

# Monitoring your pension scheme

Management committees for employers

This guide is to help employers who want to oversee and review the pension arrangement they provide for their workers, including any scheme they have chosen to use for automatic enrolment. In particular, it is for employers who offer a group personal pension or master trust for their workers.

## Your role in running a scheme

You are not legally required to review and monitor your pension scheme on an ongoing basis. However, you could consider setting up your own process so that you can review the scheme regularly. This will help you identify and manage the key risks to your workers' retirement savings.

## Ensure your scheme is well run

There can be a number of benefits for you and your workers if you take a more active role in your scheme. These include:

- early identification of administration problems
- better value for money
- improved employee engagement and awareness of employer contributions
- improved member understanding of their retirement savings
- fewer member complaints.

Taking a more active role in your scheme does not need to be complicated, time consuming or expensive. It can reassure you that your scheme is being well run for your workers. This can help prevent problems developing in the future and provide a collective voice for workers that experience any problems with the pension provider's services.

You are likely to be asked questions about the scheme by your workers, so being closer to the scheme will help you describe it to them. If you ensure your scheme is run as efficiently as possible you could potentially enhance your workers' eventual retirement fund.

# Establishing a management committee

A management committee is, like a board of pension scheme trustees, a group of skilled and knowledgeable people who meet regularly to review the way a pension scheme is run and governed. Employers who offer a group personal pension or master trust for their workers may want to consider establishing a management committee.

Establishing a management committee is voluntary. However, they can be a very good way of formalising your governance of the scheme.

A management committee is established by the employer and typically has a monitoring and advisory role, and includes worker representatives. Their activities cover both worker and employer interests, and their focus is on active members of the scheme, rather than members who have left the employer's business.

You could make up a committee using a range of people, including:

- one or more members of the executive management team
- other managers in your business
- scheme members
- union or other worker representatives
- trustees of any other schemes that you offer.

You could ask your adviser and / or provider to attend meetings to provide reports or be a member of the committee.

Management committee meetings do not need to take a lot of time and, depending on the size and complexity of your scheme, you may only need a few meetings each year.

Your management committee could focus on a number of areas when monitoring and reviewing your pension scheme:

Key area	Considerations
Value for money	<p>The costs and charges taken from members' savings should be competitive when considered against the benefits and services that the members receive. Your management committee should compare costs and charges against other schemes that offer similar services.</p> <p>It should be clear what members are getting for their money, how much it costs and, importantly, whether they actually need any extra services provided.</p> <p>Your management committee should consider the scheme's effectiveness and whether it continues to be fit for purpose, while taking into account the profile of the membership and how the scheme's services and costs compare to others on the market.</p> <p>Your management committee could consider whether the pension provider offers information about the scheme's charges in accordance with the Joint Industry Code of Conduct.</p>
Pension provider performance	<p>Your management committee should monitor the pension provider's services to ensure that they are of a good standard. They should ask the pension provider to attend meetings and to provide regular updates on issues such as:</p> <ul style="list-style-type: none"> <li>• payment and investment of contributions</li> <li>• member movements such as retirements, transfers out, deaths, and the associated sales of funds</li> <li>• whether there have been any breaches of the law or the agreement governing the scheme's administration</li> <li>• service levels and targets</li> <li>• details of any member complaints or employer issues with the services provided.</li> </ul> <p>Incomplete and inaccurate records can place the security of your workers' pension assets at significant risk. So your committee should also question whether there have been any issues with the quality of the provider's records.</p>

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Key area	Considerations
Late and inaccurate employer contributions	<p>Pension providers must monitor whether employers pay contributions in line with the due date set out under the payment schedule.</p> <p>If there are late or inaccurate employer contributions, the management committee should ensure that the provider takes appropriate steps to resolve these.</p>
Performance of the default fund and other investment choices	<p>Providers must put various forms of governance in place to ensure that investments and products are reviewed on a regular basis, and that they continue to meet the objectives of the scheme when it was established.</p> <p>To complement this process, your management committee should regularly review the investment strategy and the default investment fund to ensure they meet the needs of scheme members. This may include reviewing reports, or holding meetings with the pension provider or advisers.</p>
Communications	<p>Your pension provider should supply adequate information to members, communicated in a clear, balanced and fair way. For example, where a member is approaching retirement, any promotion of the provider's own annuity needs to be fairly balanced with the availability of annuities that can be purchased from other annuity providers. This is called the open market option.</p> <p>Many members have low levels of engagement with and understanding of pensions. Your management committee could use measures such as workforce surveys to measure how happy members are with the scheme, the provider's efficiency and the effectiveness of provider communications.</p>
Member engagement	<p>Where members have actively chosen their investments, your management committee should ensure that they are regularly informed how important it is to review the suitability of their investment choices. Communications should also clearly outline that the levels of contributions they make will have a significant impact on their eventual pension income.</p> <p>Your management committee should consider whether they can provide access to resources that enable members to match their fund choice to their own circumstances. Resources could include:</p> <ul style="list-style-type: none"> <li>• guidance</li> <li>• tools</li> <li>• online resources</li> <li>• mobile phone applications.</li> </ul>

