

Public Service Pensions
**Local Government
Pension Schemes**

East Sussex Pension Fund 11:45am
County Hall, Lewes, BN7 1UE

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3 November 2017

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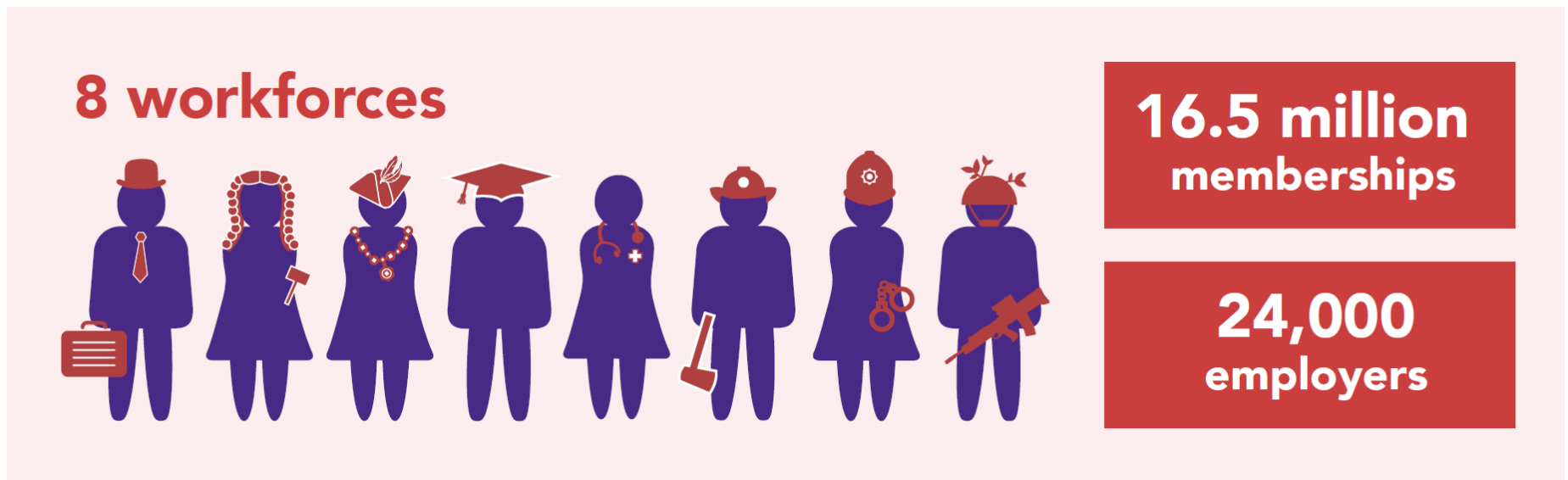
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**The Pensions
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Introduction

- We regulate the governance of public service pension schemes, which provide pensions for civil servants, the judiciary, local government, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces
- Our Code of Practice 14 sets out the standards of conduct and practice we expect.



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Our roles and responsibilities

- We regulate compliance with the Governance and Administration requirements introduced by the Public Service Pensions Act 2013:
 - we engage mainly with scheme managers and pension boards
 - investment: not the what (compliance with investment regulations) but the how (investment governance)
 - www.tpr.gov.uk/guidance/db-investment.aspx
- To educate and enable:
 - codes, toolkit, news-by-email
 - www.tpr.gov.uk/doc-library/codes.aspx
 - <https://trusteetoolkit.thepensionsregulator.gov.uk/>
 - <https://forms.thepensionsregulator.gov.uk/news-by-email/subscribe>
- To enforce:
 - improvement and third party notices, fines etc



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Our regulatory powers

- Collect data – through scheme return.
- Information – require any relevant person to produce any relevant document or information.
- Inspection – send in an inspector.
- Skilled person report – require scheme managers to provide a report made by a skilled person nominated by the regulator.
- Improvement notices and third party notices – require specific action to be taken within a certain time.
- Appoint skilled person – to assist the pension board.
- Report misappropriation – notify the scheme manager about pension board conflicts or misuse regarding assets.
- Recover unpaid contributions from employers on behalf of the scheme manager.
- Publish reports – about a case
- Civil penalties – up to £5,000 to an individual or £50,000 to a corporate body.

