

PENSIONS BOARD

Monday, 31 July 2017 at 10.00 a.m.

MP702 - Town Hall Mulberry Place

SUPPLEMENTAL AGENDA

This meeting is open to the public to attend.

Contact for further enquiries:

Georgina Wills, Democratic Services.

Tel: 0207 364 6695

E-mail: georgina.wills@towerhamlets.gov.uk

Web: <http://www.towerhamlets.gov.uk/committees>

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7 .3 Discussion on the Regulators 2017 Governance Report

3 - 10

This verbal discussion will be led by David Thompson.

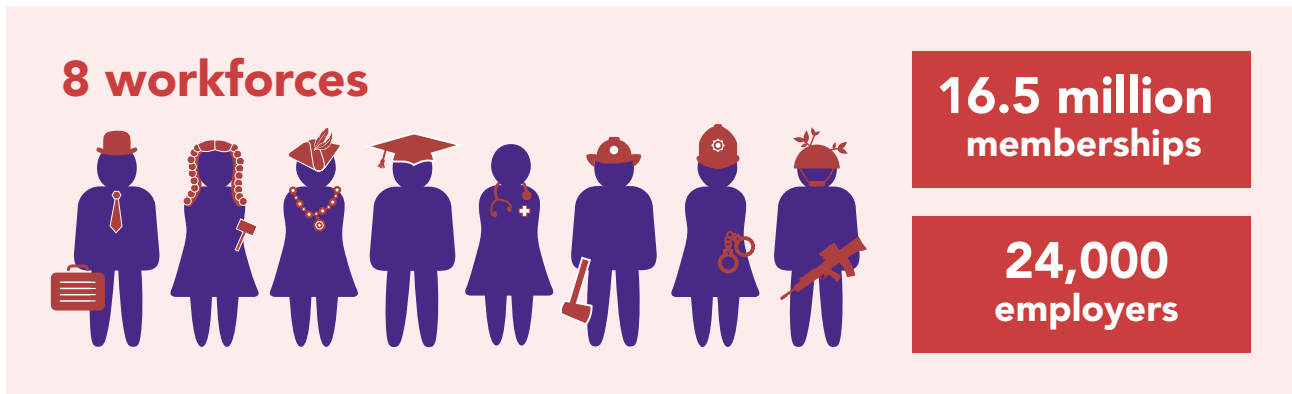
Public service governance and administration survey – The Pensions
Regulator

Public service governance and administration survey

Summary of results and commentary

Background

We regulate the governance and administration of public service pension schemes, which provide pensions for civil servants, the judiciary, local government, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces. These schemes cover over 16.5 million memberships, and 24,000 employers.



Our Code of Practice no. 14 sets out the standards of conduct and practice we expect, and we provide practical guidance on how to comply with legal requirements. It can be viewed at www.tpr.gov.uk/code14. We open cases based on the risks we see in schemes and in response to breach of law and whistle blowing reports. Where standards are not being met and issues are not being resolved we consider enforcement action, including the use of improvement notices and civil penalties.

To help us focus our efforts, we surveyed public service pension schemes in autumn 2016 to assess how they were being run. This built on a previous survey in summer 2015, and delved deeper into key risks and why some schemes are still struggling to improve.

We achieved a 90% response rate, covering 98% of membership, which allows us to draw robust conclusions. The survey supports our existing assessment that the top risks in this landscape are around scheme governance, record-keeping, internal controls and member communications. This report sets out how we have interpreted the findings, our expectations of those involved in running the schemes and what we will be doing over the next year to address these issues. It accompanies the full research report which sets out the responses to all survey questions.



Scheme governance

Good governance is essential to pension schemes delivering good member outcomes. This is a key focus for us, as set out in our recent discussion paper on 21st century trusteeship and governance, which can be read at www.tpr.gov.uk/21c-trustee.

