

## The Pensions Regulator – What’s on their agenda in 2010?

The aim of the Regulator is “working to improve confidence in work-based pensions by protecting members’ benefits and encouraging high standards and good practice in running pension schemes”.

In our newsletter this month, we take a look at 3 key areas of focus by the Regulator.

### Tougher approach on poor record keeping

The Regulator published a consultation document on 2 February 2010 entitled “Record Keeping: measuring member data”. This builds on the ‘good practice’ guidance previously issued by the Regulator in January 2009. Research by the Regulator indicates that progress on take-up and results within the industry following the guidance has been limited. As a result, the Regulator is considering moving from the ‘Educate’ and ‘Enable’ approach in the original guidance to add ‘Enforcement’ to their position.

The consultation document sets out a number of “war stories” highlighting the consequences of poor data:

An administrator conducted an exercise to completely populate spouse details, for which records had been incomplete. The exercise cost £2,500 but the more accurate data resulted in a reduction in valuation liabilities of £19 million.

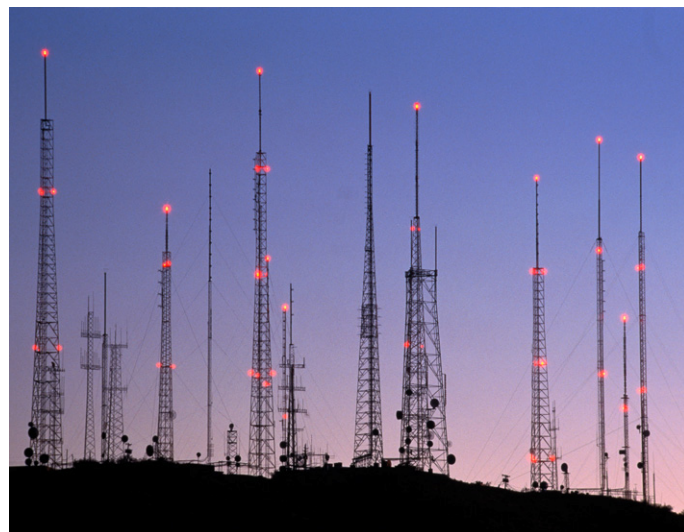
The Regulator poses three simple questions that trustees should be able to answer:

- Is the data there?
- Is it accurate?
- How do you know?

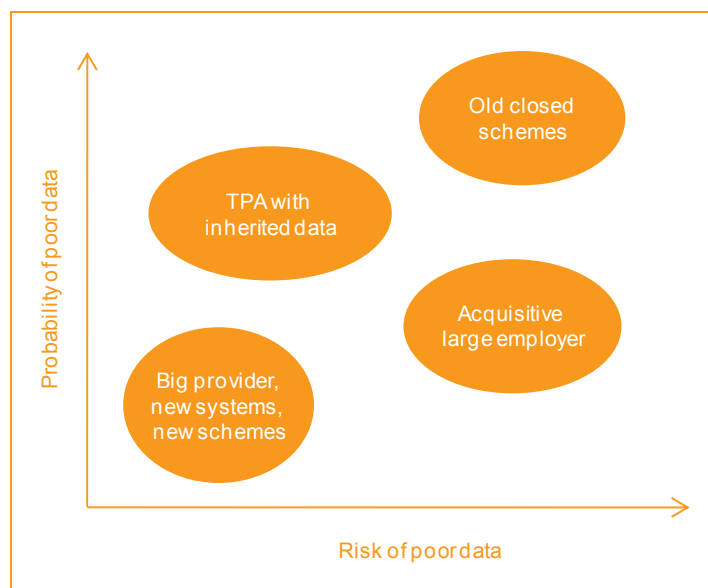
and acknowledges that there is a good case for dealing with legacy data problems differently, in comparison with the standards which should be applied to newly created data.

The approach proposed by the Regulator in the consultation document is to take new measures aimed at encouraging a much wider take up.

This would be supplemented by the selection of a number of schemes for which the Regulator would require data tests to be carried out. The results and/or data would be submitted to the Regulator for scrutiny and, if necessary, further action.



The following risk matrix is given by the Regulator as an example of how they may focus on areas of greatest risk:



Where would your scheme fit in this matrix?

Executive director of strategic development at the Regulator, Bill Galvin, commented:

“Accurate, complete data on members is a basic building block for almost everything that happens in a pension arrangement and we will take a much firmer line going forward.

Poor record-keeping can lead to significant additional costs for schemes – with the potential effect of reduced benefits for members.

## New requirements for trustee knowledge and understanding now effective

The revised code of practice on trustee knowledge and understanding (TKU) came into effect on 8 December 2009. The key changes are:

- In order to know the essential elements of the scheme's trust documentation, trustees will be required to read it all thoroughly
- It is more explicit that the Regulator expects new trustees to use the Trustee toolkit unless they can find an alternative learning programme.

The guidance supporting the code has also been subject to a review. The most significant change is that there is a reduced requirement on trustees of small (12-99 members) fully insured DC schemes.

### Extract from the code of practice relating to new trustees:

“ Newly appointed individual trustees have a period of six months from the date of appointment as a trustee to complete the required learning. This period is designed to give new trustees the time to acquire the necessary knowledge and understanding.

Notwithstanding the above, even a new trustee is accountable in law and must be equipped to make the decisions with which he or she might be faced. New trustees may find they need to prioritise their learning according to the agenda of the early trustee meetings which they attend.

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## Monitoring how schemes are coping in the downturn

The Regulator continues to monitor how schemes are coping in the current difficult economic environment. In November 2009 the Regulator published the latest edition of its annual analysis of recovery plans. Some of the key trends noted include:

- Increases in both the length of recovery plans and back-end loading of contributions
- Greater prudence in mortality assumptions
- An increase in the mean effective single discount rate adopted, reflecting increasing reliance on future investment returns (although it was noted that the data predates market activity in late 2008/early 2009).
- A reduction in the number of clearance applications. This is expected given the reduction in corporate activity over the period.

### Pensions Regulator Chair, David Norgrove, said:

“ We urge trustees to continue to take a prudent approach to assessing schemes' technical provisions, to maintain an honest and open dialogue with employers, and to remain aware of the changing economic situation as they focus on the long term interests of scheme members. The Regulator will continue to focus on this shared goal.

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