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TPR focus 2017/18

- Ongoing risk assessment and intelligence gathering
 - 2016 survey 90% response rate covering 98% of combined membership
 - 2017 survey out early November 2017
- Increasing focus on locally-administered schemes
- Key focus areas:
 - governance
 - record-keeping
 - internal controls
 - member communications

We will use our educate/enable/enforce regulatory approach to help schemes comply and address key risks

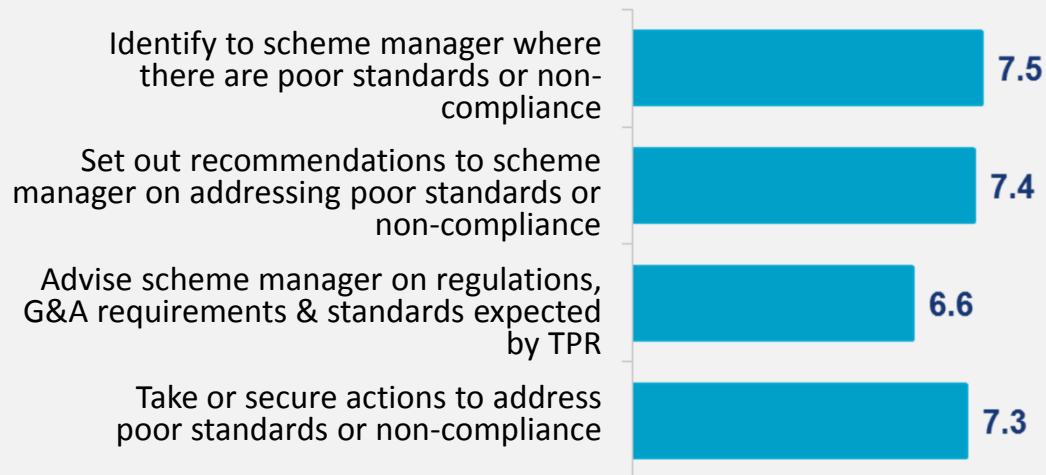
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Scheme governance - survey findings

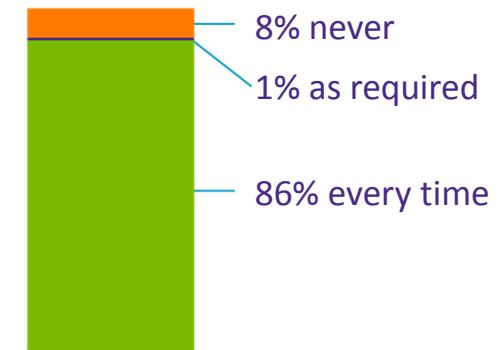
Scheme managers and pension boards engaging



Average rating of 7.2 for pension board's ability



But 8% of scheme managers never attend board meetings



13% of surveys completed without scheme manager engagement

65% of surveys completed without pension board engagement

Schemes report arrangements broadly working well – majority of scheme managers have regular contact with board.

Governance

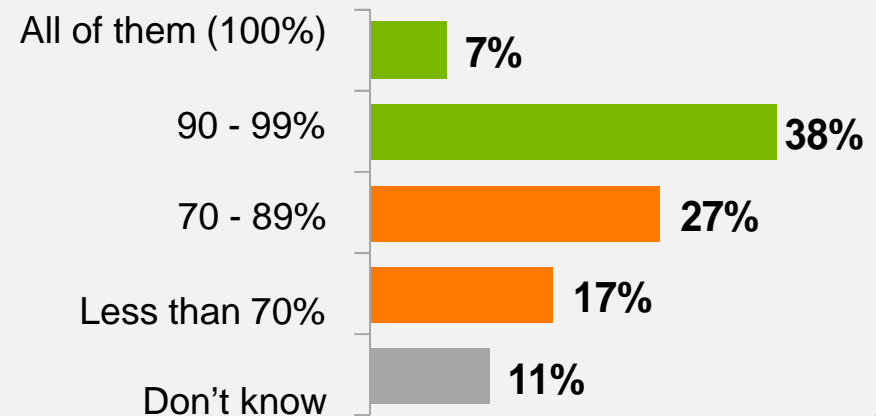
- Scheme managers accountable party for most requirements
 - Some confusion remains on roles and responsibilities especially on pension boards
 - Variety of practice in how scheme managers work with pension boards:
 - scheme managers should use this valuable resource
 - pension boards should take an active role in identifying key risks and driving forward improvements
 - 21st Century governance key focus for TPR this year
 - how can government, regulatory bodies and the pensions industry raise the standards of trustee competence and improve the governance and administration of pension schemes
- www.tpr.gov.uk/21c-trustee

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Record keeping - survey results

- Employer data remains an issue, with only **45%** providing good data as a matter of course.
- The larger the scheme, the lower the proportion of employers providing good data
- Single employer schemes see higher proportion of employers providing good data

Proportion of employers providing timely, accurate & complete data



40%

respondents identify poor records as a top risk

36%

respondents report delays in payment benefits as one of top three complaints received

Employer data is a significant concern, action is being taken but the quality varies. 40% of schemes see record-keeping as a top risk.

Record keeping - survey results

Most schemes are meeting our expectations of doing a data review annually

Last data review
83% in last 12 months
10% longer ago
2% never
5% don't know



But there are concerns as to the effectiveness of these reviews

Identified issues
61% identified issues
31% no issues identified
1% don't know if issues
7% not reviewed (inc. DK)



And take up of data improvement plans is low

Data improvement plans
23% data improvement plan
38% no data improvement plan
32% no issues identified (inc. DK)
7% not reviewed (inc. DK)

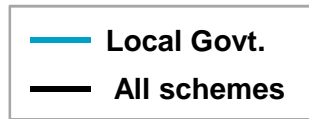
Schemes are doing an annual data review, but take up of data improvement plans is low. Although LGPS are ahead of other schemes, employer data is a bigger concern than for other schemes.