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<b>Key area</b>	<b>Considerations</b>
Employer recommendations	<p>Your employer management committee will usually act in an advisory capacity only. However, the committee is well placed to identify any risks to the employer and scheme members, and to recommend ways to manage and reduce these risks. Your management committee should record any risks in a risk register to help formalise risk management procedures and provide a focal point for future meetings.</p>
Terms of reference	<p>In most cases there will be no contractual arrangement between your management committee and the pension provider, and the provider is not required to follow the management committee's proposals.</p> <p>However, your committee can have real practical value in reviewing the quality of the scheme so it's important to have terms of reference that communicate your management committee's role and responsibilities.</p> <p>See the Appendix below for example terms of reference for management committees.</p>

# Other ways to monitor and review your scheme's arrangements

There are other ways to monitor and review the performance of your pension arrangements. You may decide to do this on an ad hoc basis or you may prefer a more formal arrangement involving a wider range of parties, as in the case of a management committee.

You can also choose who to involve. You may want to use an adviser, your workers or trustees (if you have them).

## Adviser

If you have an independent financial adviser or employee benefit consultant, they may monitor the scheme. This depends on the terms you agreed when you appointed them.

You should speak with your adviser to establish what, if any, monitoring they can carry out in addition to that done by the product provider. It's likely you will need to pay them a flat rate fee and / or an hourly rate for periodic reviews.

It's important you ensure that advisers are adding value for the members if you are paying for their services, so you should ask them to demonstrate to you how their services deliver value for money.

You should review your adviser's performance regularly, to make sure you are confident they have your worker's interests in mind when carrying out their work. Ideally you should agree measurable standards by which to assess them.

## Employer representatives

You could use employer representatives to review your scheme informally. In particular, your human resources team could monitor the scheme along with other employment benefits, or your finance team may be able to assist with controls and governance.

Product providers should ensure the scheme continues to be appropriate for your workers. The more information you provide them with, the better they will be able to do this. Changes to staffing levels, salaries or when your workers expect to retire are all important pieces of information which your provider can use to make your scheme perform better.

## Workers

Your workers can play a role in monitoring the scheme, in order to represent their interests and those of fellow members. They can provide useful feedback about what they want from the pension scheme so you can tailor it to meet their needs. This can also make you aware of aspects of the scheme which are not working effectively sooner than you would otherwise have become aware of them.

## Pension scheme trustees

If you already offer a trust-based scheme, but have set up a new scheme for automatic enrolment, you could use the skills and knowledge of the existing trustees to help keep your new scheme under review. Trustees already have pensions knowledge and therefore could provide a focal point for all pensions-related issues, although the legal obligations that trustees have apply only to the scheme to which they are formally appointed.

## NAPF pensions quality mark

You may wish to apply for the pensions quality mark from the National Association of Pension Funds (NAPF). This award is designed to help you demonstrate to existing workers and potential new recruits that your pension scheme is of a good standard. Your scheme will need to meet a number of specific criteria to gain the pensions quality mark.

To find out more, see [www.pensionqualitymark.org.uk](http://www.pensionqualitymark.org.uk).

# Appendix

Example terms of reference for a group personal pension management committee

## 1. Overview

- 1.1 The Company has established a group personal pension plan, known as the [insert name of pension plan] (the 'Plan').
- 1.2 The Plan has been established with [insert name of provider] (the 'Provider').
- 1.3 Each eligible worker who chooses to remain or become a member of the Plan will have a separate pension policy issued by the Provider into which the worker and Company pay contributions.

## 2. Terms of reference

- 2.1 The Company has the sole responsibility for managing the Plan. In order to ensure that the Plan is properly administered, the Company wishes to establish a management committee (the 'Committee') to monitor the Plan and make recommendations to the Board of Directors of the Company regarding the Plan. The Company has no legal obligation to implement any recommendations made by the Committee but will give them due consideration when taking any measure which affects the Plan.

