

Public service governance and administration survey 2018

Commentary on results

Background

Public service pension schemes provide pensions for nearly 17 million civil servants, judiciary, local government workers, 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 we expect of the people who manage these schemes. Our aim is to improve standards across the board, focusing our interventions on the schemes that we consider present the greatest risk.

In the past year we have engaged with a number of pension scheme managers and pension board members. This, together with one-to-one relationships with large schemes, has helped to inform our understanding of the landscape.

To gather further information about public service pension schemes, we carried out our fourth annual governance and administration survey in November and December 2018. Previous surveys identified that key features of good governance were becoming more commonplace across public sector schemes. In the latest survey, we looked in more depth into how these features were operating in practice.

The survey findings support our existing assessment that the top risks in this landscape are around governance, record keeping, and member communications. They also identify cyber security as a significant issue requiring attention.

The survey is anonymous by default, although scheme representatives can attribute their answers so that we and/or their Scheme Advisory Board can see them. We do not take direct regulatory action based on the answers given, but the answers in aggregate may inform our regulatory approach.

This commentary accompanies the full research report which details all the survey results. It is intended to draw out the key points and areas of concern we have identified. Scheme managers should read the full results of the survey to understand more about the issues highlighted in this statement.

Key issues

Three-quarters (74%) of public service schemes had all six of our key processes in place, an improvement on previous years. However, it is disappointing that the remainder of schemes still did not have all six of these simple measures in place.

Pension Board meetings

Only half of schemes had four or more pension board meetings in the previous 12 months. We have previously highlighted that scheme governing bodies should meet at least quarterly. We are concerned that irregular meetings may be an indicator of poorly-governed schemes. We note that Fire schemes had both infrequent meetings and were the most likely cohort to postpone meetings. We expect to see an improvement in this area.

Knowledge and understanding

Almost all respondents believed that the scheme manager and pension board had access to all the knowledge and skills necessary to run the scheme and were more confident than in previous years that they had sufficient time and resources to do so. However, the survey results did not fully support this view. Only in four-fifths (82%) of schemes did the scheme manager and pension board evaluate the board's knowledge and understanding at least annually. Furthermore, 39% of schemes saw recruitment, training and retention of staff and knowledge as a barrier to improving their governance and administration over the next 12 months, and 47% cited lack of resources or time. We see this lack of knowledge and resources as a key reason for scheme managers not being able to drive the improvements that we expect.

The concerns expressed by respondents about knowledge and understanding may partly be driven by the significant annual turnover in pension board members. On average schemes reported that 20% of the total positions on their pension board had left in the previous 12 months. The loss of knowledge and understanding that this represents is significant. It is essential that pension boards have documented processes in place to ensure the preservation of knowledge and should carry out a skills analysis to assess the areas where their knowledge may be weakest. This will also highlight situations where there is a concentration of knowledge in particular individuals. This will help in the recruitment of members with the knowledge, skills and experience required. Pension boards should also ensure that they have all appropriate training in place for new recruits to build their own understanding.

Board membership

We have very significant concerns about eleven schemes that reported that at the time they completed the survey they were operating with fewer pension board members than required by their respective scheme regulations. The situation appears to have been temporary in most cases until new pension board members could be recruited. In the meantime, however, these schemes were breaching the law. We urge scheme managers to maintain a pension board with more than the minimum number of members to avoid this situation. They should also take steps to ensure that pension board members are recruited before a vacancy exists to enable an effective handover to take place.

Risk registers

While more schemes had a risk register than in previous years, it does not appear that every scheme recognises their value. Only half of schemes had reviewed their exposure to new and existing risks at least quarterly in the previous 12 months. The risk register should be a living document that recognises how risks are emerging, developing and being mitigated or controlled. The pension board and scheme manager are key players in identifying and controlling risks, and a review of the risk register should form part of every meeting.

Collecting data

We expected to see that multi-employer schemes had lower levels of employers presenting data in a timely or accurate and complete manner. This was borne out by the survey findings, although some single employer Police and Fire schemes also reported that they were facing issues. However, we feel that some schemes, particularly the local government schemes, could do more to facilitate the collection of data. Only half of Local Government schemes said that all their employers submitted data electronically and just two-fifths said that all their employers submitted their data monthly. Monthly electronic data submission should be the default for all schemes and we recommend that schemes take steps to put this in place. Aligning data submission with payroll cycles makes it easier for employers to comply as information can be provided as part of the payroll process. Current practices that allow data to be submitted by annual paper return increase the burden for both participating employers and the schemes processing that data. They also increase the chances of mistakes occurring and take longer to rectify.