Record keeping

- Good record keeping is a key part to the good running of a scheme
- All schemes need to have good records to meet legal obligations
- We know from engagement that standards vary widely, and some schemes do not prioritise this appropriately, so TPR expects:
 - scheme managers to engage with administrators over service and security
 - assess data and put in place a plan to address issues
- Guidance on developing an improvement plan:
 - www.tpr.gov.uk/docs/improve-data-guide.pdf
- Scheme managers should be preparing for the General Data Protection Regulation (GDPR) and be compliant by 25 May 2018. For more guidance:
 - Information Commissioner's Office (ICO)
 - <https://ico.org.uk/for-organisations/guidance-index/>
 - Pension specific guides are also available, such as one published by the Personal and Lifetime Savings Association (PLSA)
 - <https://www.plsa.co.uk/Policy-and-Research-Document-library-General-Data-Protection-Regulation-Made-Simple>

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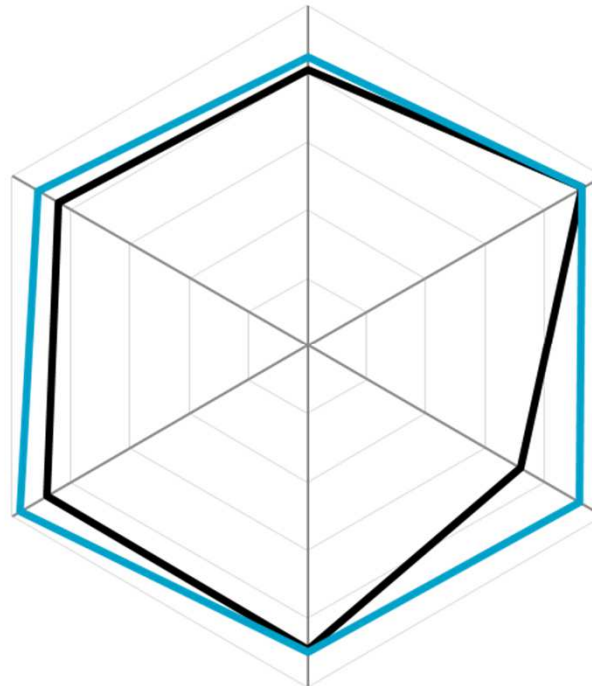
Key processes



91% have procedures to identify, assess and report breaches of the law
(+40% on 2015)

97% have a process for resolving payment issues and assessing whether to report failures to TPR
(+6% on 2015)

85% have a conflicts policy and procedure for pension board members
(-2% on 2015)



93% have policies and arrangements to help board members acquire and retain knowledge & understanding
(+8% on 2015)

92% have documented procedures for assessing and managing risks
(+13% on 2015)

90% have processes to monitor records for all membership types

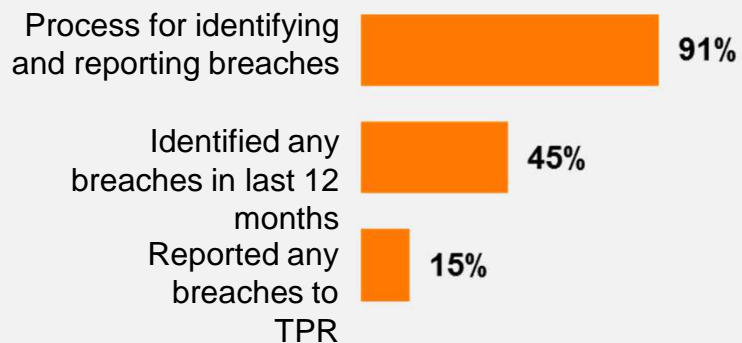
LGPS more likely to have some key processes in place than average, in particular around managing risks. Significant improvement made in processes for reporting breach.

Internal controls - survey results

Risk management



Breaches of the law



The proportion of all breaches reported is much lower for LG schemes than other schemes

Administrator management		
Administrators attend regular meetings with SM or PB	88%	Small schemes (<1k memberships) less likely to have administrator controls/monitoring procedures <ul style="list-style-type: none"> • Meetings 64% • Reports 55% • Auditors 44% • Assurance 18%
Administrators deliver regular reports to SM or PB	85%	
Independent auditors review performance	74%	
Administrators provide independent assurance reports	28%	
Performance metrics are set out in contracts or SLAs	55%	Lower where in-house administrator (43%)
Penalties are applied where term/standards not met	11%	Rarely used by PS schemes

Risk management is strength of LGPS, though the proportion of all breaches reported is much lower in LGPS schemes than for other schemes