- 2.2 The Committee shall be responsible for and shall make recommendations to the Company in relation to the following matters:

- monitoring the quality of the Plan administration
- monitoring and reviewing service providers and advisers
- reviewing communications from the provider
- monitoring and reviewing that all members receive value for money
- monitoring the effectiveness of presentations to Plan members
- receiving and reviewing Plan management information reports
- receiving and considering advice and information concerning legislative changes and good modern practice
- considering any member suggestions regarding the Plan
- making proposals regarding the running of the Plan to the Company
- monitoring the investment performance of the default fund and other investment choices.

- 2.3 The Committee may be dissolved at any time by the Company.

### 3. Committee members

- 3.1 The Committee shall consist of [insert number] members who may be appointed and removed at the sole discretion of the Company / will be appointed by the Plan membership [delete as appropriate].
- 3.2 [insert number] members of the Committee shall represent a quorum for the purposes of considering questions in connection with the Plan.
- 3.3 The Chairman of the Committee shall be [suggest Company Director]. The employer may appoint an individual to be the Committee Secretary.

### 4. Meetings

- 4.1 The Committee will meet at least annually and normally on a quarterly basis to discuss all relevant issues in connection with the Plan.
- 4.2 Unless otherwise resolved by the Company:
  - each member of the Committee shall have one vote on any matter to be determined by the Committee and, in the case of an equality of votes, the Chairman shall have a second vote
  - minutes of the meeting shall be kept by the Secretary and circulated to the members and the Board of Directors.

### 5. Advice

- 5.1 The Committee will only act upon advice from professional advisers appointed by the Company.

### 6. Incurring costs

- 6.1 The Committee will only be able to authorise expenditure on behalf of the Company when this has previously been agreed with the Company's Financial Director.

### 7. Booklet

- 7.1 The Provider will arrange for the preparation and maintenance of an announcement booklet for issue to members on joining, detailing the contributions required and benefits provided. The Committee will refer such literature to a person authorised to sign off documents as an advertisement within the meaning of the Financial Services and Markets Act 2000.

### 8. Information to members

- 8.1 The Committee will arrange for appropriate information regarding the Plan to be available to all members.
- 8.2 Further consideration will be given to the timing and format of appropriate information provided to members as they approach retirement.

### 9. Maintaining the Payment Schedule

- 9.1 The Committee will ensure that a Payment Schedule is prepared annually and maintained detailing member and Company contributions.
- 9.2 The Committee will monitor the payment of contributions and require the Company's Payroll Manager to ensure that a member's contribution to the Plan is paid by the due date.

9.3 The Committee will monitor members' and Company contributions to ensure that they are paid in line with the Payment Schedule.

## 10. Review of contributions and benefits

10.1 Whilst the Company reserves the right to amend the Plan at any time, any changes would be discussed at a Committee meeting before being implemented.

10.2 Any proposal to change the access or contribution levels would be dependent on the terms of individual contracts of employment.

## 11. Investment and administration of the plan

11.1 [Name of provider] will be invited to present details of investment performance and administration results on an annual basis.

11.2 The Committee will take appropriate advice in considering if and when any change in provider is appropriate. In such circumstances, the Committee would request the Company's approval to instigate a review and implement a change of provider.

11.3 The Company and the Committee do not assume or accept any responsibility or liability for the investment performance of the Plan.

11.4 The Committee will at no time provide any advice to members.

## 12. Data Protection Act

12.1 The Committee will be mindful of the requirements of the Data Protection Act and will only handle individual member data when this is essential for the proper fulfilment of the Committee's Terms of Reference, and when the member's express permission has been granted.

## 13. Complaints

13.1 Complaints or disputes concerning the Plan should in the first instance be referred to the Company's Personnel Department for resolution on an informal basis.

13.2 Members of the Plan with a dispute that they are unable to resolve informally may contact the Committee by writing to the Company Secretary. The complaint will be considered by the Company Secretary and/or referred to the Committee for discussion at the next Committee meeting. Additionally, members of the Plan may complain direct to the Provider.

## 14. Indemnity

14.1 The Company will indemnify and hold the Committee and its members harmless from and against any and all liabilities which may be incurred arising out of or in connection with the Plan in the management and administration of the Plan, other than liabilities arising from fraud or wilful neglect and default on the part of the Committee member sought to be made liable.

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