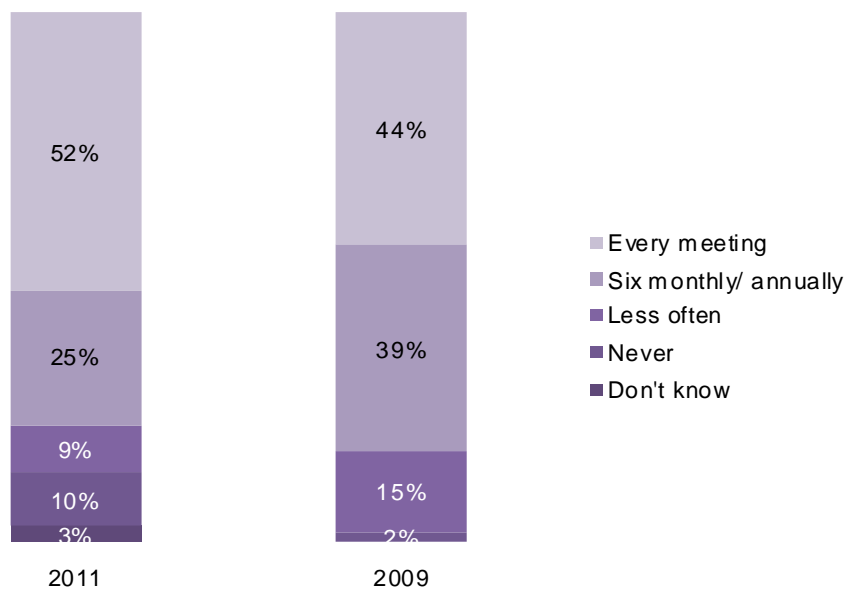
Whilst the content of these reports is generally consistent with that observed in 2009, their coverage does tend to focus more on the following areas:

- Errors and complaints (87%, versus 73% in 2009)
- Failure of service standards (85% versus 72%)
- Breaches of the law (89% versus 71%).

When asked how often a representative from the administrator attends trustee meetings to answer questions arising from the administration report, which of course can help in the discussion and resolution of any issues, 77% stated that this occurs 'at least annually' (85% of DB schemes say this is the case, versus 59% of DC schemes). A finding that is consistent to that observed in 2009 is illustrated in Figure 5.4 on page 25.

**Figure 5.4**

**Frequency with which a representative of the scheme administrator attends trustee meetings to answer questions:**



Question not asked in Wave 1 2010.

NB: as shown above, 3% said “don’t know” in 2011, compared to 0% in 2009.

Base: All those using third party administrators, in-house admin, scheme insurer or other: 2011 (n=331), 2009 (n=781)

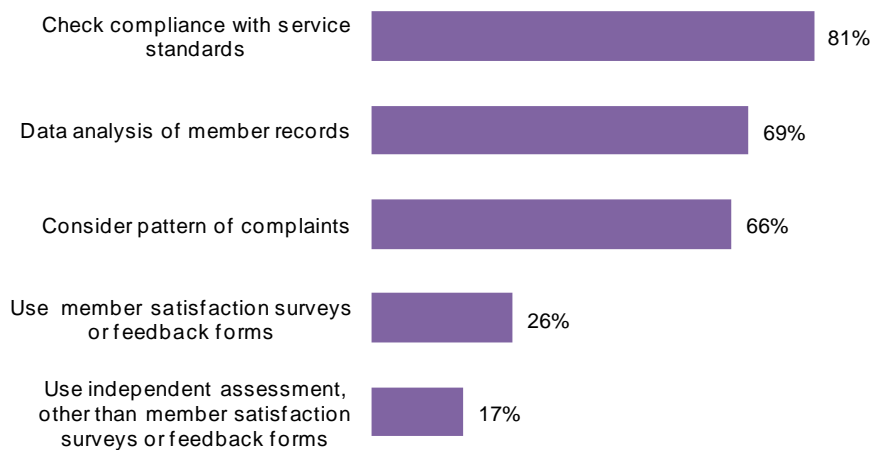
Overall, 10% of schemes reported that a representative of the scheme administrator ‘never’ attends trustee meetings to answer questions. Small schemes (19%) were more likely to report such a failure to attend, as compared to medium (5%) and large (2%) schemes.

Respondents were also asked how often, if at all, the board of trustees assess the quality of service provided by the main provider of administration services for the scheme.

As shown below (Figure 5.5), the most widely used method is checking compliance with service standards (81%) followed by data analysis of member records (69%).

**Figure 5.5**

**Proportion of schemes whose boards ever assess the quality of provider service by the following methods:**



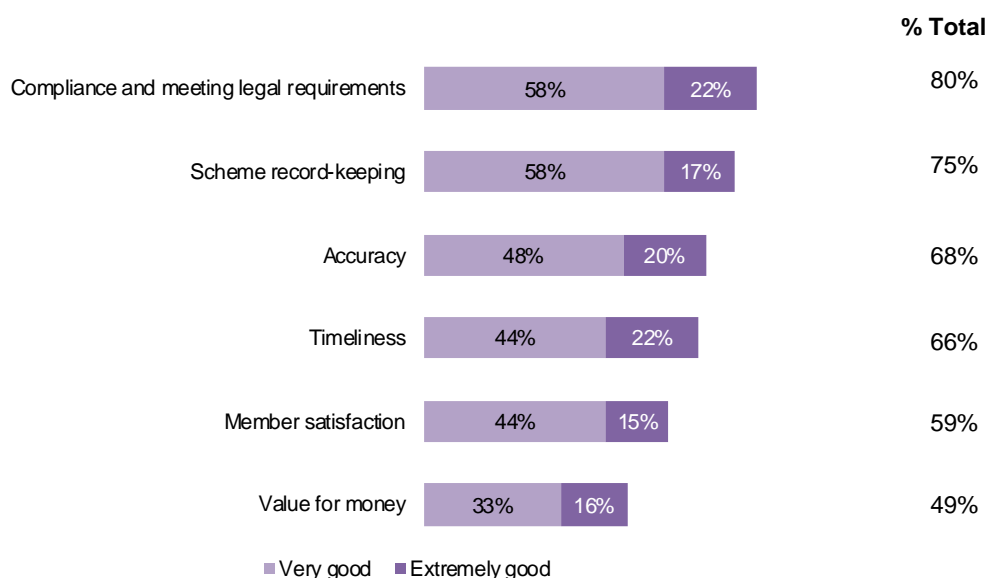
Question not asked in Wave 1 2010.

Base: All those using third party administrators, in-house admin, scheme insurer or other 2011 (n=331)

Schemes were also asked to rate the current standards of administration on a series of performance measures, as summarised in Figure 5.6 below.

**Figure 5.6**

**Rating of current standards of administration in terms of:**



Question not asked in Wave 1 2010.

Base: All those using third party administrators, in-house admin, scheme insurer or other 2011 (n=331)

In order to provide a wider spread of answers (ie a greater distribution in the data), this question was amended in 2011 and as a consequence the results cannot be directly compared with previous years.

However, what can be observed in relation to previous years is that value for money remains the lowest rated measure (49%). Whilst compliance/meeting legal requirements (80%), and scheme record-keeping (75%), remain the highest rated measures.