Internal controls

- The scheme manager must establish and operate adequate internal controls to enable them to administer and manage their scheme in accordance with the scheme rules and the law
- Internal controls are systems, arrangements and procedures for:
 - scheme administration and management
 - monitoring that administration and management
- Includes:
 - identifying and managing risk using a risk register – for an example
 - www.tpr.gov.uk/docs/public-service-example-risk-register.pdf
 - controls around administrators and employers (lessons from the National Audit Office report)
 - identifying and reporting breaches of the law
- Internal controls checklist - www.tpr.gov.uk/docs/public-service-internal-controls-checklist.pdf

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Reporting breaches of the law

- Legal duty to report a breach of the law that is likely of material significance to TPR for:
 - scheme manager
 - pension board member
 - professional advisers
 - employers
 - administrators and others providing advice to the manager
- Reporters to determine if a breach has occurred based on reasonable cause and not a mere suspicion
- TPR provides example scenarios and RAG system for assessing scale of materiality by way of:
 - cause
 - effect
 - reaction
 - wider implications
- www.tpr.gov.uk/docs/PS-reporting-breaches-examples-traffic-light-framework.pdf

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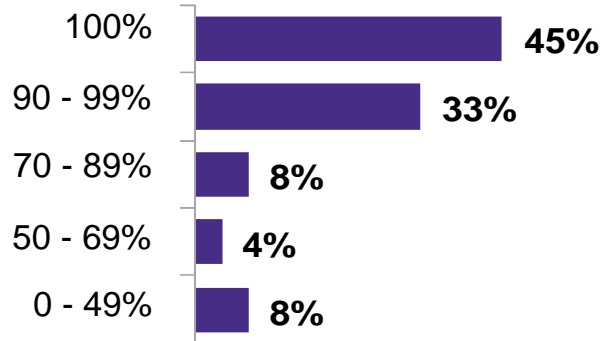
Case study - s89 Teachers' Pension Scheme

- 2 breach of law reports in 2016 from administrator
- 43 employers failing to submit their End of Year Certificates (EOYCs) to the scheme manager by the legal deadline
- Administrator had made multiple contacts with each employer
- Our engagement:
 - we engaged with non-compliant employers
 - engagement identified a lack of knowledge and understanding by employers on EOYC submissions
 - all but one employer now compliant
 - the scheme manager removed the final employer from the scheme (the employer has now gone insolvent)
- For more detail:
 - www.tpr.gov.uk/docs/regulatory-intervention-section-89-teachers.pdf

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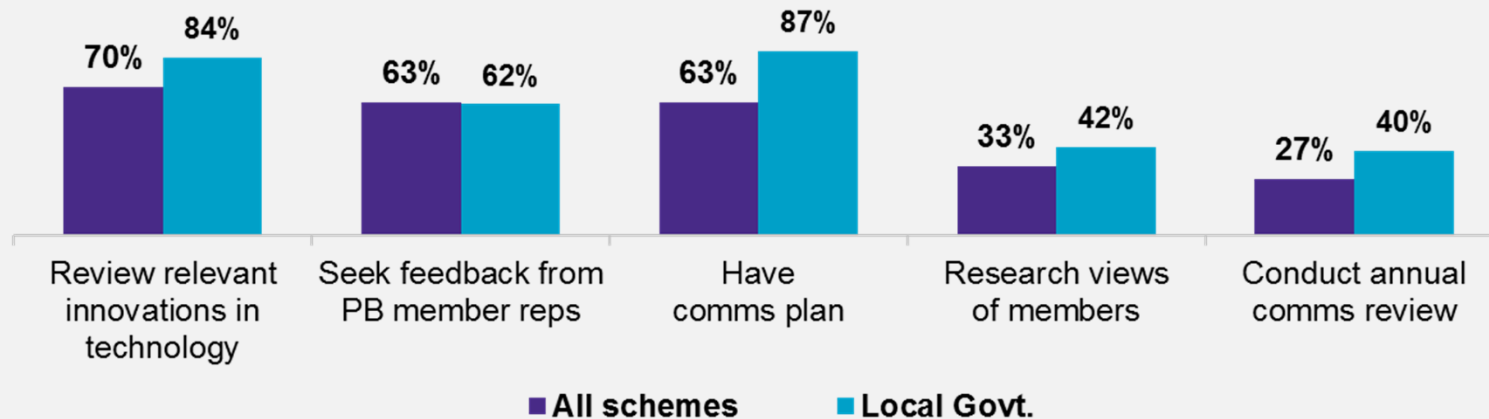
Member communications - survey results

Proportion of active members receiving annual benefit statement by statutory deadline



- Only 45% of schemes reported that all members received their ABS on time
- 13% of memberships did not receive their ABS in time
- Performance was significantly worse among smaller schemes

Tools/processes to improve effectiveness of member communications

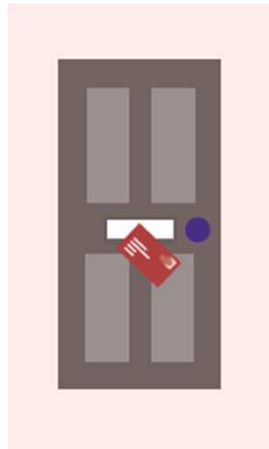


- The larger the scheme, the more likely it is to use a range of tools to try and improve communications

One in 5 members did not received their benefit statements in time. Schemes are using a variety of mechanisms to improve member communications.