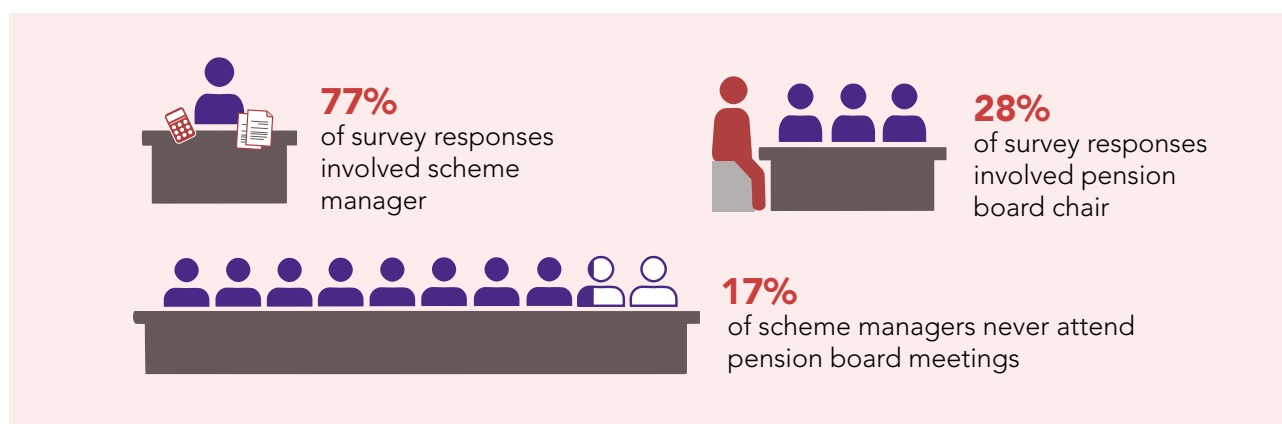
Public service pension schemes are governed differently to other occupational pension schemes. They do not have trustees. Instead the overall management and/or administrative responsibility for the schemes sits with scheme managers. Scheme managers are supported by pension boards, which assist them in complying with their legal duties.

Scheme managers should be fully aware of their duties. While in practice many delegate specific activities (such as member record-keeping) to other parties, they remain accountable for their scheme, in the same way that trustees of private sector schemes are accountable. Most enforcement action we take is likely to be against scheme managers.

Pension board members have a key role to play in supporting scheme managers. We expect scheme managers to use this resource, and for pension boards to take an active role in identifying risks and driving forward improvements, in particular in those areas set out below: record-keeping, internal controls and member communications.

We are concerned that a significant minority of scheme managers and pension board members may not be effective in, or even fully aware of, their governance duties:

- ▶ 23% of survey responses were completed without involving the scheme manager, who is ultimately accountable for most of the legal requirements. The pension board chair was involved in only 28% of survey responses, and other pension board members in only 21%.
- ▶ Over a quarter (27%) of scheme managers do not attend pension board meetings regularly, and 17% never attend.
- ▶ Our discussions with scheme managers, pension boards and other stakeholders have highlighted some gaps in understanding the roles and responsibilities of various parties involved in public service pension schemes, particularly pension boards.



Over the coming year we will continue to focus on improving governance in public service pension schemes. As part of our 21st century trusteeship and governance work, we will provide clarity on the roles and responsibilities of those involved in running these schemes. We will clearly set out the standards we expect of all parties and provide tools they can use to meet the standards. We will continue to educate scheme managers and pension boards through online tools and face-to-face, and support initiatives to create peer networks and share best practice. Where appropriate, we will work with scheme advisory boards and other stakeholders to reach disengaged scheme managers.

Record-keeping

Failure to maintain complete and accurate member records can affect a scheme's ability to carry out basic functions like paying the right members the right benefits at the right time. Good record-keeping became even more critical when the public service schemes introduced career average benefits.

Record-keeping issues in public service schemes are well known and it is not surprising that over a third (36%) of survey respondents identified record-keeping as a top risk to their scheme.