Finally in this section, as in previous years, the survey asked respondents whether their administrator provides an assurance report in connection with an independent assessment of its internal controls. Whilst, half of schemes (50%) reported that their administrator did indeed provide such an assurance report, this proportion has decreased from that reported in 2008 (58%).

Small DC schemes (74%) were more likely to report their administrator not providing such a report, as compared to 18% of large DC schemes.

#### **5.4 Use of external advisers**

Again, results in this area are generally consistent with 2009, although there are small signs of improvement in ensuring that some types of advisers are suitably qualified.

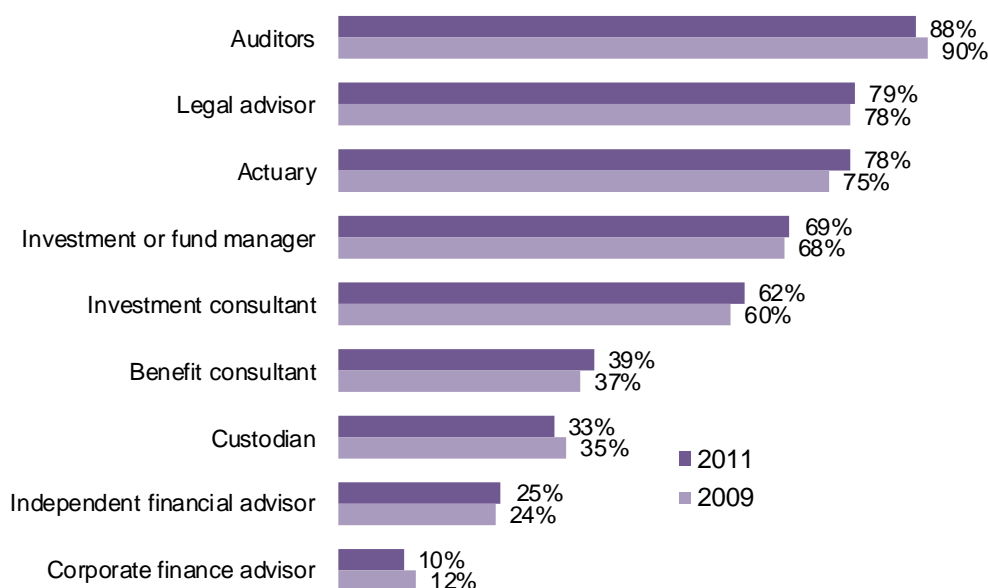
Separately from the area of scheme administration, respondents were also asked whether their board of trustees use external advisers or service providers.

The majority of schemes (91%) reported the use of external advisers, reflecting a decrease in the proportion since last measured in 2009 (97%). Whilst use of external advisers is more common among DB schemes (98%), as compared to DC schemes (81%) and least prevalent among small DC schemes (77%).

The specific types of external advisers used by schemes are illustrated in Figure 5.7 below.

**Figure 5.7**

**Types of external advisers and service providers engaged by the board of trustees:**



Base: All using external providers 2011 (n=557), 2009 (n=759)

Small schemes generally reported a lower level of usage of each type of adviser, when compared against medium and large schemes (although 77% of small schemes do engage auditors). This is perhaps to be expected given the potential costs of engaging these types of advisers, and of course given the greater potential need for them among larger/more complex schemes.

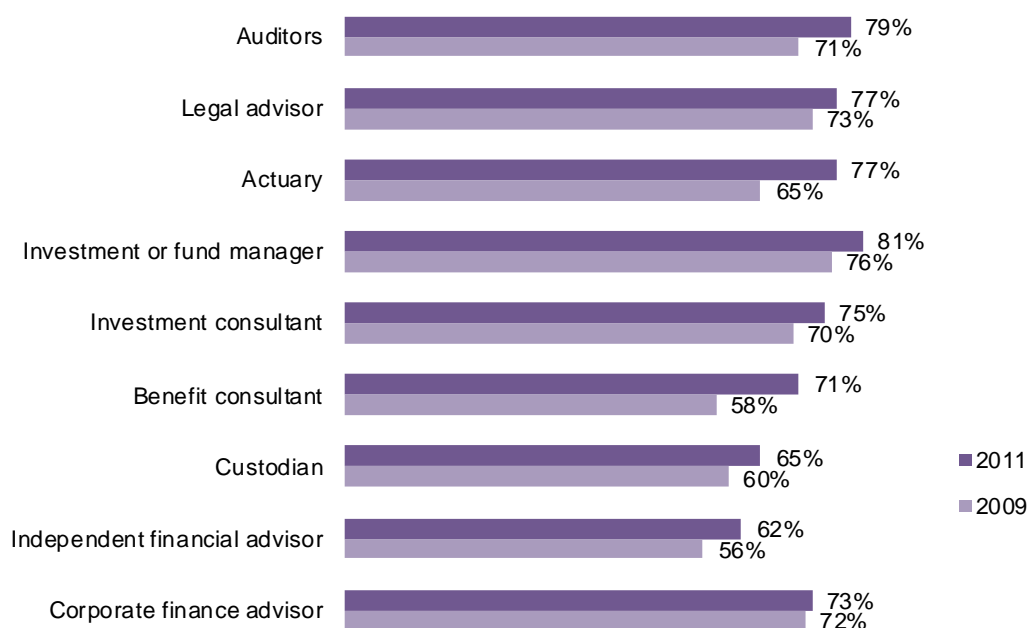
The exception to this pattern is independent financial advisers (IFAs), engaged by 40% of small schemes as compared to 20% of medium and 7% of large schemes.

Trustees are required, upon commission and also on an annual basis, to ensure that external advisers/service providers are suitably qualified to provide this advice/service.

As can be seen in Figure 5.8 (on page 29), in all areas there remain ‘gaps’ in ensuring that types of advisers are suitably qualified – with a formal process most likely to be lacking for both custodians and IFAs.

**Figure 5.8**

**Proportion of schemes who ‘always’, ‘usually’ or ‘in some instances’ have a formal process to ensure the below are appropriately qualified when appointing them:**



Base: All using a specific type of advisor (n=varies per bar ranging from 139 to 428)

Broadly, the existence of formal processes is consistent with levels measured in 2009, although there are signs of improvement in some areas (most noticeably for actuaries (77%) and employee benefits consultants (71%).

**5.5 Decision-making and conflicts of interest**

It remains the case that smaller schemes are less likely to have mechanisms in place for monitoring and managing conflicts of interest.