Member communications

- New requirement to issue an annual benefits statement - for more guidance:
 - www.tpr.gov.uk/docs/public-service-annual-benefit-statements-guide.pdf
 - www.tpr.gov.uk/docs/public-service-annual-benefits-statement-checklist.pdf
 - www.tpr.gov.uk/docs/PS-guide-key-information-to-provide-to-members.pdf
- We expect schemes to tackle the issues faced in the early years and for the proportion of members who receive their statements on time to improve
- Good communications are not just timely and accurate, but also clear - many pension boards advise on this perspective



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Challenges ahead

- Guaranteed minimum pension (GMP) reconciliation - ends December 2018
- Dashboards
- General Data Protection Regulation (GDPR) - May 25 2018
- Outcome of valuations



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What can pension boards do?

- Robust governance processes including clear roles and responsibilities
- Engage with the regulator's work
- Support the scheme manager:
 - assess risks, challenge and ensure plans are in place
 - focus on top 3 risks
 - look ahead – GMP, dashboards, GDPR
- Knowledge and understanding
 - TPR toolkit

Public service pension scheme fined £1000

- We issued a £1,000 fine against the London Borough of Barnet scheme manager for failing to submit its 2016 scheme return:
 - we issued a scheme return notice to the scheme manager on 9 July 2016, requesting the scheme return be submitted by 12 August
 - the return was not received and further communications from TPR not replied to
 - so the matter was referred to TPR's Determinations Panel on 24 February 2017
 - the penalty notice was issued to the scheme manager on 13 April and paid on 9 June
- As the scheme return was not submitted a case team continues to engage with local authority staff to discuss the scheme's future governance and administration.

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Key lessons - i

- Outsourcing does **not** reduce or remove a scheme manager's responsibility or accountability.
- It is the legal responsibility of trustees and managers to submit a scheme return by the specified deadline:
 - failure to submit may signal further governance and administration problems within the scheme
 - good scheme governance is a key factor to achieving positive outcomes for members
- The £1,000 fine against the scheme manager took into account:
 - size of scheme (23,000 members)
 - governance and administration being a priority for TPR



Failure to provide the scheme return by the deadline can lead to fines of up to

£5,000

per individual and

£50,000

in other cases

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Key lessons - ii

- Scheme returns gives us a solid understanding of the pensions landscape as a whole, feeding into:
 - identification of risks
 - education initiatives
 - policy formulation
- Up to date and accurate data enables us to:
 - communicate with schemes, managers or employers quickly and effectively
 - share data with the Pensions Tracing Service to help members search and secure their pension benefits
 - calculate the annual levy
- For more information:
<http://www.thepensionsregulator.gov.uk/docs/regulatory-intervention-section-89-london-borough-of-barnet.pdf>

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Useful tools, checklists and guidance

- **Annual benefits statement -**
www.tpr.gov.uk/docs/public-service-annual-benefit-statements-guide.pdf
www.tpr.gov.uk/docs/public-service-annual-benefits-statement-checklist.pdf
www.tpr.gov.uk/docs/PS-guide-key-information-to-provide-to-members.pdf
- **GDPR guidance - Information Commissioner's Office (ICO) -**
<https://ico.org.uk/for-organisations/guidance-index/>
- **Improvement plan guidance -** www.tpr.gov.uk/docs/improve-data-guide.pdf
- **Internal controls checklist -** www.tpr.gov.uk/docs/public-service-internal-controls-checklist.pdf
- **Public service - scheme self assessment toolkit -** www.tpr.gov.uk/public-service-schemes/assess-your-scheme.aspx
- **Public service - personal self assessment tool -**
<https://education.thepensionsregulator.gov.uk/login/index.php>
- **Reporting a breach -**
www.tpr.gov.uk/docs/PS-reporting-breaches-examples-traffic-light-framework.pdf
- **Risk register example -**
www.tpr.gov.uk/docs/public-service-example-risk-register.pdf
- **Trustee Toolkit -** <https://trusteetoolkit.thepensionsregulator.gov.uk/>

