Pensions Board - The Pensions Regulator - Update and Training Session - Appendix 2

Area of focus: Record-keeping

Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and paying members incorrect benefits.

Findings	Recommendations	Hackney Fund Approach
Many scheme managers have moved from annual to monthly member data collection and found this enabled them to verify data at an earlier stage, with some funds providing monthly reports to employers highlighting the quality of data submitted and action points they need to complete. Well-run funds are aware of the quality of the common and scheme specific data they hold. Where it is not entirely accurate robust and measurable, data improvement plans are in place. scheme managers of these funds consider a range of methods to improve data quality, including tracing exercises	Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate. The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found. Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board	Equiniti measures the quality of both common and scheme specific data The Fund has experienced a number of issues with poor employer data in recent years and has a data improvement plan in place. The data improvement plan is a work in progress and continues to be updated The Fund has a clear PAS in place and has started to charge employers where it is not adhered to.

and improving contract management methods. They also generally have a robust PAS in place which detail rights and obligations of all parties to the fund.	should review the PAS and ensure it will stand up to challenges from employers.	

Area of focus: Internal controls

The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

Findings	Recommendations	Hackney Fund Approach
There were a range of approaches to identifying, monitoring and mitigating risks to the funds we engaged with. Some funds had detailed risk management frameworks in place and clear defined procedural documents. Others lack detailed risk registers or do not review the risks to the fund on a frequent basis, with little oversight of work being done to identify or mitigate risks. We found evidence across a number of funds of key person risk, where a long serving member of staff has developed a high level of knowledge about their role and internal processes but this knowledge is not documented. This leaves these funds exposed to the risk of a sharp downturn in administration and governance standards should the	A risk register should be in place and cover all potential risk areas. It should be regularly reviewed by the pension board. The scheme manager should take a holistic view to risks and understand how they are connected. The pension board should have good oversight of the risks and review these at each pension board meeting. Internal controls and processes should be recorded, avoiding an over reliance on a single person’s knowledge levels. The scheme manager should ensure all processes are documented and reviewed on a regular basis.	The Fund has a risk register in place which is regularly reviewed. The full register is now included as a standing item on each Board agenda The Fund records many of its internal controls and processes, although some gaps exist. Recording at the strategic level is generally good, but more operational processes need to be documented to help address key person risk. The Fund should consider producing decision and action logs as it does not do so at present.

key person unexpectedly leave their role. Funds with an engaged s.151 officer who has a good relationship with the scheme manager are more likely to have clear and robust internal controls.	Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate.	

Area of focus: Administrators

Good administration is the bedrock of a well-run fund. A scheme manager should work well with its administrator or administration team, and ensure the right people and processes are in place to ensure members' benefits are administered to a high standard.

Findings	Recommendations	Hackney Fund Approach
Better performing scheme managers have a close relationship with their administrator, whether they use a third party provider or an internal team. In these instances robust SLAs are in place which are routinely monitored by senior managers. These scheme managers are also willing to effectively challenge reports from administrators to ensure they fully understand the work being done. Not all scheme managers have clear oversight of the work being done by administrators or question the information provided by them when it is appropriate to do so. This leads to the scheme manager not understanding how well the fund is performing and can act as a barrier between the scheme manager and both participating employers and members.	Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should agreed standards not be met. Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator. It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided.	The Fund has targets and KPIs in place with Equiniti and monitors these accordingly. The Fund challenges Equiniti and escalates where standards are not met. The Fund has a formal contract in place with a defined end date. The Fund should consider asking Equiniti to attend Pensions Board meetings Fund officers hold regular monthly service review meetings with Equiniti to monitor performance. Dedicated project meetings are scheduled for specific issues e.g. data quality improvement

There is a variety of methods used to appoint third party administrators, and scheme managers generally carefully consider the best approach for the individual circumstances of their fund.	Scheme managers should hold regular meetings with their service providers to monitor performance.	

Area of focus: Member communication

The law requires scheme managers to disclose information about benefits and scheme administration to scheme members and others. This allows savers to understand their entitlements and make informed financial decisions.