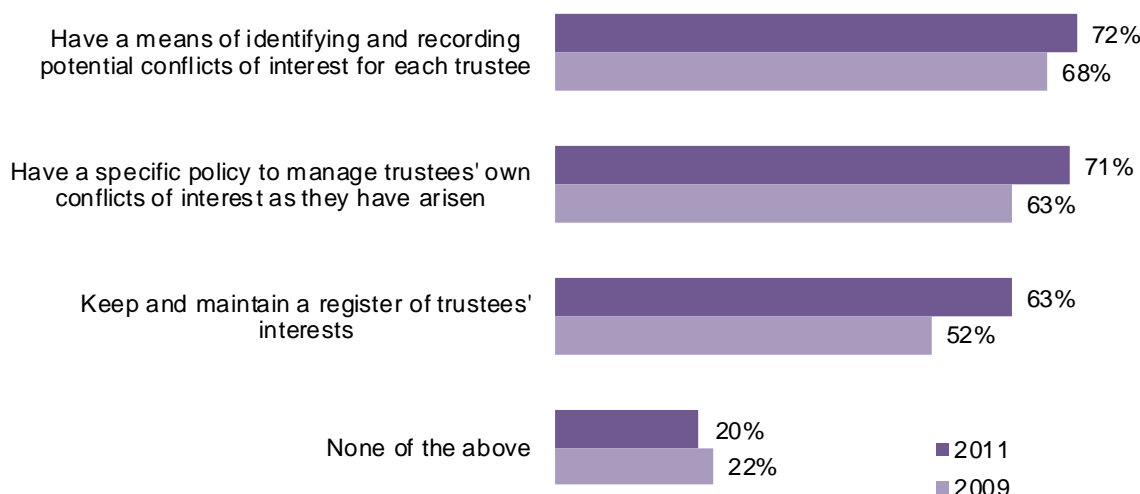
Scheme trustees have a duty to act in the best interests of the scheme’s beneficiaries and this is enforced by the principles of trust law.

Accordingly, schemes are required to have a means of identifying potential conflicts of interest, and policies for managing these should they arise. The regulator has issued guidance for trustees in this area ([www.thepensionsregulator.gov.uk/guidance/guidance-conflicts-of-interest.aspx](http://www.thepensionsregulator.gov.uk/guidance/guidance-conflicts-of-interest.aspx)).

Figure 5.9 below outlines the proportions of schemes with the requisite measures in place to manage potential conflict of interest that may emerge.

**Figure 5.9**

**Does the board of trustees:**



Base: All schemes except frozen and fully insured 2011 (n=572), 2009 (n=772)

As demonstrated in Figure 5.9, there still remains 1 in 5 schemes (20%) which possess none of these measures to manage potential conflicts of interest, although there are have been positive increases on all 3 of these measures.

Small schemes were most likely to report the absence of any of these measures. This is the case among 30% of small DB schemes, and 48% for small DC schemes. The overall figure for small schemes is 38%, virtually unchanged on the 39% recorded in 2009.

1 in 4 schemes (26%) stated that the board of trustees has had an actual or perceived conflict of interest to deal with over the previous 12 months. This is broadly in line with the proportion reported in 2009 (22%).

Large DB schemes were more likely to have experienced such a conflict of interest (51%), with small DC schemes (7%) least likely.

There is an apparent link between schemes possessing a means of identifying/recording potential conflict of interest for trustees, and having actual/perceived conflicts of interest to deal with. Of those who have experienced conflicts of interest in the last year, 95% were schemes that asserted that they have the means to identify/record such conflicts.

### 5.5.1 Risk transfer to members

The regulator is concerned that members of pension schemes may be disadvantaged by incentive exercise and modifications of benefits, particularly if they are not conducted in a manner that makes it most likely that members will make a fully informed choice.

In 2010, the regulator issued new guidance outlining the principles to follow in running exercises, which incentivise members to make changes to their pensions ([www.thepensionsregulator.gov.uk/incentive-exercises.aspx](http://www.thepensionsregulator.gov.uk/incentive-exercises.aspx)).

Over several years, the survey has measured whether the sponsoring employer on DB schemes has offered any incentive or inducement to members, to either transfer out of the scheme or accept reduced benefits.

In this latest report, 5% of respondents reported this was the case (to the best of their knowledge), which remains consistent with levels observed in previous years (8%, 2009; 5%, 2008; 6%, 2007). However, it is important to acknowledge that this particular question does not distinguish between accrued or future benefits.

## 5.6 Risk management and internal controls

Smaller schemes remain much less likely to have formal processes in place for identifying/recording risks.

The presence of good risk management and associated internal controls is identified by the regulator as another area of good governance. This enables schemes to identify and prioritise risks and to have in place controls to mitigate those risks.

This latest report reveals that:

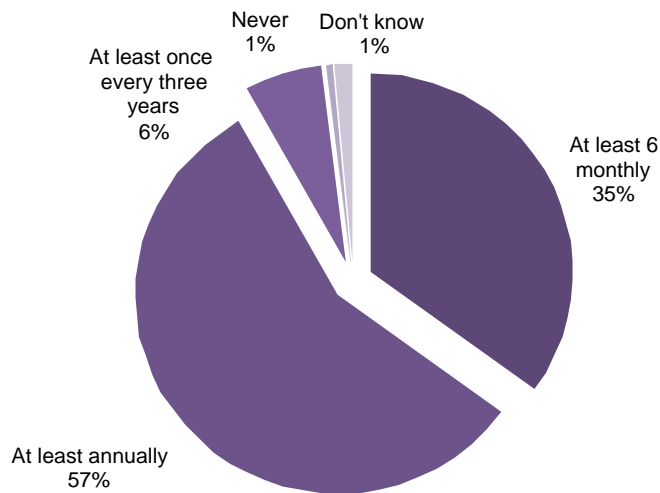
- Two-thirds (67%) of all schemes say that their internal controls have been documented. This is virtually unchanged on the 64% seen in 2009.
- Of those with documented internal controls, 8 in 10 (79%) indicated the presence of a formal process for identifying and recording risks, such as a risk register.

In both instances, and among both DB and DC schemes, there is a clear relationship between size of scheme and the likelihood of having these controls in place. This pattern is consistent with that observed in 2009. Indeed, 98% of large schemes have a formal process in place for identifying/recording risks, compared to 87% of medium-sized schemes, and 56% for small schemes.

Among those schemes that reported that their internal controls have been documented, around 9 in 10 (92%) stated that effectiveness of their scheme's risk management and internal controls systems are reviewed at least annually, as illustrated in Figure 5.10 (on page 32).

