# Public Service Pensions
# Firefighters Pension Schemes

**SAB Local Pension Board Effectiveness Committee**

**21 October 2017**

Derbyshire Fire and Rescue HQ, Ripley 10.30am

**Nick Gannon**
Policy Lead

**Neil Esslemont**
Head of industry liaison

**Rebecca Woodley**
Industry liaison manager

**The information we provide is for guidance only and should not be taken as a definitive interpretation of the law.**

The Pensions Regulator
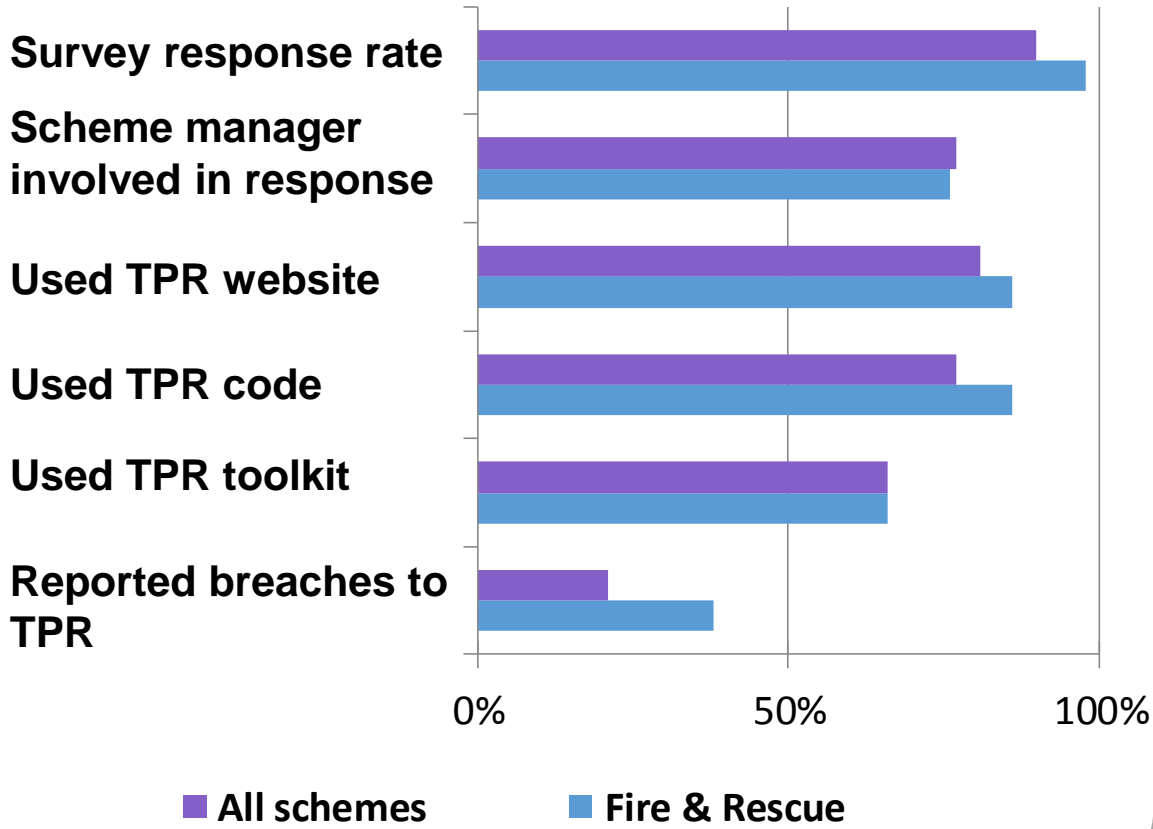
# TPR focus 2017/18

- Ongoing risk assessment and intelligence gathering
  - 2016 survey 90% response rate covering 98% of combined membership
- 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
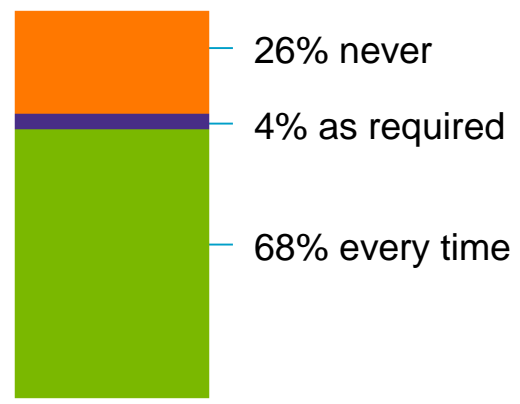
The Pensions Regulator