Findings	Recommendations	Hackney Fund Approach
A number of scheme managers are currently reviewing the documents they send to savers. It is widely appreciated that pensions and retirement provision is complicated, and communication with savers needs to be in plain English. A variety of methods are being used, with the strongest scheme managers in this area working closely with a technical team and also enlisting the assistance of non-technical staff to check readability and whether it is comprehensive. Not all scheme managers fully appreciate the extent of their duties to provide information to savers, with some not knowing about the legal duty to inform active members where employee contributions are deducted but not paid to the fund within the legislative timeframe.	Information sent to members should be clear, precise and free from jargon. There should be senior oversight of communications sent to members and prospective members. It is often helpful for scheme managers to measure the effectiveness of their communication with savers, eg measuring website traffic and running surveys.	The Fund has experienced issues in the past with information sent to members but has recently completed a review of its communications. Senior oversight of communications is in place The Fund has just introduced a new website and is working to improve its online presence. A review of website traffic etc could be considered once the new website has bedded in.

Area of focus: Internal Dispute Resolution Procedure (IDRP)

Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law as set out in the Code to help resolve pensions disputes between the scheme manager and a person with an interest in the scheme.

Findings	Recommendations	Hackney Fund Approach
Some scheme managers have clear procedures in place for recording, and learning from, complaints and disputes they receive. They use this information to make changes to the way the fund is run in order to provide the best possible service to beneficiaries. Not all the complaints procedures and IDRPs we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published. This limits the ability of people with an interest in the funds to raise concerns and restricts a useful source of information for scheme managers. Not all scheme managers have a clear definition of a complaint. It is important for scheme managers to act in a consistent manner and if what a	There should be a clear internal policy on how to handle complaints, including escalation to suitable senior members of staff. People entitled to use the IDRP should be given clear information about how it operates. This information should be easily available, eg on the fund website. The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house. Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.	The Fund has a formal IDRP in place, and members are provided with clear information about its operation. This information is available on the Fund's website. The Fund could consider improving how it logs and analyses use of the IDRP to allow better oversight.

complaint looks like is not known this will affect its ability to put things right.		

Area of focus: pension boards

The role of the pension board is to assist the scheme manager with the operation of the scheme. Pension board members are required to have an appropriate level of knowledge and understanding in order to carry out their function

Findings	Recommendations	Hackney Fund Approach
Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases board member rotation is staggered to help preserve knowledge levels. Additionally, some boards have independent chairs, depending on the needs of the individual pension board. We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards to assist them with the operation of the fund. Other scheme managers face challenges around pension board members who routinely fail to attend meetings or complete the training they need to meet the required level of knowledge and understanding.	The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance. Individual pension board member training and training needs should be assessed and clearly recorded. The pension board should meet an appropriate number of times a year, at least quarterly. Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager. Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.	Attendance at meetings is good, with training provided at each meeting. The Fund should consider greater use of external training events/dedicated training sessions. The recording of individual training needs could be improved and the Fund is working to put this in place. The Pensions Board currently meets twice a year, in line with statutory requirements. The Fund may need to consider more frequent meetings if quarterly is the Regulator’s expectation. Processes are in place in the terms of reference to potentially replace a pensions board member if required. The scheme manager is aware of the risk of turnover amongst staff, Board and Committee members.

The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.	Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund. The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency. Pension board members should be fully engaged and challenge parties where appropriate.	The Fund could consider increasing the frequency of communication between officers and the Pension Board Chair, potentially via minuted calls. The Chair of the Committee already frequently attends the Pensions Board; the Fund could consider how it can ensure more Board members are able to attend the Committee.

Area of focus: Employers and contributions

Contributions must be paid to the scheme in accordance with scheme regulations. Scheme managers are also reliant on employers to provide accurate and timely member data, which is required for the effective administration of the scheme.