**Figure 5.10**

**How often the scheme’s risk management and internal controls systems are reviewed?**



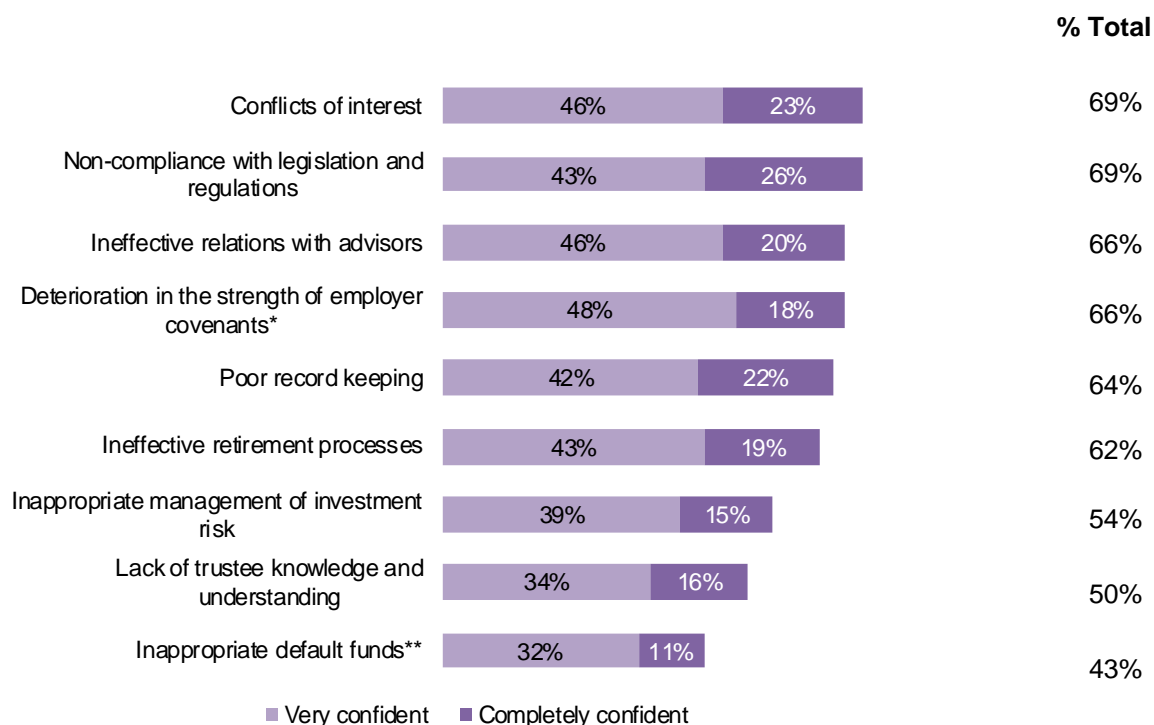
Base: Schemes who have a risk register (n=385)

This frequency with which risk management and internal controls systems are reviewed was discovered to be consistent across all types (DB versus DC) and sizes of scheme (small, medium and large).

This year, the survey once again measured whether trustees or their advisers have put in place appropriate internal controls to monitor/mitigate certain specific risks. These findings are summarised in Figure 5.11 (on page 33).

**Figure 5.11**

**Proportion of schemes ‘completely’ or ‘very confident’ that they have appropriate internal controls in place to monitor and mitigate the risks arising from:**



Scale change in Wave 2 2011.

Base: All schemes (n=336)

\*DB schemes (n=211)

\*\*Schemes with a DC element (n=154)

The precise wording of the question has been changed for 2011 with the aim of capturing a wider spread of responses, and so direct comparisons with previous years are not possible.

What the 2011 change in wording to this question does reveal is that clearly, there remains much to be done by schemes before they can be completely confident about the controls they have in place in these areas.

With the exception of ‘poor record-keeping’, small schemes are generally less confident that they have the appropriate controls to monitor and mitigate risks arising from all of these areas. This is most pronounced in the areas of:

- ‘Lack of trustee of knowledge and understanding’: 34% of small schemes indicated that they were very/completely confident, compared to 60% and 63% for medium and large schemes respectively.
- ‘Inappropriate management of investment risk’: 36% for small schemes; compared to 65% for medium and 72% for large schemes.

- 'Inappropriate default funds': 33% for small schemes, compared to 61% for medium-sized schemes and 54% for large. Notably, 35% of small schemes answer 'don't know' in this context.

A new question added for the 2011 survey asked respondents if their scheme's annual report outlines to members the main features of the scheme's risk management processes and system of internal controls.

Results were exactly split with 44% of schemes stating that their scheme's annual report does do this, while 44% reported it does not. Notably, results were discovered to be consistent across schemes, irrespective of their type or size.

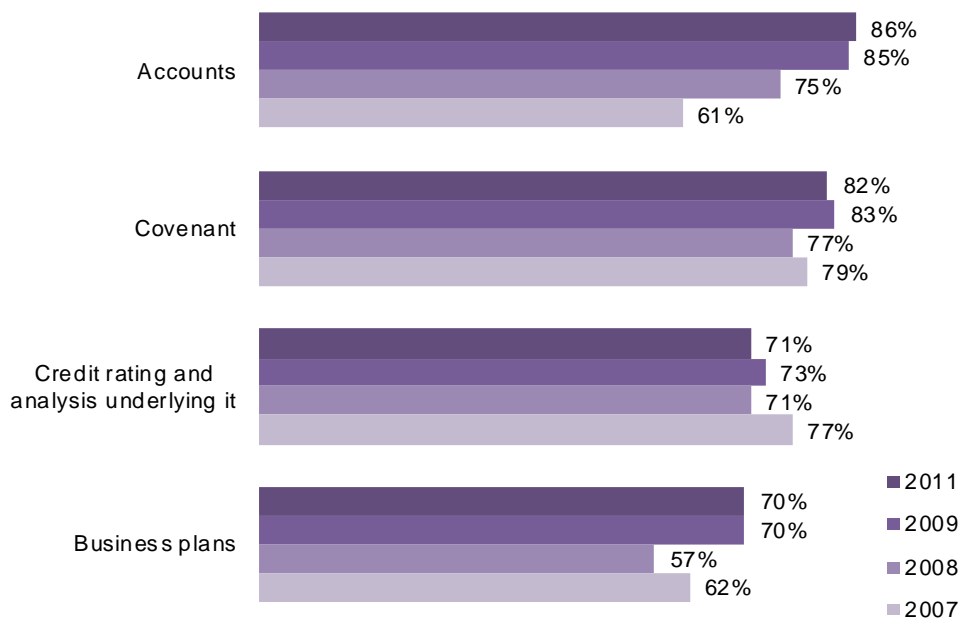
### 5.6.1 DB schemes – specific employer controls

A key role of trustees on DB schemes is to monitor the sponsoring employer’s covenant – the employer’s legal obligations to a DB scheme and their ability to meet them.

Figure 5.12 below highlights that the activities of trustee boards, in terms of reviewing the covenant and the other aspects shown, have all remained consistent since last measured in 2009.

**Figure 5.12**

**During the past 12 months, has the board of trustees reviewed the sponsoring employer’s:**



Base: All schemes with a DB element 2011 (n=408), 2009 (n=606), 2008 (n=370), 2007 (n=299)

However, 8% of schemes reported that they did not undertake any of these activities over the previous 12 months. This number was at its highest (16%) among small DB schemes, an increase in the 9% figure recorded in 2009.

## 5.7 Communications

Overall findings are again generally consistent with 2009, but there is a relatively small proportion of schemes that produce plans to help improve with member communications.

Trustees are required to have procedures in place to ensure that their communications with scheme members meet legal requirements.

Figure 5.13 below summarises the types of methods used by boards of trustees to communicate with members in the previous 12 months.