# Firefighters Pension Scheme governance - survey findings

## Scheme managers and pension boards engaging



- Survey response rate
- Scheme manager involved in response
- Used TPR website
- Used TPR code
- Used TPR toolkit
- Reported breaches to TPR

0%   50%   100%

■ **All schemes**   ■ **Fire & Rescue**

But **26%** of scheme managers never attend board meetings
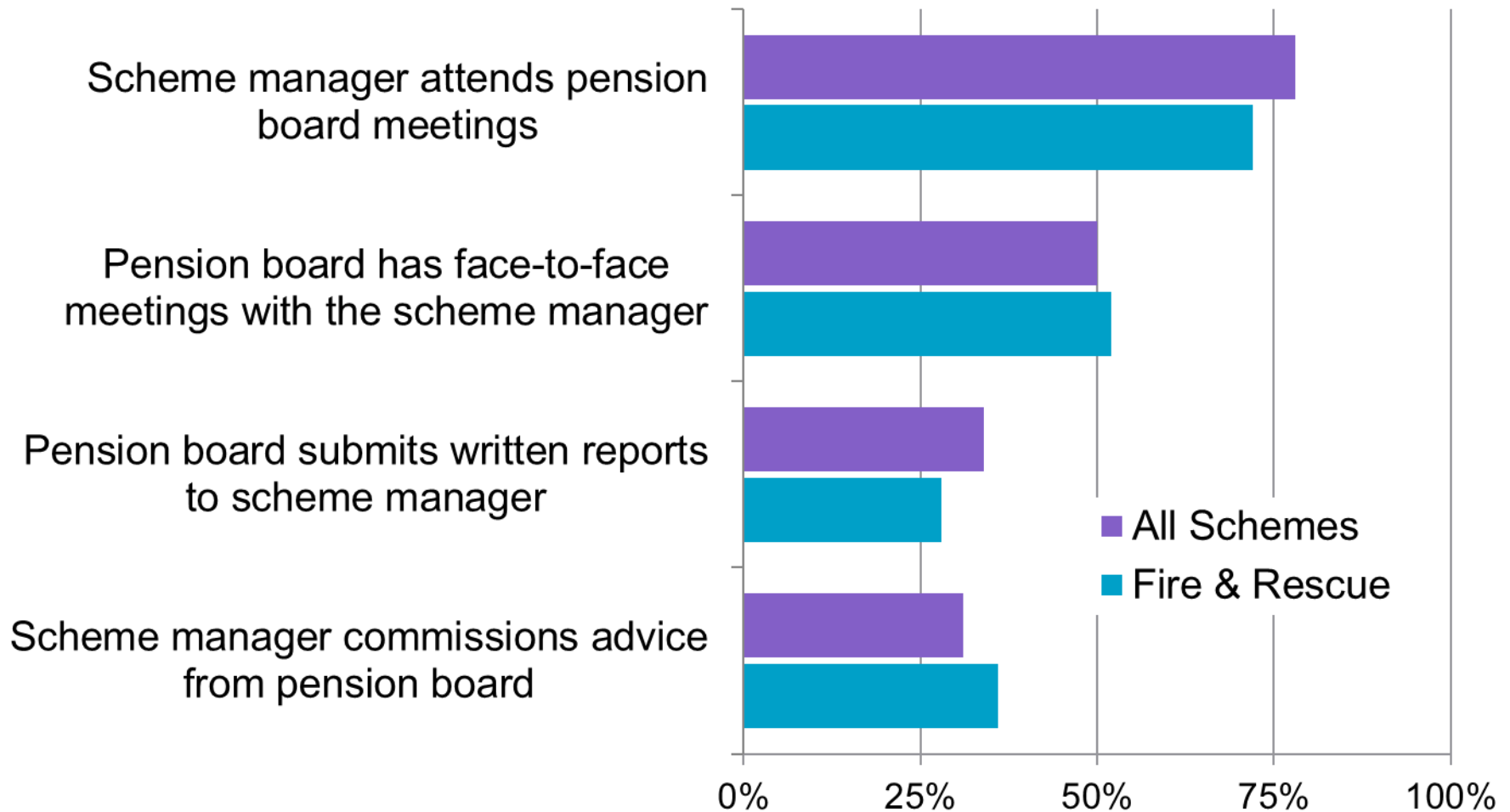


- 26% never
- 4% as required
- 68% every time

**24%** of surveys completed without scheme manager engagement

**48%** of surveys completed without pension board engagement

¼ of boards have no regular contact with scheme manager. But FPS more likely than average to be engaging with TPR.