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Useful links

- **Our website** - www.tpr.gov.uk/
- **Codes** - www.tpr.gov.uk/doc-library/codes.aspx
- **Code of practice 14 - Governance and administration of public service pension schemes** - www.tpr.gov.uk/public-service-schemes/code-of-practice.aspx
- **Governance** - www.tpr.gov.uk/21c-trustee
- **Latest research** - www.tpr.gov.uk/public-service-schemes/research-and-analysis.aspx
- **NAO report** - www.tpr.gov.uk/docs/vfm-review.pdf
- **Pension scams** - www.tpr.gov.uk/pension-scams.aspx
- **Public service area** - www.tpr.gov.uk/public-service-schemes.aspx
- **TPR Future** - www.tpr.gov.uk/about-us/protecting-workplace-pensions.aspx

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Thank you

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Additional slides



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Legislative requirements: Code of practice 14

Governing your scheme:

1. knowledge and understanding required by pension board members
2. conflicts of interest and representation
3. publishing information about schemes

Managing risks:

4. internal controls

Administration:

5. scheme record-keeping
6. maintaining contributions
7. providing information to members

Resolving issues:

8. internal dispute resolution
9. reporting breaches of the law

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Roles and responsibilities i - LGPS

- LGPS governance under Public Service Pensions Act 2013
- Scheme manager:
 - has overall management or administration responsibility for a scheme
 - we expect them to take appropriate action to secure compliance
 - in some cases functions delegated to pension committee under s101 (only LGPS)
 - should be looking to pension board for assistance
- Pension board:
 - to assist scheme manager in securing compliance with scheme regulations and other legislation (including PSPA13)
 - not decision makers
 - focus on governance and administration to include top 3 risks (record-keeping, internal controls and communications)

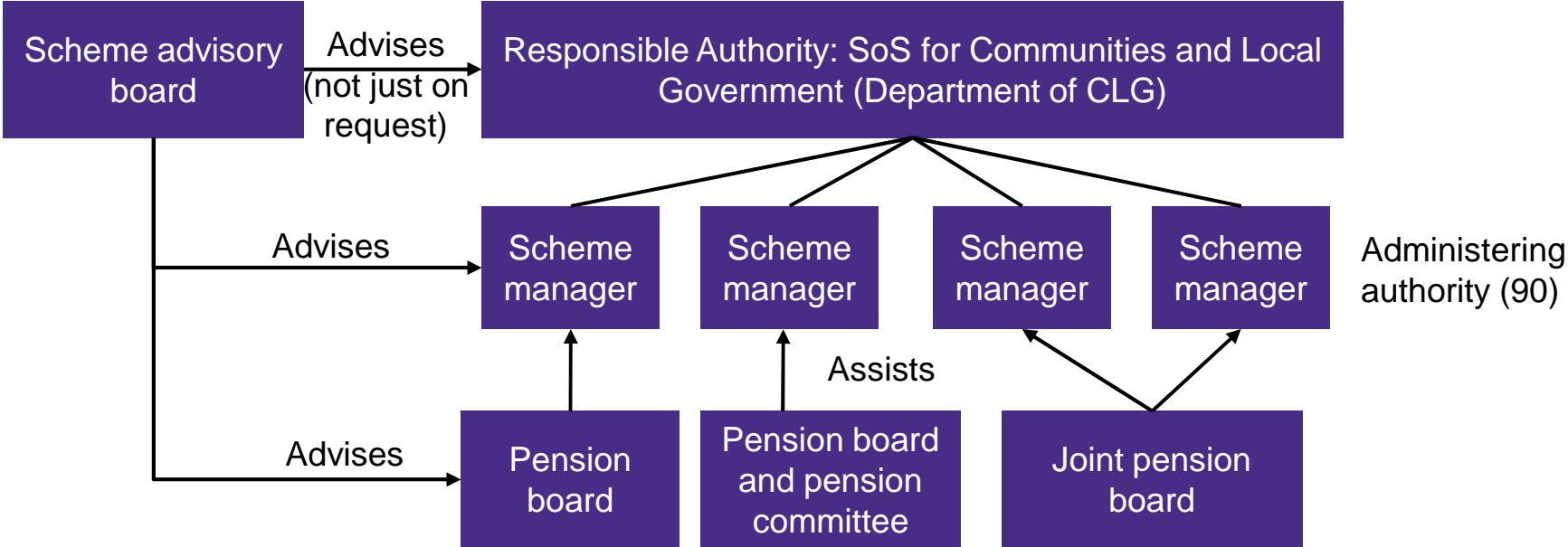
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Roles and responsibilities ii - LGPS under PSPA13

- Pension committee:
 - may have functions delegated to them
 - decision-makers, similar to trustees
 - investment functions and can also be involved in governance and administration (only true of LGPS)
 - in England and Wales can also fulfil role of pension board (with the approval of the Secretary of State)
- Responsible authority:
 - sets scheme policy and regulations
- Scheme advisory board:
 - advises responsible authority on scheme policy
 - in some cases also advises scheme managers and pension boards on governance and administration