**Figure 5.13**

**During the last 12 months, has the board communicated with members using any of the following methods?**

	2011	2009
Newsletters, letters or additional information issued with the annual statement	65	71
Summary funding statements sent to all members (DB element only)	81	N/A
Summary of the trustee's annual report automatically sent to members	47	50
Statutory money purchase illustrations (DC element only)	90	N/A
Members provided with access to advice from an external advisor/ IFA	36	43
Member forums or workplace presentations	24	24
Trustee's full annual report automatically sent to members	16	22
Workplace posters or notice boards	16	18
Scheme website or intranet	17	17
None of the above	3	2

Base: All schemes 2011 (n=586), 2009 (n=795)

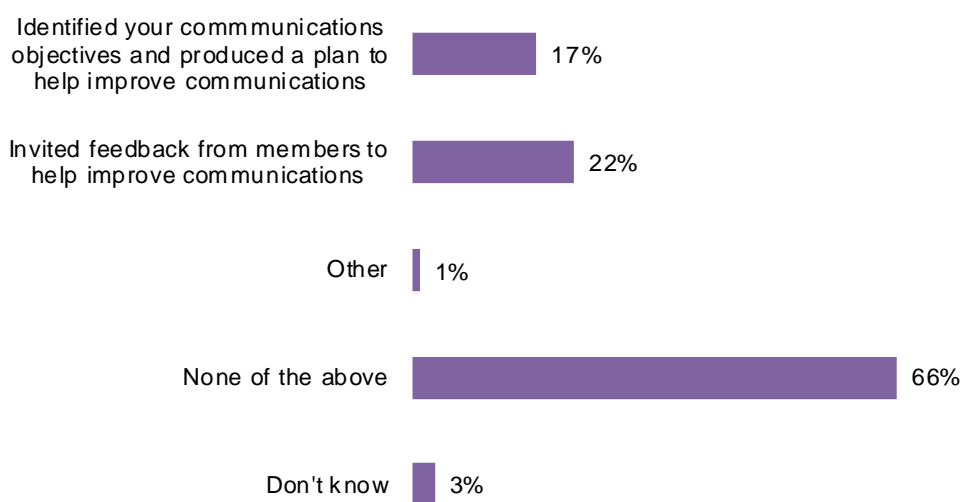
3% of schemes reported that they did not communicate with their members in any of these ways (although this rises to 10% among small DB schemes).

Overall, findings are consistent when compared with 2009.

As highlighted in Figure 5.14 below, schemes were asked whether they had produced a plan to help improve communications with members, or indeed canvassed members themselves for feedback.

**Figure 5.14**

**During the last 12 months, has the board of trustees done any of the following?**



Base: All schemes (n=586)

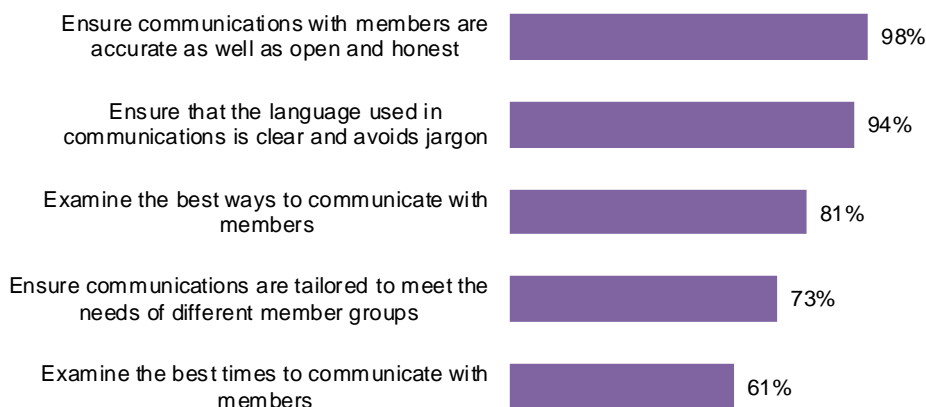
The proportions of schemes which reported that they have undertaken these activities is consistent with 2009 levels.

Production of a plan to help with member communications is noticeably higher among large DB schemes (28%) and particularly large DC schemes (42%).

Figure 5.15 (on page 38) illustrates the types of specific issues covered where this type of communications plan is produced.

**Figure 5.15**

**Did the communications plan cover any of the following issues?**



Base: All schemes creating a formal communications plan (n=101)

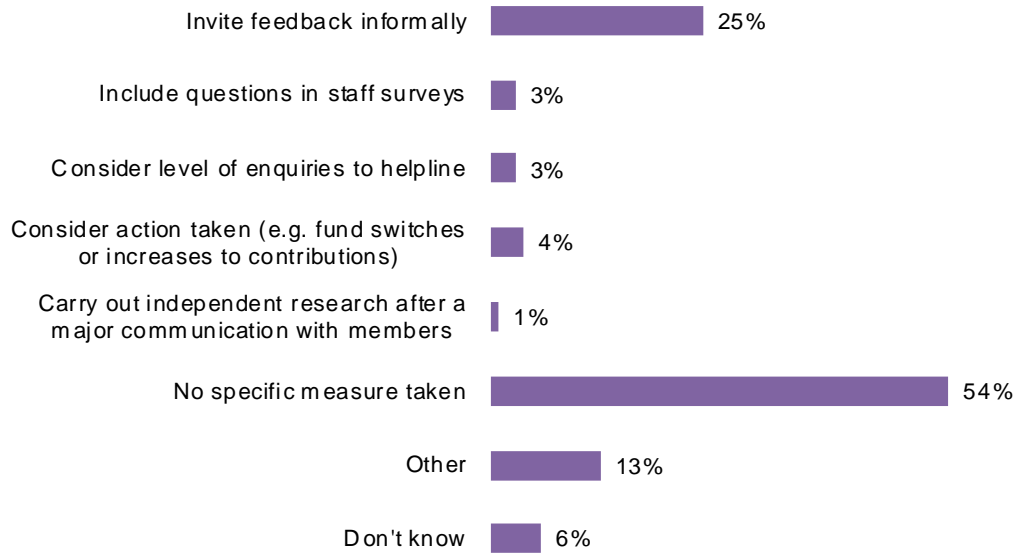
The content of member communication plans is generally consistent compared with when last measured in 2009.

Overall, around half of schemes (54%) report that they have taken no specific measures to assess the effectiveness of their communications methods in the past 12 months (Figure 5.16 on page 39). This proportion is also higher among small schemes (61%) than for medium (50%) or large (41%) schemes. However, it is consistent between all DB (52%) and all DC schemes (56%).

Inviting informal feedback remains by far the most widely-used method for assessing communications effectiveness (25%).

**Figure 5.16**

**How did trustees assess the effectiveness of communication methods used during the last 12 months?**



Base: All schemes (n=586)

Finally in this area, schemes were asked to summarise how effective they felt their trustee board's communications with members had been over the previous 12 months.

Findings from this question are summarised in Figure 5.17 (on page 40).

**Figure 5.17**

**Overall, how effectively would you say the board of trustees has communicated with members over the last 12 months?**

	All schemes %	DB %	DC %	Small (12-99) %	Medium (100-999) %	Large (1000+) %
Extremely effectively	13	14	11	13	13	13
Very effectively	41	43	37	34	46	52
Fairly effectively	30	28	33	31	29	27
Neither effectively nor ineffectively	11	11	10	16	7	6
Fairly ineffectively	2	2	4	3	2	1
Very ineffectively	1	0	2	1	0	0
Extremely ineffectively	1	1	0	1	1	0
Don't know	1	1	1	1	2	1

Base: All schemes 2011 (n=586)  
 DB schemes (n=414)  
 DC schemes (n=172)  
 Small schemes (n=253)  
 Medium schemes (n=233)  
 Large schemes (n=101)

The precise wording of this question has been changed for 2011, and so direct comparisons cannot be made. However, it would appear that the overall picture between 2011 and 2009 remains broadly consistent in that:

- The majority (84%) think the board has communicated with members at least fairly effectively (ie when 'fairly', 'very' and 'extremely' responses are combined).
- The same proportion, 84%, said this in 2009 (based upon a combination of 'very' and 'fairly' responses: there was no 'extremely effectively' answer option available to respondents before 2011).