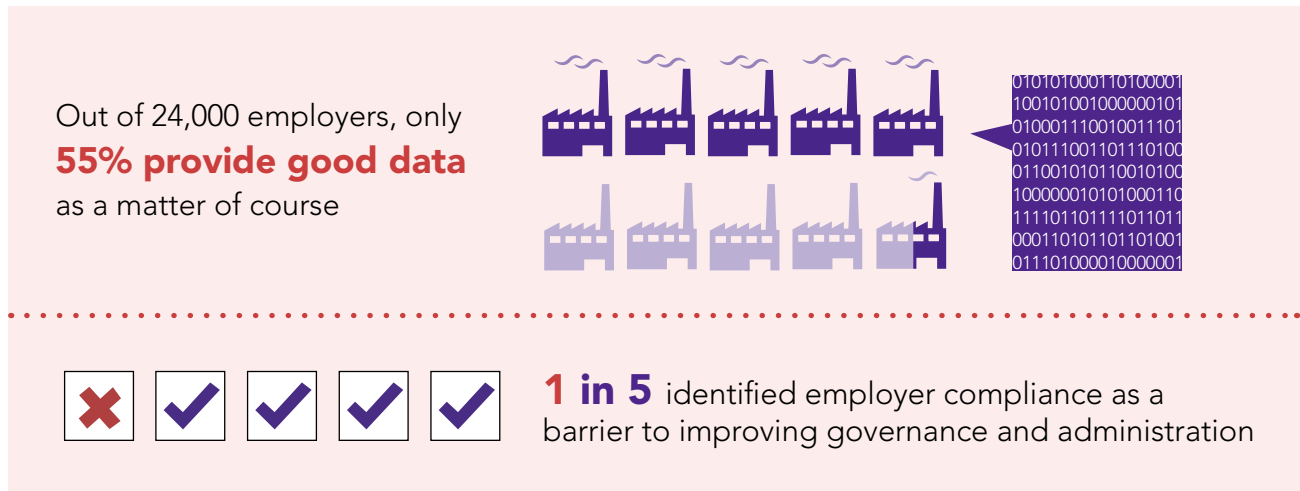


We have made our expectations clear. All schemes should do an annual data review, and put a plan in place to put things right if required:

- ▶ While most schemes (79%) had completed a review in the last year, the survey raises concerns about how effective these data reviews are. Over a third (35%) of schemes that had completed a review did not identify any issues, which is questionable in such large and complex schemes.
- ▶ The survey shows that only 18% of schemes had put an improvement plan in place. In addition, the improvement plans we have seen are of varying quality.

To ensure record-keeping failures are identified and tackled effectively, we will provide additional education in 2017, including guidance on developing a good data improvement plan. We will also set out more clearly our expectations of scheme managers regarding data security.

We will consider enforcement action where scheme managers fail to demonstrate that they are taking appropriate steps to improve their records, including having a robust improvement plan in place. From 2018 we will require scheme managers to report on their record-keeping standards in the scheme return, so we can more effectively intervene where they are failing in their duties.



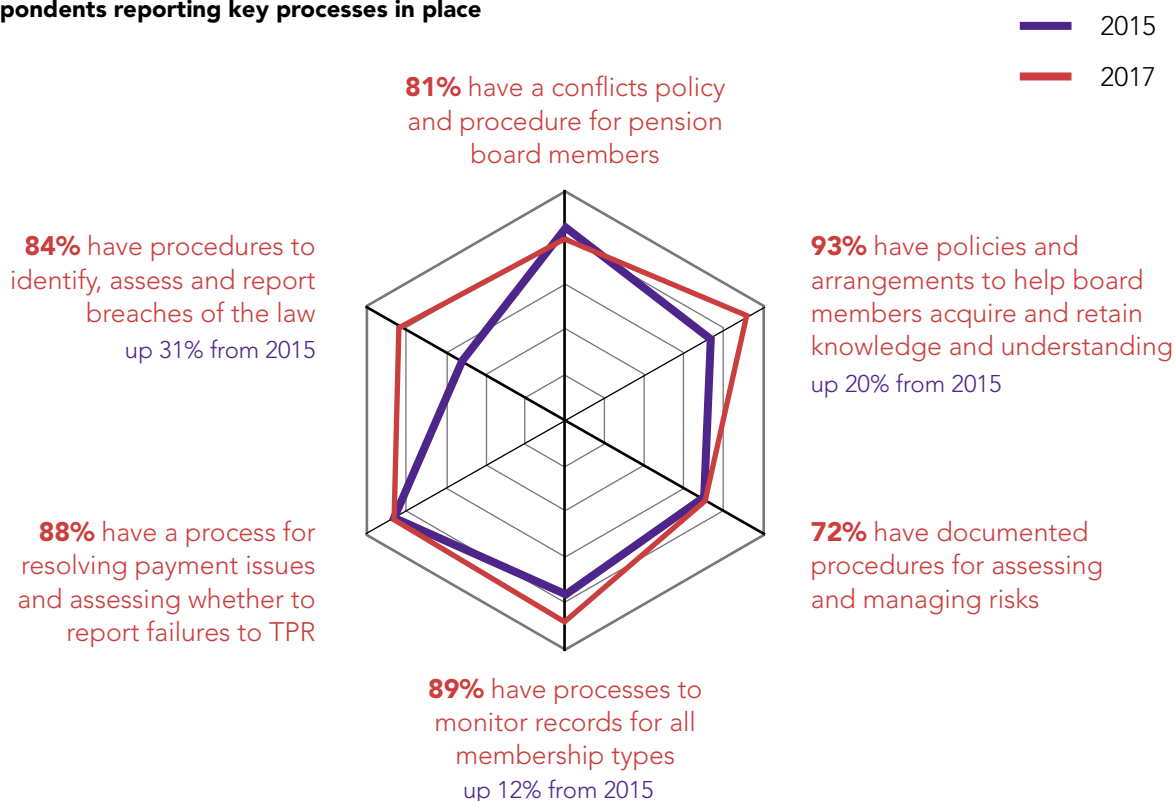
The survey also highlights that the quality of data provided by employers remains an issue – only 55% of employers provide good data as a matter of course. 23% of respondents identify employer compliance as a top risk, and 20% as a barrier to improving the governance and administration of their scheme.