# Interaction between scheme manager and board



Chart categories:
- Scheme manager attends pension board meetings
- Pension board has face-to-face meetings with the scheme manager
- Pension board submits written reports to scheme manager
- Scheme manager commissions advice from pension board

Legend:
- All Schemes
- Fire & Rescue

X-axis: 0%, 25%, 50%, 75%, 100%

FPS scheme managers and pension boards interact in line with the wider PSPS landscape, though significantly lower than the centralised schemes.
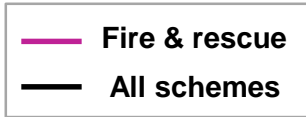
# Pension board's ability to guide and advise scheme manager

**On a scale of 1 – 10, where 10 represents 'very good' and 1 represents 'very poor', how would you rate the pension board's ability to…?** (mean ratings)

| | All Schemes | Fire and Rescue |
|---|---|---|
| Identify where there are poor standards or non-compliance with legal requirements | 7.3 | 6.6 |
| Set out recommendations on addressing poor standards or non-compliance with legal requirements | 7.3 | 6.6 |
| Advise on scheme regulations, governance and administration requirements set out in legislation, and standards expected by TPR | 6.7 | 5.5 |
| Take or secure actions to address poor standards or non-compliance with legal requirements | 7.4 | 6.9 |
| **Average pension board rating (across all 4 aspects)** | **7.2** | **6.4** |

Perception of board's skills is lower than average.

# Key processes



Legend:
- **Fire & rescue**
- **All schemes**

**80%** have a conflicts policy & procedure for pension board members
**(+2% on 2015)**
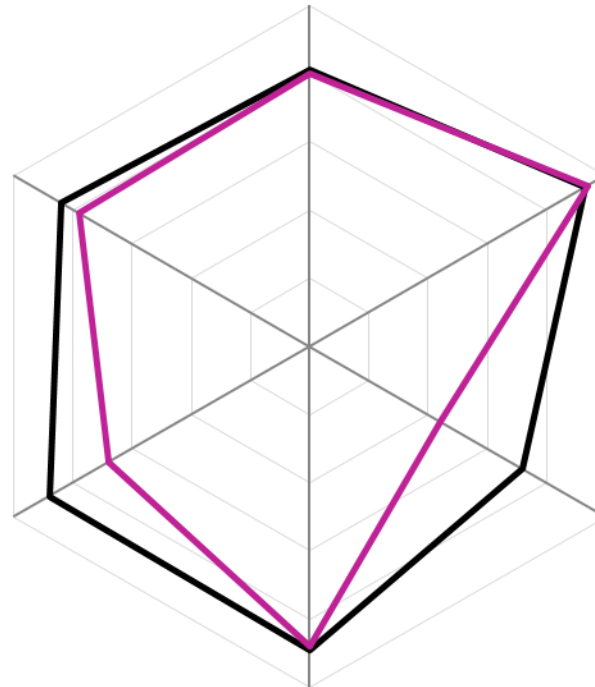
**94%** have policies and arrangements to help board members acquire and retain knowledge and understanding **(+58% on 2015)**

**78%** have procedures to identify, assess and report breaches of the law **(+42% on 2015)**

**44%** have documented procedures for assessing and managing risks **(+8% on 2015)**

**68%** have a process for resolving payment issues and assessing whether to report failures to TPR **(-10% on 2015)**

**88%** have processes to monitor records for all membership types

Significant improvement in key processes around breaches of the law and training and knowledge. FPS still less likely to have some key processes in place than average, in particular around managing risks and maintaining contributions.