It is notable that across all of the various categories of schemes shown, very small proportions rate their board's performance as ineffective.

However, small schemes are less likely to rate their performance as either 'extremely' or 'very effective' (47% do so) than large schemes (65%).

### 5.8 Fund choice

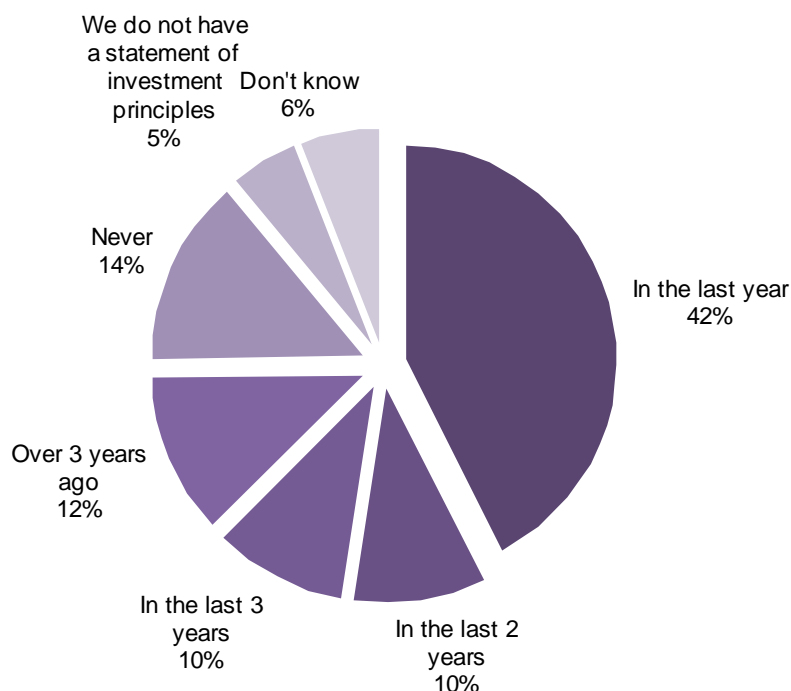
Over half of DC schemes (56%) have more than 1 fund to select from. Where this is the case, 8 in 10 offers a default fund (81%).

Generally, members of DC schemes are offered a choice of investment funds to select from. This adds to the complexity of the overall role of trustees when it comes to administering this type of scheme.

It is mandatory for all DC schemes to review their statement of investment principles regularly, and Figure 5.18 below highlights when this last occurred.

**Figure 5.18**

#### Last review of the scheme's statement of investment principles



Base: DC and sectionalised schemes (n=169)

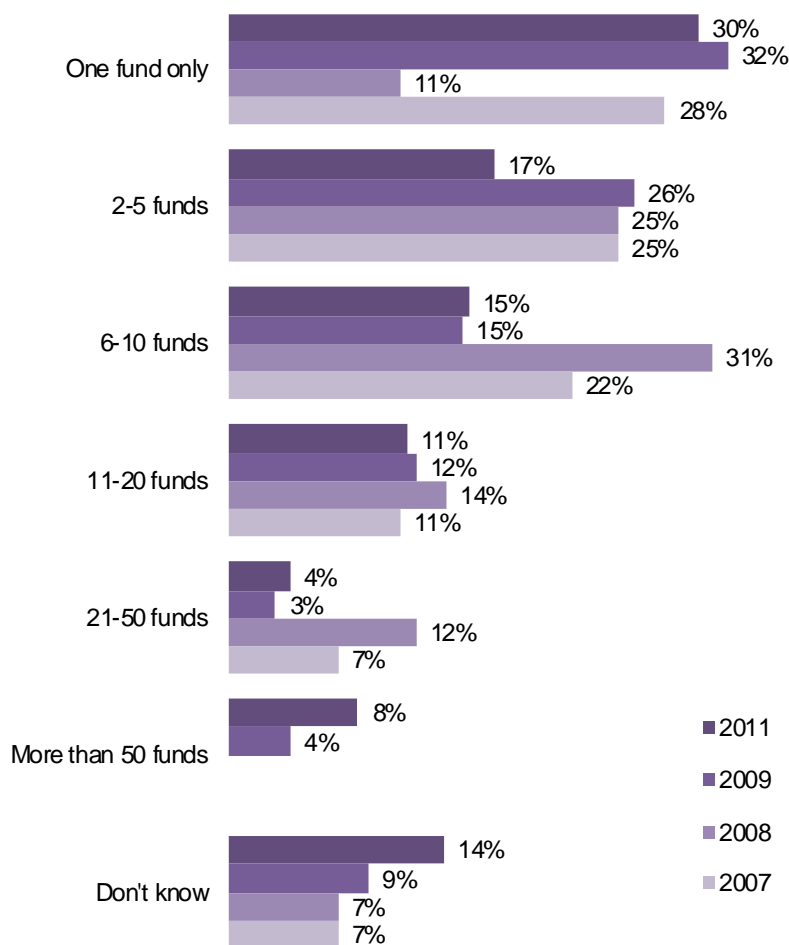
As illustrated, 42% of schemes stated that the last review of the scheme's statement of investment principle occurred 'in the last year'. This is consistent with the 2009 finding of 44%.

Overall, 63% of schemes reported that say they last reviewed the statement of principles in the last 3 years (the equivalent 2009 figure was 60%).

Turning now to the number of funds that scheme members can select from, this is illustrated in Figure 5.19 below.

**Figure 5.19**

**Approximate number of funds members can select from:**



Base: 2011 DC and sectionalised schemes (n=169)  
 2009 DC and sectionalised schemes (n=177)  
 2008 DC and sectionalised schemes (n=240)  
 2007 DC and sectionalised schemes (n=253)

Overall, findings are broadly consistent with those measured in 2009, aside from a lower proportion (17%) stating that members can only select from '2-5 funds', as compared to an historic average of 25%.

In total, 56% of schemes stated that more than 1 fund is available for members to select from a figure that was consistent with the 60% recorded in 2009.

1 in 5 DC schemes (20%) indicated that they offer target date funds (funds which specify a date on which it is assumed members will retire), although quite a high proportion, 13%, indicated uncertainty in this case (ie 'don't know').