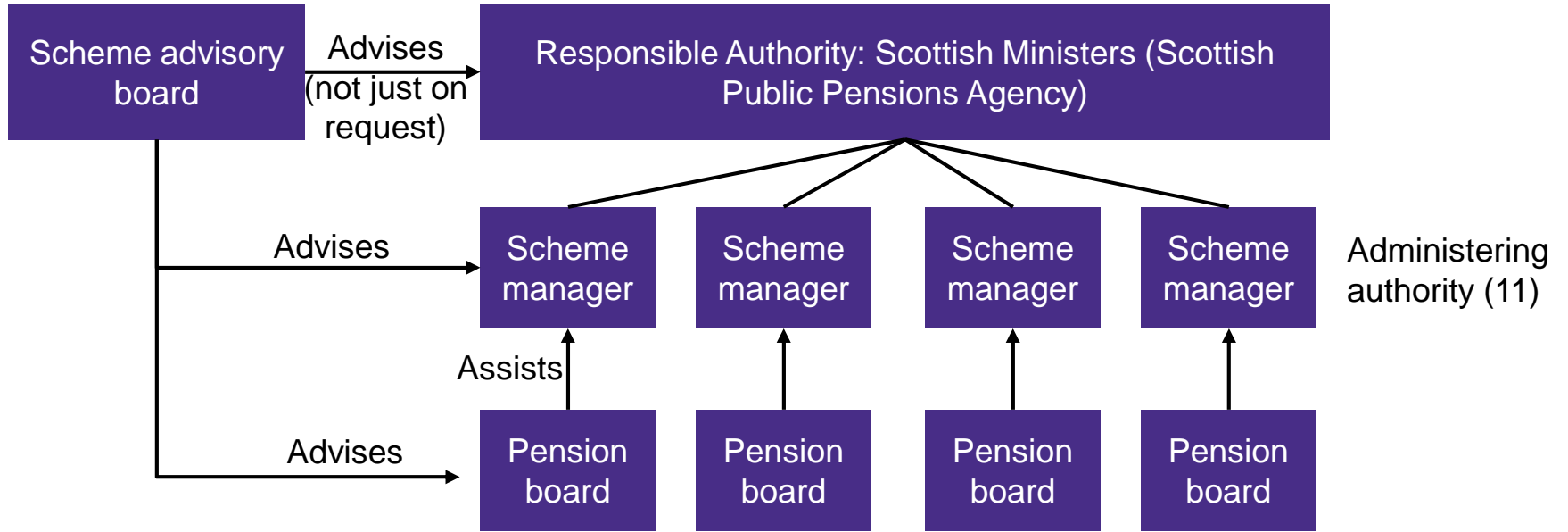
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LGPS (England and Wales)



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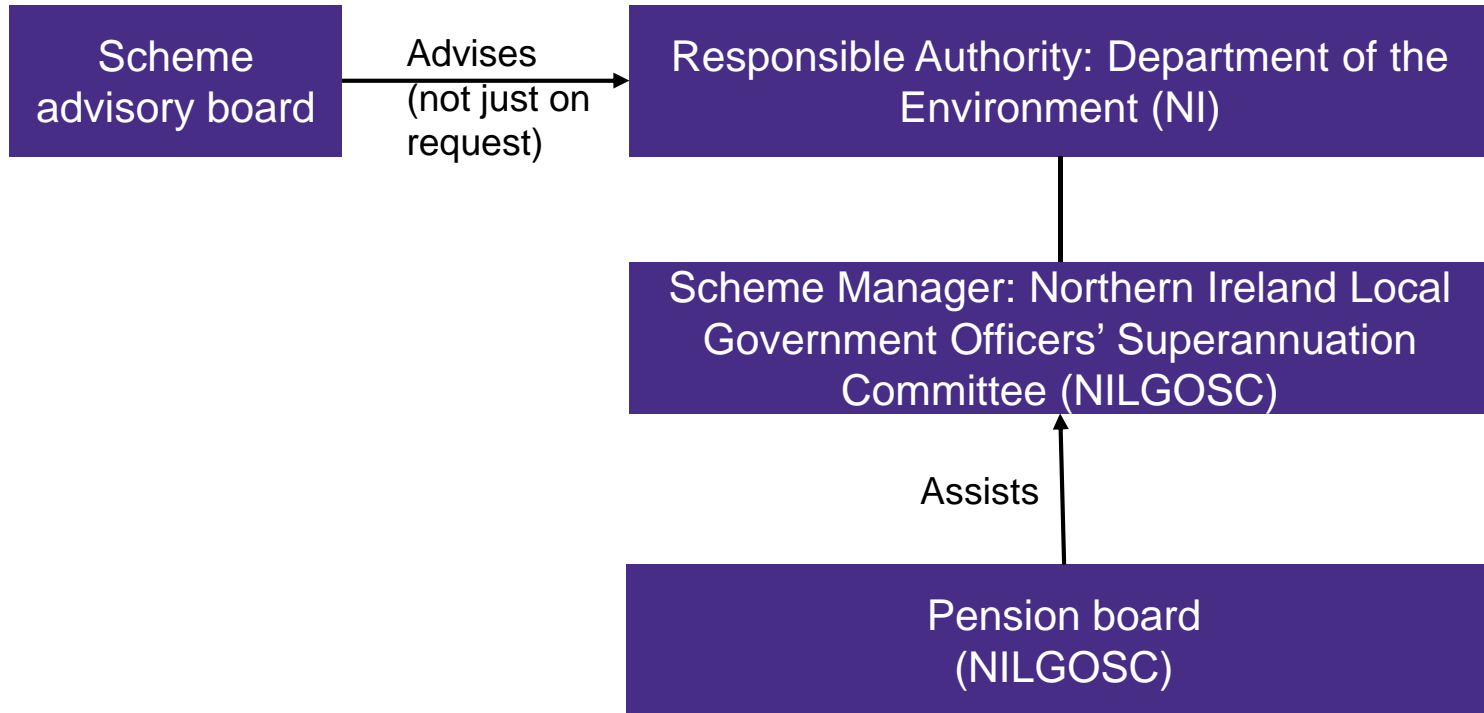
LGPS (Scotland)