# Proportion of schemes that have a...

## conflict of interest policy and procedure for pension board members



## a register of interests
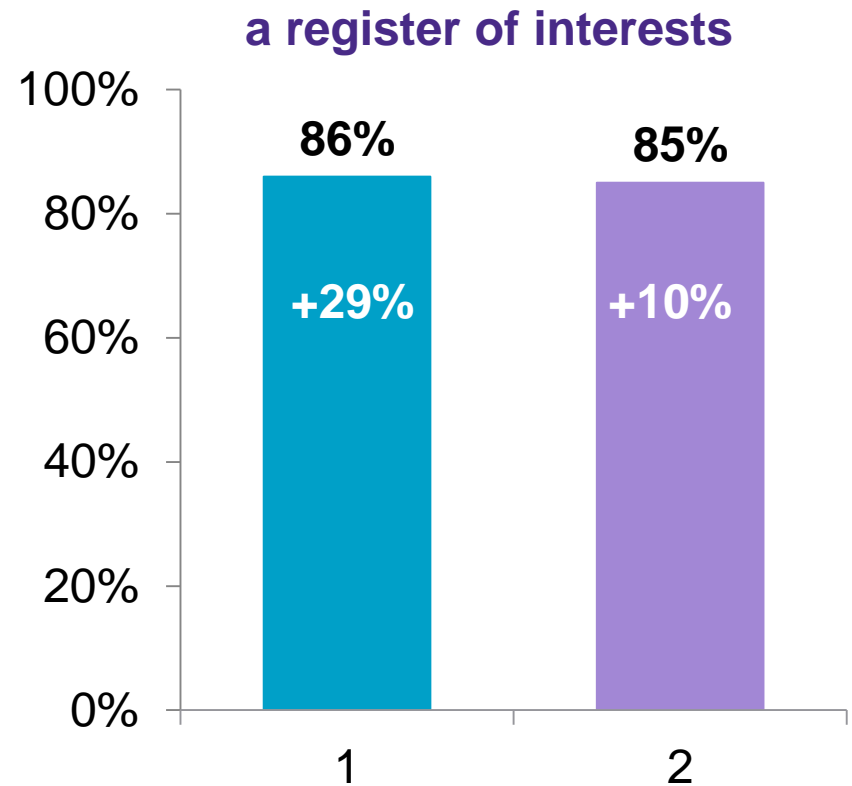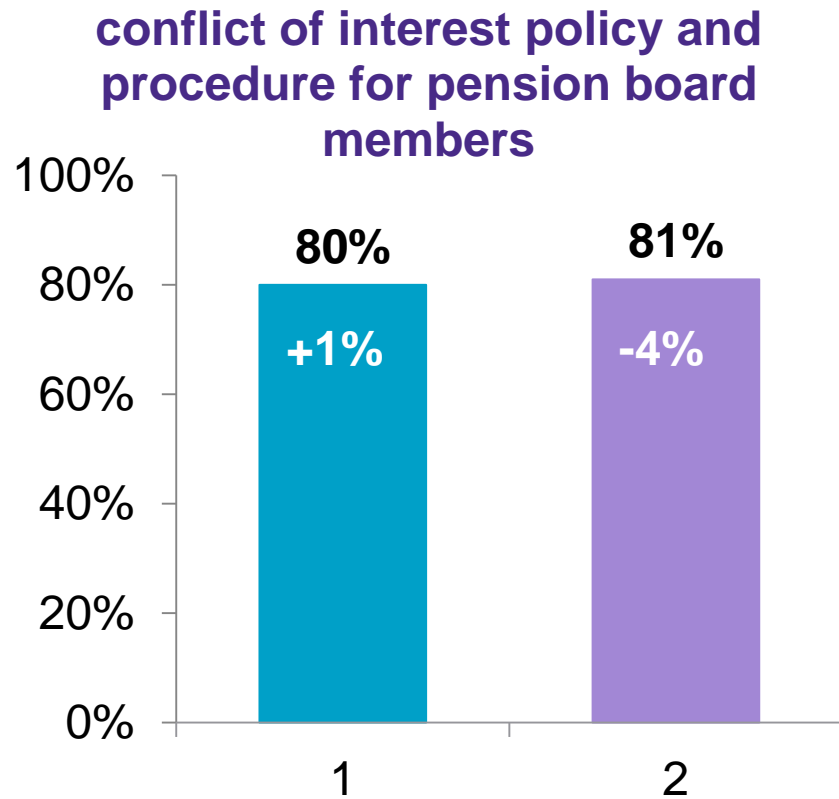


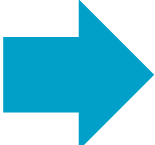Not all FPS schemes have conflicts of interest policies, or a register of interests.