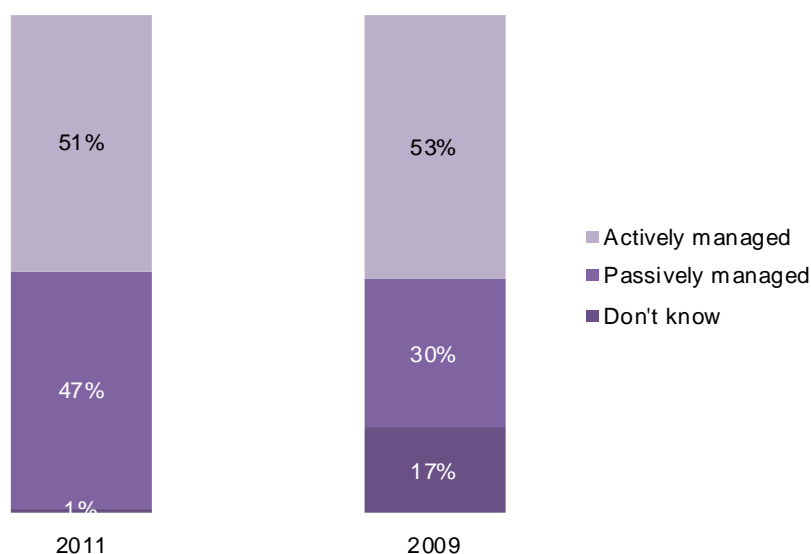
Overall, of those schemes offering more than one fund to choose from, 79% offer a default fund (the equivalent 2009 figure is 84%).

Of schemes which do offer a default fund:

- 80% stated this has been established principally based on the profile and risk appetite of scheme members
- 75% reported the default fund is a lifestyle fund – ie where assets are gradually moved into lower risk investments in the run-up to retirement (63% in 2009)
- 46% stated the default fund is predominantly invested in a mixture of different asset classes, with half saying equities, and 26% bonds or cash
- 51% indicated that their default fund is actively managed.

**Figure 5.20**

**Is your default fund:**



Base: All DC and sectionalised schemes with a default fund 2011 (n=91), 2009 (n=113)

When asked approximately what proportions of members are in the default fund, 11% indicated that they 'don't know'. However, over half (55%) estimated that 80% or more of all members are in the default fund.

### 5.9 The retirement process and open market option (OMO)

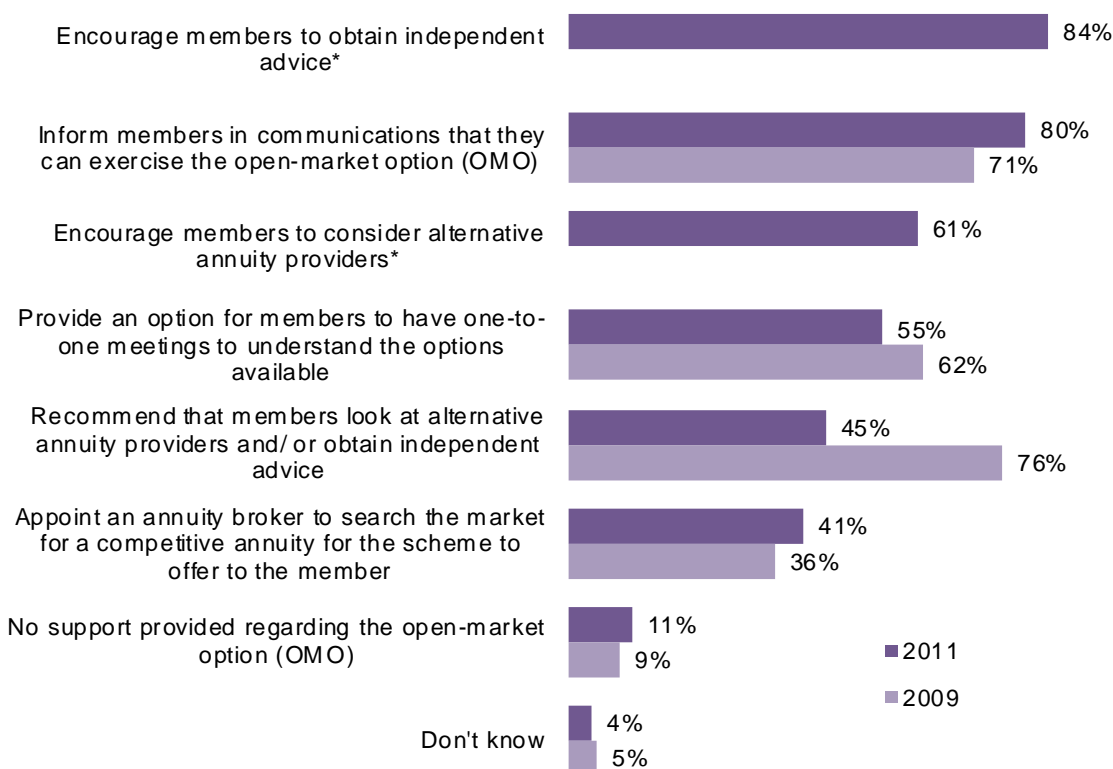
The majority of schemes (85%) offer support to members who may wish to exercise the OMO.

It is a legal requirement that members are offered the OMO. Disclosure requirements state that schemes must provide basic information to members 6 months before retirement.

Approximately 1 in 10 schemes (11%) reported that they do not provide support to members approaching retirement, who may wish to exercise an OMO. As highlighted in Figure 5.21 below, this is consistent with the proportion recorded in 2009.

**Figure 5.21**

**The proportion of schemes that offer the following support to members approaching retirement who may wish to exercise an ‘open market’ option**



\*New answer option for Wave 1 and 2 2010/2011  
 Base: 2011 DC and sectionalised schemes (n=169)  
 2009 DC and sectionalised schemes (n=177)

The most frequent type of support offered is in encouraging members to obtain independent advice (84% of schemes do this).

6 in 10 go a little further and encourage members to actually consider alternative annuity providers (61%).

Respondents were also asked about several other aspects regarding the retirement process, and key findings were:

- 15% of (DC and sectionalised) schemes say their scheme rules include guaranteed annuity rates
- 27% say their scheme offers an income drawdown option (exactly the same proportion was seen when last measured in 2009)
- 10% say their scheme self-annuitises<sup>6</sup>.

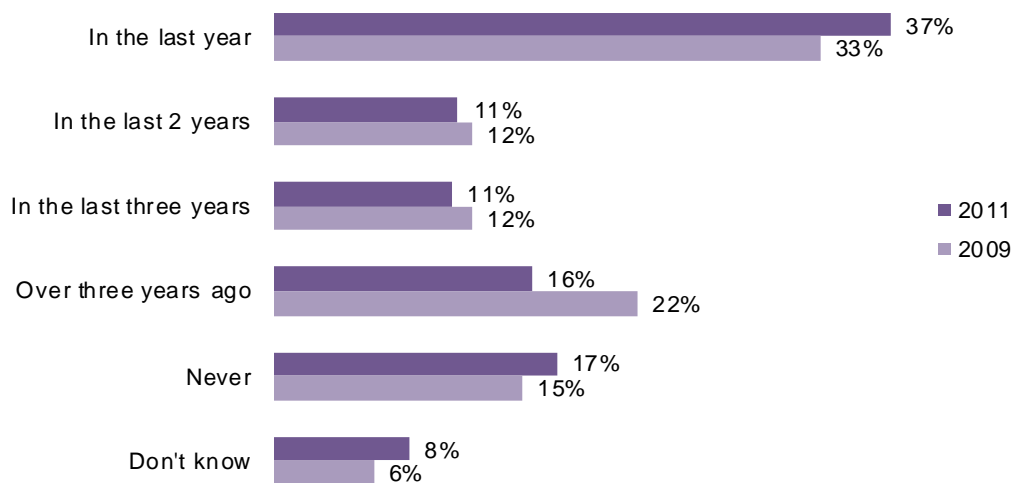
Finally in this area, schemes were asked when they last reviewed the retirement process followed by their scheme. This is a crucial measure, given the overall significance of this process and the need to ensure the members are guided appropriately.

