A thematic review report

How pension scheme providers maintain contributions and report material payment failures

August 2018

The Pensions Regulator

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This report details how we’ve been working with providers of occupational and personal pension schemes as part of a thematic review to improve our understanding of the systems, processes and resources they use to ensure accurate contributions are paid on time by employers.

Introduction

Following the publication of our codes of practice 5 and 6 (Reporting late payment of contributions to occupational/personal pension schemes) in September 2013, we have been working with providers to ensure that appropriate standards around contributions and reporting material payment failures are reached and maintained.

Automatic enrolment (AE) has been very successful, but its continued success relies to a large degree on ensuring that contributions due are paid in full and on time. With more than 9.5 million people newly saving or saving more into a workplace pension, we decided to delve further into the issue to make sure providers have effective processes in place to manage these increased volumes.

In this report, we set out the key findings from the thematic review and the action we’ll be taking to make improvements where needed. We also detail how we’ve been working with providers to increase our understanding of the systems, processes and resources they use for maintaining contributions. We also share some areas where improvements can be made, what providers can do to get the right systems in place and how they can make sure they’re managing risk in the most effective way.

We’ve found that working with scheme providers in this way is highly valuable and gives us a clearer view of processes, levels of compliance, key risk areas and best practice, which helps us work across the industry, driving up standards and encouraging others to meet them. The meetings we held as part of this review were well-received by the providers, who were keen to learn from others and ensure they were putting in place sufficient systems to monitor payments effectively and report to us as required.

Our findings have been largely positive, which is very encouraging. We’ve seen some good examples of best practice, which we’re keen to share so other providers can follow suit.

“Ensure that appropriate standards around contributions and reporting material payment failures are reached”

Background

In 2015, we produced a summary report based on proactive visits to a number of providers and one of the recommendations that followed was to continue this engagement and, where possible, to widen the type and number of schemes involved.

In 2017, our TPR Future programme reiterated the importance of maintaining contributions work for the continued success of AE and decided to undertake a thematic review to examine this work in more detail. The overarching aim of this review was to ascertain whether providers and trustees have sufficient systems and processes in place to match the duties, standards of conduct and practice that we expect.

We set out in our codes of practice 5 and 6, the standards of conduct and practice we expect from trustees and scheme managers in maintaining contributions and reporting material payment failures. This includes the following:

- Enabling the effective monitoring of the payment of contributions under a payment schedule (or a direct payment arrangement if the scheme is a personal pension scheme).
- Taking appropriate action to resolve overdue contributions.
- Reporting material payment failures to us and scheme members within a reasonable period.

We've looked at how providers' approaches to the codes and guidance have been implemented. This includes receiving and maintaining contributions, and fulfilling their legal obligation to report material payment failures. In particular, we've examined risk-based approaches, how they provide information to members and how they report material failures to us.

"Our TPR Future programme reiterated the importance of maintaining contributions work for the continued success of AE"

The review

We conducted the review between spring and autumn 2017, which involved meeting with 14 providers. These providers were chosen to represent the diversity of the market and varied in size, structure and complexity.

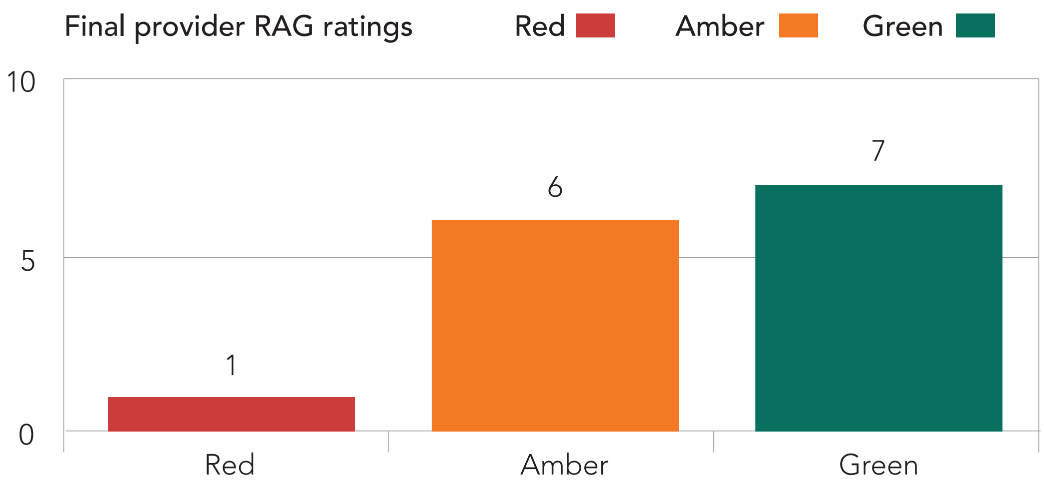
Before the meetings took place, providers were asked to prepare by having certain information available around their systems and processes to support the meeting.

During the meetings, we asked questions about the providers' resourcing for maintaining contributions, their risk-based processes for dealing with late payments, how they provide information to members, how they chase employers for payment when payment failures are identified and how they report to TPR and members.