Scheme managers should work with employers to ensure processes are effective and fit for purpose, and take action to rectify issues in the first instance. But we can intervene where required – our recent report on the Teachers' Pension Scheme, at www.tpr.gov.uk/section-89, is an illustration of where we have done so. We will also promote good practice where we identify this in public service and other pension schemes.

Internal controls

Survey respondents were asked to confirm if they had a number of key processes in place which we would expect to see in a well run scheme.

Respondents reporting key processes in place



Overall, the proportion of schemes with these processes in place is increasing. Of particular note was a marked improvement in schemes with processes to identify, assess and report breaches of the law (up 31 percentage points) – an area we highlighted in last year’s survey commentary.

However, some concerning gaps remain:

- ▶ 28% of schemes could not confirm they had risk processes in place and 30% are potentially operating without a risk register.
- ▶ Though scheme managers, pension board members and other parties have a duty to report breaches of the law to us in certain circumstances, 16% of schemes could still not confirm if they had processes in place to do so.

These gaps are mainly in locally-administered firefighters’ and police pension schemes. We will focus our face-to-face education on these schemes and work with scheme advisory boards where appropriate to drive real improvements in the coming year.

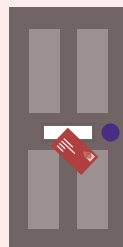
Across the landscape we will continue to promote our existing educational material, in particular our internal controls checklist and example risk register (www.tpr.gov.uk/ps-risk) and guidance on reporting breaches (www.tpr.gov.uk/ps-breaches). Where we open cases, we will work with the schemes involved to resolve gaps in their risk and breach of law processes. When considering action or setting fines we will take into account a party's co-operation with us, and their efforts to put things right. Therefore, those who fail to report breaches to us quickly could receive a higher penalty for a breach, and an additional penalty for a failure to report. You can find further information in our draft monetary penalty policy at www.tpr.gov.uk/ps-monetary.

In addition to key processes, the survey asked scheme managers how they monitored and managed the performance of their administrators. Respondents typically used several methods, in particular meetings or receiving reports from them. We have some concerns around the lower use of service level agreements (SLAs) for in-house administrators (43%) compared to those administered by a third party (86%), and the low use of penalties where contractual terms or service standards are not met (14% of schemes). As part of our work on 21st century trusteeship and governance, we will clarify our expectations in this area and set out good practice on working with administrators.

Member communications

Public service schemes must provide annual benefit statements to active members by a specific deadline, generally 31 August. The statements provide members with a view of the pension they have built up to date and enable them to effectively plan or make decisions about retirement.

Only 43% of respondents reported that all their members received their statements on time. Overall 21% of members did not receive their statements on time. This aligns with our experience – the failure to issue annual benefit statements accounted for the majority of breach of law reports relating to public service pension schemes in 2016.



21%
of members did not receive their annual benefit statements on time

The reasons for this are often complex, including issues with IT systems, poor data, and difficulties associated with introducing career average benefits. Through our case work, we identified some lessons and best practice tips for issuing statements, which we set out in a 2016 quick guide that can be viewed at www.tpr.gov.uk/ps-comms.

We recognise that public service pension schemes faced challenges meeting their new duties initially. However, we expect schemes to have made significant progress by now. We expect member outcomes, in particular the proportion of members who receive their statements on time, to improve dramatically. Our tolerance for schemes' shortcomings, particularly in the areas identified in this report, is reducing.

Taking action

Scheme managers should be aware that we are more likely to move to use of our enforcement powers this year. We have, and will, take enforcement action where scheme managers have not taken sufficient action to address issues or meet their duties. Consistent with our compliance and enforcement policy (found at www.tpr.gov.uk/strategy), we will publish reports of our regulatory activities (including enforcement activity) to encourage higher standards.

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Summary of results and commentary

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