# FPS record keeping - survey results

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

| Last data review |
|---|
| **68%** in last 12 months |
| **8%** longer ago |
| **4%** never |
| **20%** don't know |

**But there are concerns as to the effectiveness of these reviews**

| Identified issues |
|---|
| **34%** identified issues |
| **39%** no issues identified |
| **3%** don't know if issues |
| **24%** not reviewed (inc. DK) |

**And take up of data improvement plans is low**

| Data improvement plans |
|---|
| **2%** data improvement plan |
| **32%** no data improvement plan |
| **42%** no issues identified (inc. DK) |
| **24%** not reviewed (inc. DK) |

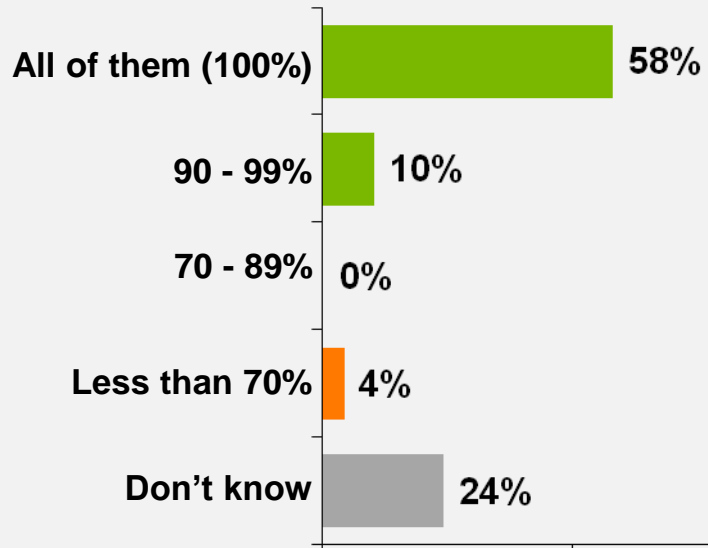**21%** respondents identify poor records as a top risk

**18%** report delays in payment of benefits as one of top three complaints

1 in 5 identify poor records as key concern yet the quality of action taken varies.

# FPS employer data

## Proportion of employers providing timely, accurate and complete data

| Category | Percentage |
|---|---|
| All of them (100%) | 58% |
| 90 - 99% | 10% |
| 70 - 89% | 0% |
| Less than 70% | 4% |
| Don't know | 24% |

## Schemes with a process in place...

**76%** ...with employers to receive, check and review data

**88%** ...for monitoring the payment of contributions

**68%** ...for resolving payment issues and assessing whether to report payment failures to TPR

Employer data a much smaller concern for FPS as single employer schemes, though 1 in 4 'did not know' the proportion when answering the survey and there are substantial gaps in processes for quality assuring employer data.

# FPS administration

## Which of the following best describes your administration services?
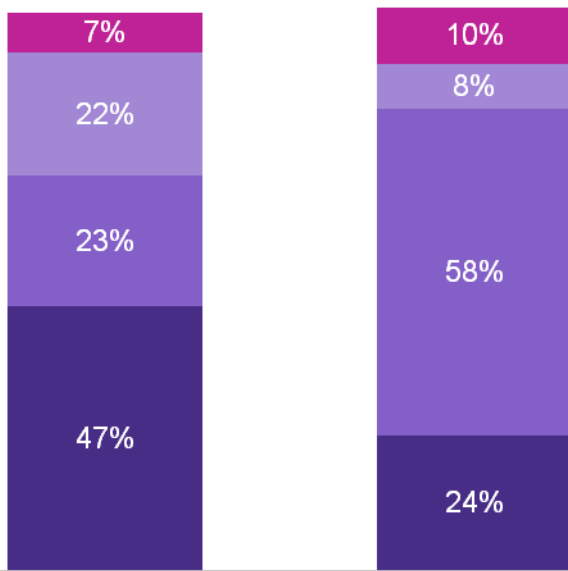


Legend:
- Other
- Administered by a commercial third party
- Administered by another public body
- Administered in house