Figure 5.22 below reveals that around 6 in 10 schemes (59%) had done this within the previous 3 years.

Overall, findings between 2011 and 2009 have remained broadly consistent.

**Figure 5.22**

**When was the retirement process last reviewed?**



Base: 2011 DC and sectionalised schemes (n=169)  
 2009 DC and sectionalised schemes (n=177)

<sup>6</sup> No trend data is available for this particular measure.

### 5.10 Defined contribution scheme charges

Broadly, trustees are relatively satisfied with the level of charging incurred by members.

This section explores levels of understanding, and attitudes towards, the types and levels of charges incurred by members of DC schemes.

Figure 5.23 below highlights the findings of a new question which seeks to measure trustee boards' collective understanding regarding various forms aspects of charging associated with schemes with a DC element.

**Figure 5.23**

#### Trustees' collective understanding of charging

	Annual management charge	Total expense ratio	Portfolio turnover rate
Extremely good (%)	13	4	5
Very good	33	26	19
Fairly good	31	31	25
Neither good nor poor	7	11	8
Fairly poor	4	6	8
Very poor	-	-	2
Extremely poor	-	1	2
Don't know	10	20	30

New question in Wave 2 2011.

Base: Schemes with any DC element (n=154)

The table above serves to highlight apparent knowledge gaps among trustee boards around specific aspects of charging – particularly in terms of total expense ratio and portfolio turnover rate, with 20% and 30% of respondent unable to provide an assessment (ie 'don't know').

Under half (46%) rate their understanding of the annual management charge as at least very good. This falls to 30% for total expense ratio, and 24% for portfolio turnover rate.

However, in each case, relatively low proportions admit to having a poor collective understanding.

Overall, there are some differences in understanding by scheme size:

- **Annual management charge:** 73% of small schemes consider the trustee board's collective understanding to be 'extremely'/'very'/'fairly good', as against 86% for medium/large schemes.

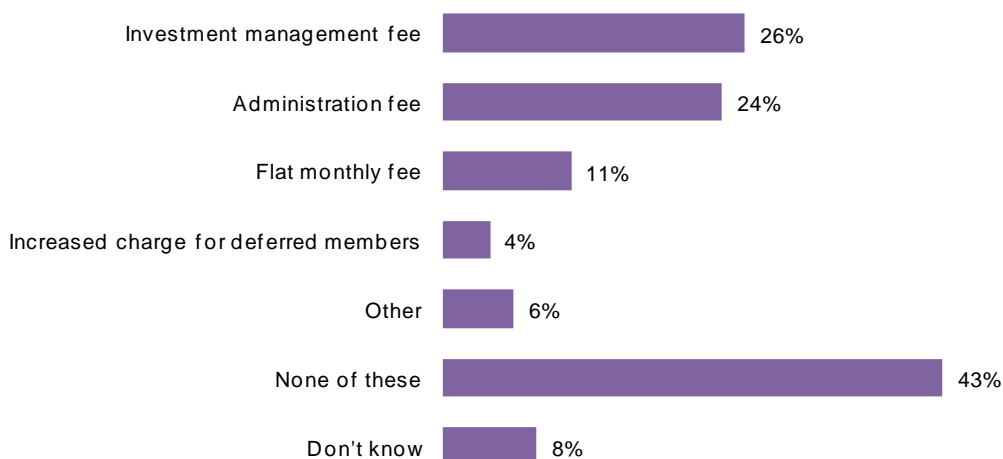
- **Total expense ratio:** 57% among small schemes, compared to 70% for medium/large schemes. NB: this difference is largely explained by the higher proportion of 'don't know' responses among small schemes (23%, versus 13% for medium/large schemes).
- **Portfolio turnover rate:** 41% 'extremely'/'very'/'fairly good' for small schemes, against 63% for medium/large schemes.

The remaining measures in this section on charging relate to DC schemes.

As shown in Figure 5.24 below, 43% say 'none of these' types of charges are typically incurred, with a further 8% indicating that they 'don't know'.

**Figure 5.24**

**Main charges typically incurred by members**



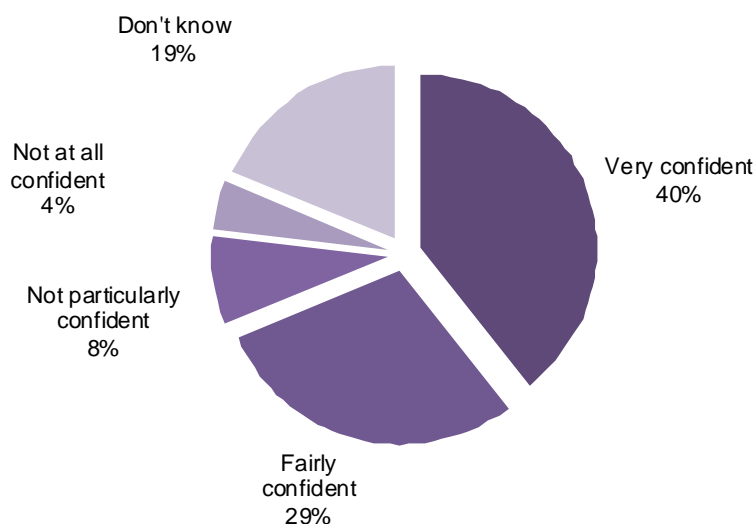
Base: DC and sectionalised schemes (n=169)

Despite this apparent confusion around types of charges incurred, 8 in 10 respondents (81%) nevertheless still offered an opinion as to whether the charges incurred by members offer value for money.

Indeed, as shown in Figure 5.25, around 7 in 10 (69%) are at least 'fairly confident' that these charges offered value for money.

**Figure 5.25**

**Confidence that charges incurred by members offer value for money**



Base: DC and sectionalised schemes (n=169)

However, as highlighted by Figure 5.25, around 1 in 10 (12%) are not confident that the charges incurred by members do offer value for money, whilst 19% responded that they 'don't know'.

Medium and large schemes (83%) were discovered to more likely than small schemes (60%) to express confidence in the charges incurred representing value for money to their members.

Additionally, in 2011, a new question was added to measure the degree to which trustee boards are satisfied with 'the level of charges borne by scheme members'. Overall, one-quarter (26%) indicated that they were either 'extremely' or 'very' satisfied in this regard, with a further 27% being 'fairly' satisfied. In total, 3% of schemes reported that that they were either 'very' or 'fairly' dissatisfied (with none being 'extremely' dissatisfied).