The results we gained from the meetings generally indicated that providers systems and processes for receiving and maintaining contributions matched the standards of conduct and practice we expect as set out in our codes of practice and we found some good examples of best practice. However, we also uncovered a number of risk areas and some significant discrepancies in the quality and effectiveness of the providers' processes and procedures.

Although we are not able to share who the providers were and how they were ranked, we have been able to provide a general overview of the RAG ratings.

Figure 1: RAG ratings for the 14 providers



Our recommendations for best practice

- We found that automated and standardised chasing processes for material payment failures were beneficial.
- Using a variety of contact methods to chase employers for payment was effective, as was using an escalating tone as the period of the payment failure deteriorated. Adopting an approach that uses personal contact through telephone calls and web chat has proven effective. The escalated tone often results in a swift resolution.
- We believe that having an automated system in place will enable providers to systematically identify underpayments based on the data available (pensionable pay data). This will also then help providers identify areas of risk so they can direct their resource to high-risk employers. Collecting necessary data enables providers to know they are receiving the correct level of contributions and helps trustees and managers to identify payment failures.
- Having a comprehensive knowledge and training regime will ensure that the core contribution functions and reporting requirements are known to several members of staff and minimises the risk of a single point of failure. Additionally, having a dedicated team that is given clear responsibility for managing the monitoring and reporting of late payments ensures that the subject is not a secondary priority.
- Informing members of late payments at an early stage (and before it becomes a legal requirement to do so) is effective in reaching an early resolution with the employer. An effective example was identified where members were informed of their employer's payment failure at the 60 day point, which resulted in the contributions being paid by the employer before the absolute requirement to report to TPR was reached at the 90 day point.
- Having an accessible online portal provides information and clarity for members. It gives them the option of viewing and updating the relevant information concerning their pension and payments, and it may also be beneficial in showing the percentages of their salary being paid across (this is particularly useful as contributions increase over time).
- Including maintaining contributions as a standing agenda item at trustee and provider meetings will enhance its importance, and ensure that trustees receive relevant information and engage with the subject. Ensuring trustees are fully aware of their responsibilities is critical to achieving effective and robust processes.

Key risks and failures we identified

We will continue to focus on the schemes rated 'amber' to drive up standards. Although our codes and guidance stipulate that not every single provision of them has to be adhered to, and risk-based approaches should be commercially viable and proportionate, the adopted approach should ensure trustees and managers are able to discharge their duties effectively. We believe the following findings are notable and improvements in these areas would improve the effectiveness of providers' maintaining contributions processes:

- **Despite pensionable pay data being collected by some providers, it was not always used effectively** as part of a risk-based approach to monitoring contribution levels as set out in our codes. For example, some providers were overly reliant on schedule information from employers, without any consideration of available pensionable pay data to verify the schedule's accuracy.
- **Identifying high risk employers was a considerable weak point.** Half of the providers did not have formal policies to clearly set out what is considered to be high risk, and there was a lack of documented procedures in place to do this. While there is no specific code-based requirement for providers to have a formal policy on their risk based approaches, we feel that having robust, proactive and systematic processes is more effective than taking a reactive, inconsistent or ad-hoc approach.
- Providers' documenting of contribution processes and procedures was generally good, but **four providers had insufficient documentation in place, and one provider only had draft versions available**, which were still pending trustee sign-off. As above, we found that where processes were documented, standards were generally higher, and where documentation was lacking there was a higher risk of system or procedural failure.
- **There were inconsistencies around how material payment failures were reported to members.** Though the majority of providers do so, there are considerable differences in the quality, method and timing of reports. One provider didn't report to members as required as they were worried about potential ramifications.
- **Eight providers relied almost entirely on the 90-day trigger outlined in our codes,** with little or nothing being done to identify potential reasons for payment failure and eliminate obvious administration errors at an earlier stage. It is important to identify the cause of the payment failures in order to identify which failures trustees and managers believe are materially significant to TPR and must be reported. This is also important as the reporting period may depend upon the type of failure. For example, if something appears suspicious and may involve dishonesty, fraud or misuse of funds, this should be reported immediately.

Enforcement action

Enforcement action has already been taken against one provider for failing to report to TPR and members. This resulted in a fine being issued against the professional trustees following a decision by the Determinations Panel. The scheme in question responded quickly and professionally by implementing the changes necessary to ensure the issues were resolved and the required standards are now met. This demonstrates the value of the intervention we have taken to protect members' benefits. We continue to work with a further scheme and will take appropriate enforcement action where required.

How we'll carry this work forward

We'll maintain our engagement with the industry and the schemes we've contacted to ensure the standards and the relationships we've developed are maintained.

Where issues and breaches are identified which may leave a scheme in a position below our expectations, appropriate enforcement action will be considered and taken where necessary.

Our existing communications work will continue and we'll seek further opportunities to educate the industry about our expected standards of conduct and practice that we set out in the codes.

Use of thematic reviews in the future

This was the first thematic review that we have conducted as part of our TPR Future programme. The review has allowed us to conduct a structured, time-bound and risk-focused assessment on an important topic for ensuring the continued success of AE.

As documented in this report, the review has allowed us to identify some key risks and to generate recommendations for best practice. In the coming months, we'll continue to use such thematic reviews to assess other areas of focus within the wider pensions landscape.

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