

2010 PricewaterhouseCoopers UK Pension Scheme Governance Survey: What it means for Trustees

In the two years since our last governance survey, trustees have been under almost unprecedented pressure as a result of the economic downturn and its challenges. Governance is more important than ever in these circumstances. Good governance is about more than just compliance; it pervades all aspects of how trustees manage their schemes and how they address the needs of all key stakeholders.

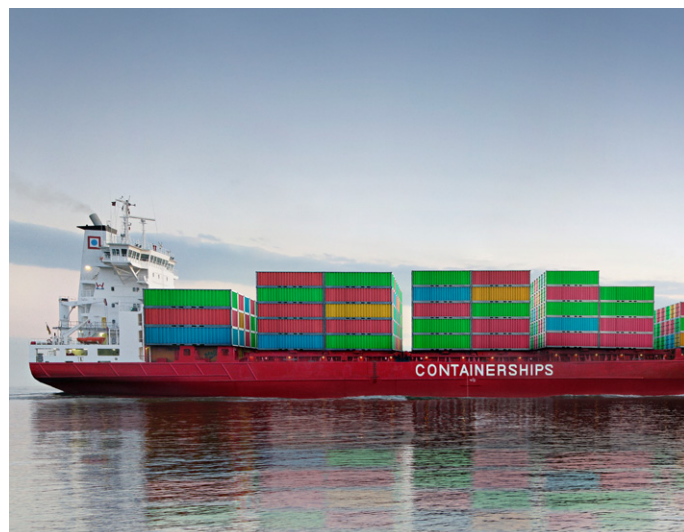
Our survey was divided into a number of categories covering various aspects of pension scheme governance and some of the key highlights are summarised in this newsletter.

Roles and responsibilities

The level of pressure of the economic downturn has no doubt contributed to a greater time commitment on the part of trustees to their duties, with significantly more trustees attending meetings fully prepared (68% compared to 53% in the last survey). The use of committees and subcommittees is increasingly viewed by trustees as a way of addressing complex issues facing pension schemes in more detail. The survey also highlighted increased communication with and involvement of the schemes' sponsors; however there has been some indication of a lack of mutual understanding or incomplete access in those relationships.

Accountability: communication with members

Issues of funding and covenant for DB schemes have rightly taken centre stage in the pensions arena. It is increasingly important for DC schemes and DC sections of hybrid schemes to prioritise member communication and the range of investment options provided to members. The survey shows an encouraging increase in the amount of educational information on investments. In the light of a decline in many members' DC funds as a result of the economic climate, it is important for trustees to realise the importance of providing detailed information on investment options; as well as educational materials which address the needs of individual members.



Conflicts of interest and employer covenant

This shows improvements in the implementation and use of conflicts of interest policies. However, there is a concern amongst some boards that relevant information known by any trustee is not always shared.

There has also been a surge in the percentage of schemes undertaking an independent review of the sponsor's covenant. However anecdotal evidence suggests that many trustees have found it difficult to know how to use the results of the covenant review.

In the light of the current economic climate, both findings reflect trustees increased concerns over securing the best level of funding and ensuring that the schemes are appropriately managed. This applies both in terms of compliance with regulatory requirements and from a risk management perspective, although these objectives are not always achieved.

Knowledge and understanding

This has been an area of increased focus by the Pensions Regulator. In the light of the revised Code of Practice on Trustee Knowledge and Understanding, the results of the survey give some cause for concern as the proportion of Trustees formally assessing their knowledge and understanding as well as reviewing it against the statutory requirements has slightly decreased. Is this because Trustees are aware that the bar has been raised and have not yet fully considered the implications?

Delegates and advisers

An increasing number of trustees are assessing their advisors and reviewing their performance. However comments suggest that trustees find it difficult to set objective criteria to assess their advisors. Given the amount of reliance placed by trustees on third party organisations, it is important for boards to review and question the advisors' internal controls. The survey revealed that less than half (41%) of the trustee boards challenge the controls put in place by their advisors.

Trustee performance

The survey conveys mixed messages on this area. On the one hand there is an increasing number of schemes that formulate a governance policy and evaluate effectiveness at a board level (although comments suggest that in a lot of cases the policies lack formality and are not shaped as coherent documents), on the other hand only a minority (21%) of schemes ask their trustees to set individual objectives.

Compliance and risk management

While the survey indicates an increase in the trustees' awareness of compliance risk and the need to consider the implications of legislative changes, there is still scope for improvement. While most trustee boards have updated the risk register and controls assessment recently, the survey suggests that there is a lack of utilisation and compliance once the register is produced. Only 30% of respondents said that their risk assessments were having a positive effect on prioritising agenda items. While the Regulator also places high importance on the issue of data integrity, this was an area of deficiency with many trustees not having a plan in place to improve the quality of data.

Three key questions for discussion with your board:

- Where you have commissioned an independent review of the employer covenant, do the trustees understand the results and have they been used in discussions with the employer about scheme funding?
- Do you have set criteria against which to measure the operations and effectiveness of your advisers, including how their own systems of internal control interact with those of the trustee board?
- Have you considered setting annual objectives for individual trustees and is trustee effectiveness firmly on your agenda?

For further advice and information, or if you would like a copy of governance survey booklet, please contact:

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