Pension Board also monitors investments of the fund and investment principles. In some circumstances can ask the pension committee to review decisions.

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LGPS (Northern Ireland)



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Improving your data (i)

- Scheme managers should undertake an annual data review and put in place an improvement plan where they identify issues
- Our quick guide (www.tpr.gov.uk/docs/improve-data-guide.pdf) can help you design a plan or assess an existing one, setting out key areas to consider:
 - objectives
 - outcomes
 - scope and prioritising
 - activities
 - dependencies
 - timeframes and timelines
 - resourcing
 - governance

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Flowchart: designing your improvement plan



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Improving your data - ii

- Data improvement is a continuous process, not a one-off exercise
- The data needed to run an efficient and effective scheme should be checked regularly – both ‘common data’ (applicable to all schemes) and ‘conditional data’ (dependent on scheme type, structure and system design)
- Data should be well managed day to day to ensure it is accurate and complete
- Though administrators may look after records on a day-to-day basis, scheme managers are still accountable

Roles and responsibilities (1)

- The **responsible authority** designs the scheme and makes the scheme regulations, which will specify the scheme manager and the matters for which the pension board is responsible. For the Local Government Pension Scheme (LGPS - England) the responsible authority is the Secretary of State for the Department for Communities and Local Government (DCLG).
- The **scheme manager** has overall management or administration responsibility for a scheme. For LGPS the local authority (usually the county council) is the scheme manager.

Roles and responsibilities (2)

Pension boards are responsible for assisting the scheme manager in securing compliance with:

- scheme regulations
- other governance and administration legislation
- any requirements of The Pensions Regulator
- additional matters, if specified by scheme regulations
- pension boards need to have an equal number of employer representatives and member representatives (they may also have other types of members, such as independent experts).

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Roles and responsibilities (3)

- The **scheme advisory board** is responsible for advising the responsible authority about possible scheme changes. In some schemes, the board may also advise scheme managers and/or pension boards on improving the administration and management of the scheme.
- **The Pensions Regulator** (TPR) and government departments have roles in relation to public service schemes. TPR directly regulates scheme managers and pension boards, but will engage with other stakeholders.
- The **scheme administrator** keeps records, collects contributions and pays benefits to members. They may be in-house or a third party.

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Roles and responsibilities (4)

- The **pension committee administrator**, invest and manage funds on behalf of LGPS managers. Also responsible for setting investment strategy and appointment of investment managers.
- **Employers** may carry out a number of tasks including:
 - paying contributions
 - keeping and providing data to the scheme manager and/or administrator
 - dealing with disputes.
- **Scheme advisers**
 - advisers and service providers can help those governing and administering schemes to make informed decisions.

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21st Century Trusteeship campaign

- Our aim is to drive up standards of governance and trusteeship across the landscape (defined contribution, defined benefit and public service pensions):
- How will TPR do this?
 - **being clearer on the standards** we expect from trustees and key players and communicating these expectations
 - **bolder enforcement** against non-compliance with governance standards (ie scheme return completion)
 - **encouraging consolidation** where schemes are unwilling or unable to deliver good governance, including value for members

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What are the key themes of the programme?

- The campaign will focus initially on emphasising the fundamental importance of good governance. Over the coming months, extra content will be added to the website, covering key governance themes including:
 - clear roles and responsibilities
 - clear purpose and strategy
 - competence and integrity
 - up-skilling and training
 - managing advisers and service providers
 - managing conflicts of interest
 - managing risk
 - meetings and decision-making
 - value for members
 - www.tpr.gov.uk/21st-century-trusteeship.aspx

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Who are we trying to reach?

- Trustees, including chairs and professional trustees
- Employers
- Service providers
- Scheme managers, scheme advisory boards, pension scheme board members (public sector pension schemes)
- Advisers, including actuaries, accountants and pensions lawyers
- Particular focus on the disengaged and those at risk of non-compliance

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