All schemes: Other 7%, Commercial third party 22%, Another public body 23%, In house 47%

Fire & Rescue: Other 10%, Commercial third party 8%, Another public body 58%, In house 24%

| Administrator management | | |
|---|---|---|
| Administrators attend regular meetings with SM or PB | **82%** | **Small schemes (<1k memberships) less likely to have administrator controls/ monitoring procedures** <br> • Meetings 64% <br> • Reports 55% <br> • Auditors 44% <br> • Assurance 18% |
| Administrators deliver regular reports to SM or PB | **74%** | |
| Independent auditors review performance | **52%** | |
| Administrators provide independent assurance reports | **30%** | |
| Performance metrics are set out in contracts or SLAs | **64%** | **Lower where in-house administrator (43%)** |
| Penalties are applied where term/standards not met | **12%** | **Rarely used by PS schemes** |

The majority of administration is outsourced (76%), in the main to LGPS. A high proportion use service level agreements (SLAs). Penalties are rarely used.

# FPS assessing and managing risk

**Proportion of schemes that have "documented procedures for assessing and managing risk"**
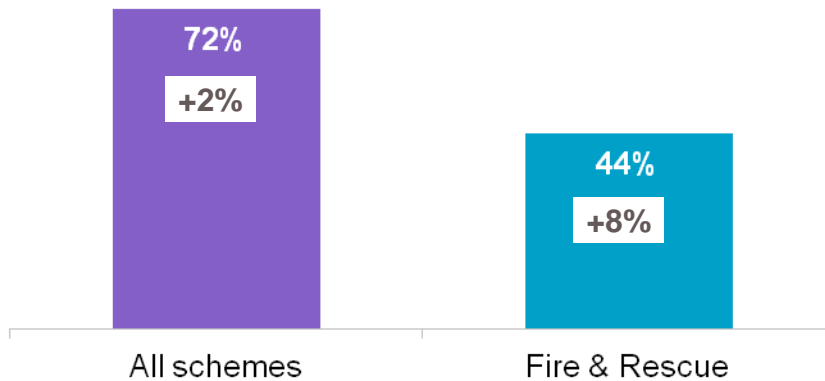
**Proportion of schemes that have "a risk register"**
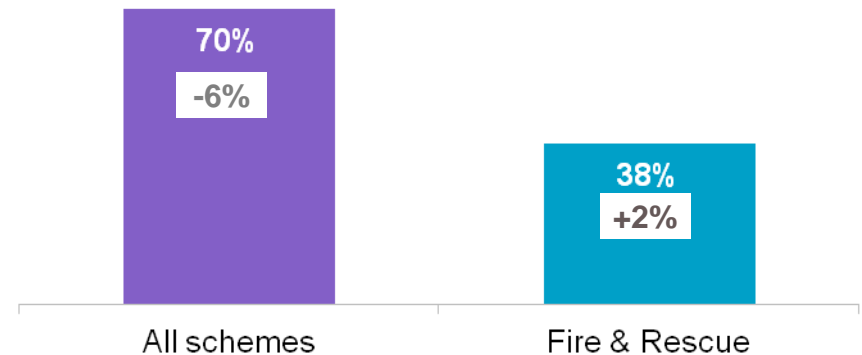


Fire & Rescue schemes are significantly less likely to have processes in place, or use a risk register.

# Top risks

**What are the top three governance and administration risks on your register? Top FPS mentions** *(all with a risk register)*

| Top Mentions | All schemes | Fire & Rescue |
|---|---|---|
| *Base: All with risk register* | *131* | *19* |
| **Records** | **36%** | **21%** |
| *- of which GMP* | *8%* | *0%* |
| **Funding/investment** | **34%** | **5%** |
| **Poor or ineffective governance** | **29%** | **21%** |
| **Legislative change or complexity** | **23%** | **47%** |
| **Employer compliance** | **23%** | **11%** |
| **Recruitment, training & retention of staff & know how** | **19%** | **21%** |
| **Failure of internal controls** | **18%** | **16%** |
| **Systems** | **18%** | **26%** |
| **Administrator failure** | **13%** | **16%** |
| **Resourcing** | **11%** | **11%** |

Top risks identified as legislative change or complexity, systems, records, poor or ineffective governance, and recruitment, training and retention of staff and know how.