Cyber security

In recent years we have asked schemes to recognise the importance of cyber security. The survey found that there were generally high levels of compliance with basic security measures such as system and access controls and policies on data and use of devices. However, these basic measures were not universal - for example, 17% of schemes did not report that they have controls restricting access to systems and data. A similar number (18%) did not report that they have systems controls such as firewalls, antivirus or software updates. Around half of schemes said that they had experienced a cyber breach or attack in the previous 12 months. The majority of these involved staff receiving fraudulent emails or being directed to fraudulent websites and attacks that try to take down websites or online services.

It is vital that schemes also consider their cyber footprint. Pension schemes share large amounts of data with third parties such as administrators, actuaries, employers and legal advisors. An awareness of the security processes that these bodies have in place is necessary too. Cyber security is not just about reducing the risk of incidents occurring, but also requires preparation for when things go wrong. Schemes need to have an incident response plan in place, and the scheme manager must be aware of the contingencies in place. The lack of pension boards and scheme managers who received regular updates on cyber risks, incidents and controls indicates that this risk is still not being taken seriously.

Data quality

Around three-quarters of schemes that had reviewed their common data in their most recently completed review said that they had identified problems with it. This is lower than we would expect, given that common data includes addresses which can rapidly become out of date. We therefore think it is likely that schemes are not reporting on all elements of common data. Fewer Police schemes reported identifying issues with their common and scheme specific data in their most recently completed review than other cohorts. We are aware that data cleansing has been a focus for Police schemes for some time now and we trust that their results indicate that a well-functioning and effective data cleansing process has now been widely adopted. To ensure comparability within cohorts, we support the work of Scheme Advisory Boards to develop a common definition and standard for their schemes to report on.

Annual benefit statements

There was a general improvement in the number of annual benefit statements issued on time again this year. However, there is still considerable scope for improvement by schemes in this area. We are troubled by the 10% of schemes (15% of Local Government schemes) that did not report that all the annual benefit statements they sent out in 2018 contained all the data required by regulations. We understand that schemes may be taking this action to meet the 31 August deadline for issuing statements. In our view however, deliberately sending out a statement with missing or incorrect data is worse than sending out an accurate statement late. Those schemes that have given us a Breach of Law report in relation to annual benefit statements in recent years have typically had a plan to get their statements out very soon after the deadline, for the few members it affected. We are unlikely to take action on the basis of a breach of law report on its own where there is a reasonable plan for rectification of the situation.

Administration

Pension boards have two fundamental responsibilities - to oversee both the governance and administration of the scheme. A board that is failing to meet its basic responsibilities by not having administration as a feature of every meeting is failing in one of its fundamental functions. We are pleased to see that more schemes are giving administration the attention it deserves, with three-quarters of schemes considering it at every pension board meeting in the previous 12 months. We do still see some space for improvement in the locally administered (Police, Fire and Local Government) schemes, however. It is notable that most of the complaints received by schemes continue to stem from poor administration. This might be around disputes or queries about the amount of benefit paid, slow or ineffective communication, delays to benefit payments, or inaccuracies or disputes around pension value or definitions. Pension boards should continue to ensure that administration is considered on every agenda to identify persistent and emerging issues, and to advise the scheme manager to make improvements.

Conclusion

The pattern of results this year indicates that while pension boards have managed to drive improvements in some areas, they continue to struggle in many others. The locally administered schemes appear to find it particularly hard to meet their responsibilities. There are a variety of reasons for this depending on the exact circumstances of the scheme. Scheme managers and pension boards need to drive improvements in the key areas highlighted here. Some are more straightforward than others but taken together will improve the running of the scheme. We suggest that pension boards, scheme managers and scheme advisory boards examine ways in which collaboration and sharing of resources can deliver better governance and administration.

The information gathered in the survey will be used to inform our regulatory initiatives with all schemes. Over the course of the next year some public service schemes will experience greater engagement from us through our new supervisory processes. This new range of regulatory tools and techniques, which includes one-to-one relationships with schemes of strategic importance and broader scheme supervision and thematic work, helps clarify our expectations of schemes on whom millions of savers rely.

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