

The relationship between pension scheme administration and effective scheme governance

Summary Report

Good governance matters and effective administration is at the heart of any well run pension scheme.

Without the right people, systems and controls to ensure its smooth operation, a pension scheme is destined to deliver a poor member experience, the sponsoring employer will be funding a scheme that is not valued by employees, and resolving complaints and disputes will become a full time occupation for the trustees or managers.

It is against this backdrop that we, **JLT Employee Benefits Limited**, agreed to collaborate with **The Pensions Management Institute** on a continuing research project to explore the relationship between pension scheme administration and effective scheme 'governance' (management and oversight).

We have already published the results of a 'mini-survey' into pension schemes and record-keeping. This followed the publication of The Pensions Regulator's (TPR) guidance in this area and our research showed that, despite clarity from TPR of its expected standards on pension scheme data, a significant number of schemes find themselves behind the curve.

The summary that follows is a short extract and analysis of the results of our main survey, which was conducted in the last quarter of 2010 and completed by over 250 respondents.

It is a very timely paper with the Regulator recently announcing an "education drive" to highlight the importance of administration in enabling good outcomes from pensions saving. TPR's consultation on "*Enabling Good Member Outcomes*" further evidences the importance that the Regulator attaches to pension scheme administration and governance.

The main survey was broken down into a number of distinct areas, looking at current practices and how these may have to change in the future. It covers *data quality, communication, decumulation, investments and prospective auto-enrolment requirements*.

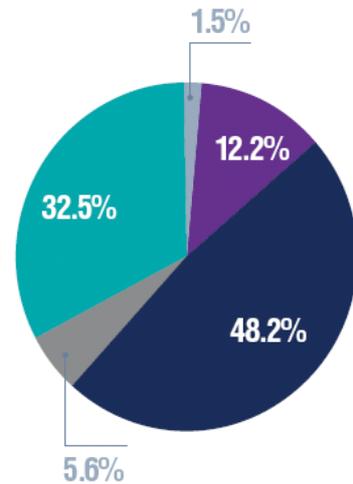
Key findings across these disparate, but all equally important, areas include:

- *almost one-third have not agreed targets for standards of data and a deadline for achieving those targets;*
- *nearly 40% of schemes do not provide members with access to any pension modelling tools (e.g. retirement benefit calculators) to support their decision making process;*
- *when communicating with members about their retirement options, 81% of schemes tell members about the open market option (OMO) but only 30% facilitate access to advice for members on the OMO;*
- *in terms of the pension scheme admission, over 60% of schemes still require members to apply to join;*
- *many employers have still to make up their minds when it comes to choosing a qualifying pension scheme for discharging their prospective obligations in respect of the auto-enrolment and NEST requirements (see the graph below); and*

- *in terms of the, potentially substantial, costs of complying with auto-enrolment, nearly 85% of schemes have not quantified both the direct (contribution) and indirect (ancillary) outlay that the reforms will entail.*

If NEST or a similar arrangement is established by legislation to help employers with their duty to auto-enrol employees into a pension scheme, will you:

- Use NEST for all employees
- Use your existing scheme(s) for some employees and NEST for others
- Use your existing scheme(s) for all employees
- Use your existing scheme(s) for some employees and set up a new scheme for others
- Don't know



This small sample of findings is, of itself, interesting and relevant. The full results are equally instructive and sometimes surprising.

Overall, there are lots of positive findings in the survey with regard to pension scheme administration and effective scheme governance. The results show, however, that there is also room for improvement.

In particular, more could still be done in terms of member communication and engagement. This interaction with members will become all the more important with the continued move from defined benefit to defined contribution pension provision, a trend that will only accelerate after the introduction of the auto-enrolment reforms from October 2012.

Speaking of the reforms, it is also clear that further 'automation' of scheme processes is needed if they are to be properly complied with.

Before then trustees, employers and administrators still need to give more thought as to practical measures required to resolve data gaps.

With the Pensions Regulator promising to maintain its focus on administration to ensure providers do not "dip their headlights", the relationship between pension scheme administration and governance will remain high on agendas for some time to come.

We hope that you find this summary interesting. For a copy of the full survey results and analysis, please contact [DETAILS TO BE INSERTED].