Statement by The Pensions Regulator

March 2011

Improving administration standards

The Pensions Regulator's expectations

This statement summarises The Pensions Regulator's approach to scheme administration and clarifies the expectations of schemes and the wider industry.

Administration lies at the heart of a well-run pension scheme. Keeping accurate, good quality member records will not only enable trustees to undertake key events during the scheme's life but will also likely reduce the overall cost of running the scheme. We have an objective to protect member benefits. As such, promoting efficiency in record-keeping is one of our core principles.

At the beginning of February 2011, we released a statement entitled 'The importance of good scheme administration' which marked the start of our communications to raise the issue of administration up the agenda – not only for trustees but also for service providers and employers.

continued over...

The Pensions Regulator

continued...

During this period, we stressed the importance of a number of key themes:

- Quality scheme records are critical to many of the activities that need to take place during the life of a scheme.
- Trustees are accountable for scheme records. However, administration providers, auditors and other service providers have a vital role to play supporting their clients in meeting their duties to members. Trustees who are not engaged with their accountability (in relation to scheme records) represent a significant risk to members' benefits.
- The use of National Insurance Services to Pensions Industry (NISPI) data can be a valuable resource to enable trustees to reconcile data in relation to equalisation and Guaranteed Minimum Pension (GMP) at an early stage of a scheme's winding up.
- Complete and accurate records will become even more important with the introduction of automatic enrolment, with current risks to members heightened significantly.

We have also uncovered some worrying examples of where incomplete scheme records have led to significant member detriment. This includes a case where defined benefit (DB) funds were paid out to defined contribution (DC) members in a 'hybrid' scheme due to failures in administration. We are also aware of instances where DC funds have been paid out to DB members. Since the value of these DC funds are not underwritten by a sponsoring employer, this is of great concern and we are currently carrying out further investigations in this area.

Our interaction with industry

Our communications over the last two months have been based on a number of activities which we carried out to determine standards of administration across the industry.

These activities include:

- 1,000 telephone calls to trustees of both DB and DC schemes to determine the level of activity prompted by the issue of our record-keeping guidance in 2010.
- A long-term project with major providers and administrators focusing on speeding up the wind up of schemes across DB and DC portfolios.

continued over...

- Detailed discussions with 11 of the largest administration providers to determine the levels of service offered to pension schemes of all sizes and types.
- Extensive co-operation with other regulators and Government departments, including the Financial Services Authority (FSA) and NISPI.
- A quantitative survey on standards of record-keeping and governance of data management.
- Ongoing discussions with the audit industry and relevant professional associations on the level of assurance they are able to offer clients on data quality.

Progress on winding up of DB and DC schemes

Working with administrators and providers over the last 2 to 3 years has confirmed that it is possible for schemes to complete the key tasks well within our 2 year target. In particular, substantial improvements are possible if trustees and administrators agree a clear plan and set of milestones at the outset, monitor progress against the plan, and understand their respective accountabilities and roles.

Collaborative working with NISPI

We have been in close contact with NISPI looking at what support they can offer scheme trustees in speeding up the member and GMP reconciliation process – one of the main delays to scheme wind up. We have now agreed with NISPI to have the following joint objectives:

- To work collaboratively to ensure trustees and scheme administrators fulfil their obligations.
- To publish information and educate trustees and scheme administrators in relation to their roles, responsibilities and accountabilities.
- To work collaboratively in relation to DC abolition to ensure the pensions industry is fully prepared for the changes.

We anticipate that streamlining the wind-up process is likely to have a positive impact on members' benefits by reducing costs and avoiding any unnecessary erosion of funds due to lengthy delays in scheme wind up.

continued over...

continued...

We expect further improvements

As a result of our recent interactions with various industry stakeholders, we have discovered a number of specific concerns. We expect trustees and administrators to consider these points and take immediate and appropriate action to mitigate risks to members.

1. There is insufficient clarity between trustees and administration providers around responsibility for updating deferred member data.
2. 19% of schemes with 1,000 or more members (and 18% of schemes with more than 5,000 members) have still not engaged with our guidance on record-keeping and taken appropriate actions. Of those who have read the guidance, 59% of medium-sized and 48% of large schemes have not acted upon the guidance.*
3. There is a general lack of engagement from trustees of smaller schemes with regulatory guidance.
4. There is insufficient contact between administration providers and small DC schemes. 57% of all schemes were not offered even the most rudimentary of data-scanning services by their administration provider.*
5. Insufficient numbers of schemes have begun to measure conditional data and create a plan to ensure data is complete and accurate.
6. 56% of schemes with in-house administration still have not engaged with our guidance.*

* All statistics are taken from the findings of our recent survey on administration. A full report of our findings will be available on our website in the coming weeks.

continued over...

continued...

Administration in DC schemes

As a regulator, we are currently investigating the specific risks to members of DC pension schemes, including the area of administration (eg we have found that the managers of 24% of contract-based DC schemes are not aware of our guidance on record-keeping).

Administration plays a major part in our recent discussion paper 'Enabling good member outcomes in work-based pension provision.' This document identifies 6 good member outcomes, which are:

1. Appropriate contribution decisions
2. Appropriate investment decisions
3. Efficient and effective administration
4. Protection of assets
5. Value for money
6. Appropriate decumulation decisions.

Underlying these good member outcomes is the need for trustees and managers to identify the features and demographics of their membership at all times. Completing the following activities effectively will require a scheme to have accurate and complete member records. This includes both common and conditional data:

- Designing an appropriate default strategy
- Offering sensible investment options
- Communicating with members on contribution levels, retirement options, changes to scheme features and governance, fees and costs, and missing data fields
- Making appropriate decisions on investments.

Maintaining this data will require a collaborative approach involving trustees (where present), employers, product providers, administration providers and even investment managers.

We expect the necessary conversations to take place to establish the key roles and responsibilities in maintaining good records and protecting member outcomes.

For more information

For more information about improving scheme administration visit:

www.tpr.gov.uk/scheme-admin

continued over...

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

T 0870 606 3636
F 0870 241 1144
E customersupport@thepensionsregulator.gov.uk

www.thepensionsregulator.gov.uk
www.trusteetoolkit.com

Statement from The Pensions Regulator
Improving administration standards: The Pensions Regulator's expectations

The Pensions Regulator