Findings	Recommendations	Hackney Fund Approach
Scheme managers monitoring the payment of contributions often face the challenge of payroll providers making a single payment for several employers and delaying sending a breakdown of the amount paid. Some scheme managers have been working with participating employers to encourage them to provide training to payroll providers where the payroll company won't engage with a body it doesn't have a direct contractual relationship with. Changing a payroll provider can cause issues. Early engagement with the employer and provider is helpful to mitigate later problems. Scheme managers have a variety of ways of assessing the risk of employers failing to pay contributions or having a disorderly exit from the fund, depending on the fund's resources. Better resourced and funded scheme	Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus. Employer solvency should be considered on an ongoing basis and not just at the time of each valuation. Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier. Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations. Scheme managers should develop an understanding of the risks and benefits	The Fund takes a risk based approach to its employers but could consider formalising this with a traffic light reporting system. The Fund engages with employers with outsourced payroll functions. This is particularly relevant to schools. The Fund has an employer liaison officer who will work directly with employers to ensure their payroll provider is submitting the information required. The Fund should consider providing more formal detail on its approach to different security types; the fund's employer mix is such that these have historically not been frequently used, but greater detail on the circumstances in which they would be should be considered.

managers will carry out detailed covenant assessments of all participating employers, with other scheme managers only reviewing those they believe to pose the highest risk. Most scheme managers seek security from employers to mitigate the risk of a failure to pay contributions. Some scheme managers rely on guarantees, particularly in relation to participating employers providing outsourced services. Others expect the majority of employers to set up a bond. Only a few scheme managers accepted a wide range of security types, generally those with larger funds. Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.	of a range of security types, such as charges, bonds and guarantees. Scheme managers should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security. Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets. Where security is in place, Scheme Managers should have a policy on when the security should be triggered	

Area of focus: Cyber security

Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. scheme managers need to take steps to protect their members and assets accordingly.

Findings	Recommendations	Hackney Fund Approach
Most scheme managers are heavily reliant on the security systems put in place by the Local Authority, with some not engaging with how the procedures in place affect the fund. Scheme managers of well run funds have a good understanding of the IT systems in place, even where these are implemented by the Local Authority. Some scheme managers have not given consideration to the risks posed by cyber crime. For these funds, cyber security did not appear on the risk register before our engagement with the scheme manager. Scheme managers that are aware of the risks associated with cyber crime generally have robust procedures in	Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register. Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks. Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the procedure and ensure the fund's requirements are met. Scheme managers should be aware of the cyber security processes used by third party providers, such as the	The Fund has reflected cyber security in its risk register, but should consider doing more to understand the Local Authority's approach to cyber security, including understanding when penetrating testing takes place. The Fund has assessed the cyber security processes used by providers but should ensure that records of this are formalised and kept up to date.

place to test the effectiveness of both cyber security and resilience methods.	administrator or custodian, that handle fund assets or data.	

Area of focus: Internal fraud and false claims

Schemes without strong internal controls are at greater risk. This includes having a clear separation of responsibilities and procedures which prevent a single member of staff from having unfettered access to scheme assets. Strong internal controls, particularly over financial transactions, also help mitigate the risk of assets being misappropriated.

Findings	Recommendations	Hackney Fund Approach
Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and external source. We found scheme managers are generally aware of publicised fraudulent activity that have affected other pension schemes and have taken steps to review their own procedures. Scheme managers of well run funds typically take steps to regularly screen member existence. Their scheme managers are also aware that not all incorrectly claimed pension benefits are the result of an attempt to defraud the fund and can identify when to treat a situation with sensitivity.	Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud. A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment. A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver. Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence.	The Fund has a policy statement with regards to payments made from Equiniti and has assessed Equiniti's internal processes. The Fund should consider including Equiniti's approach within its own documentation. Internally, the Fud uses the authority's payment approval processes which are clearly documented and auditable - more than one person's authority is required to make payment Th Fund should consider formalising its approach in the event of fraud, particularly with reference to the difference between fraud and honest mistakes.

Most scheme managers have introduced multiple levels of sign offs, with more than one person being required to agree to a payment being made. The scheme managers were also aware of frauds involving other funds, where this had been made public. They had taken steps to reduce their own vulnerability to similar issues.	When paper records are being used they should be held securely to prevent the risk of loss or mis-appropriation.	