# Top three risks on FPS risk registers



Top risks identified as legislative change or complexity, systems, records, poor or ineffective governance, and recruitment, training and retention of staff and know how.
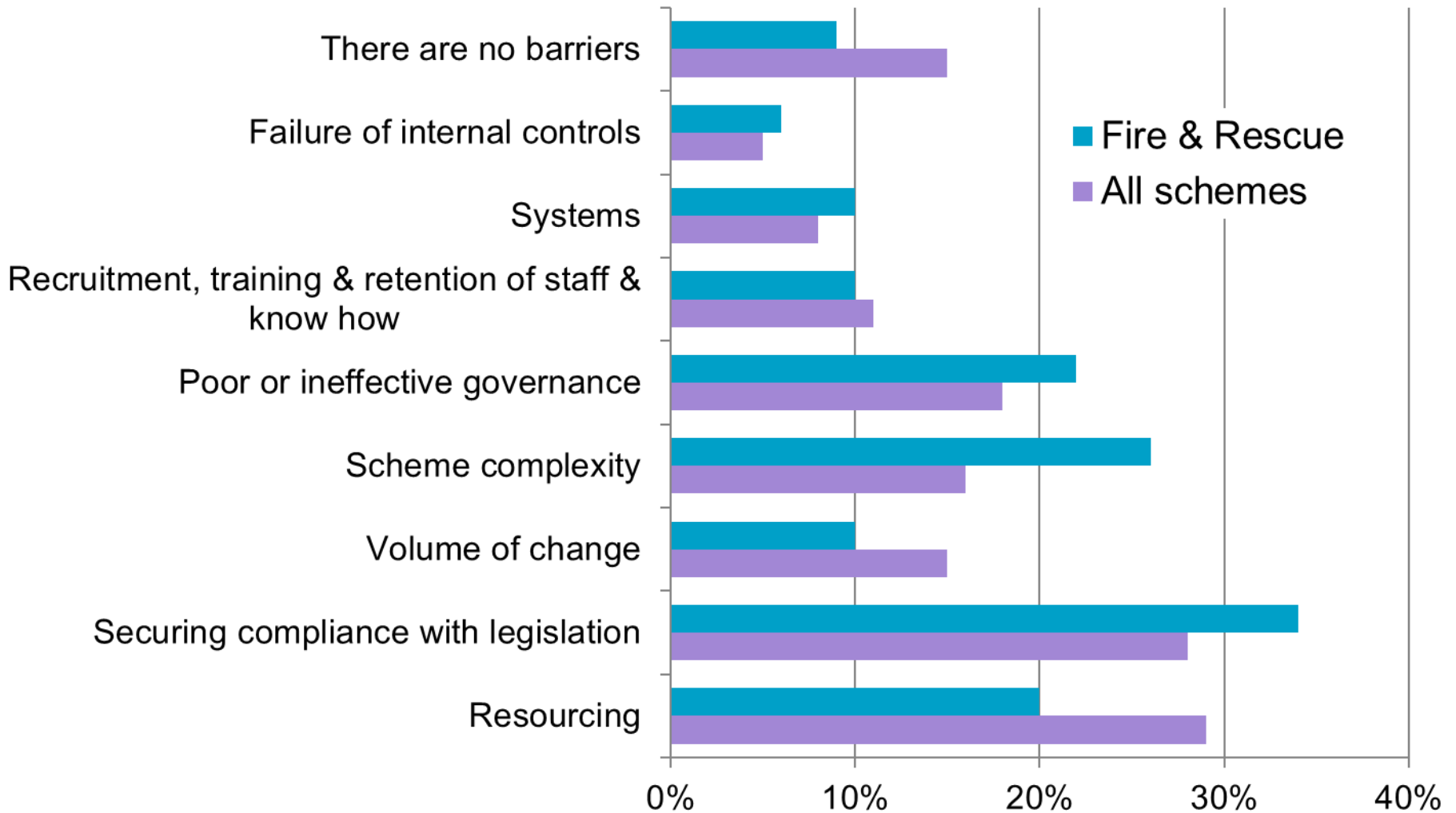
# Barriers to improvement

## What are the main barriers you face to improving the governance and administration of your scheme?

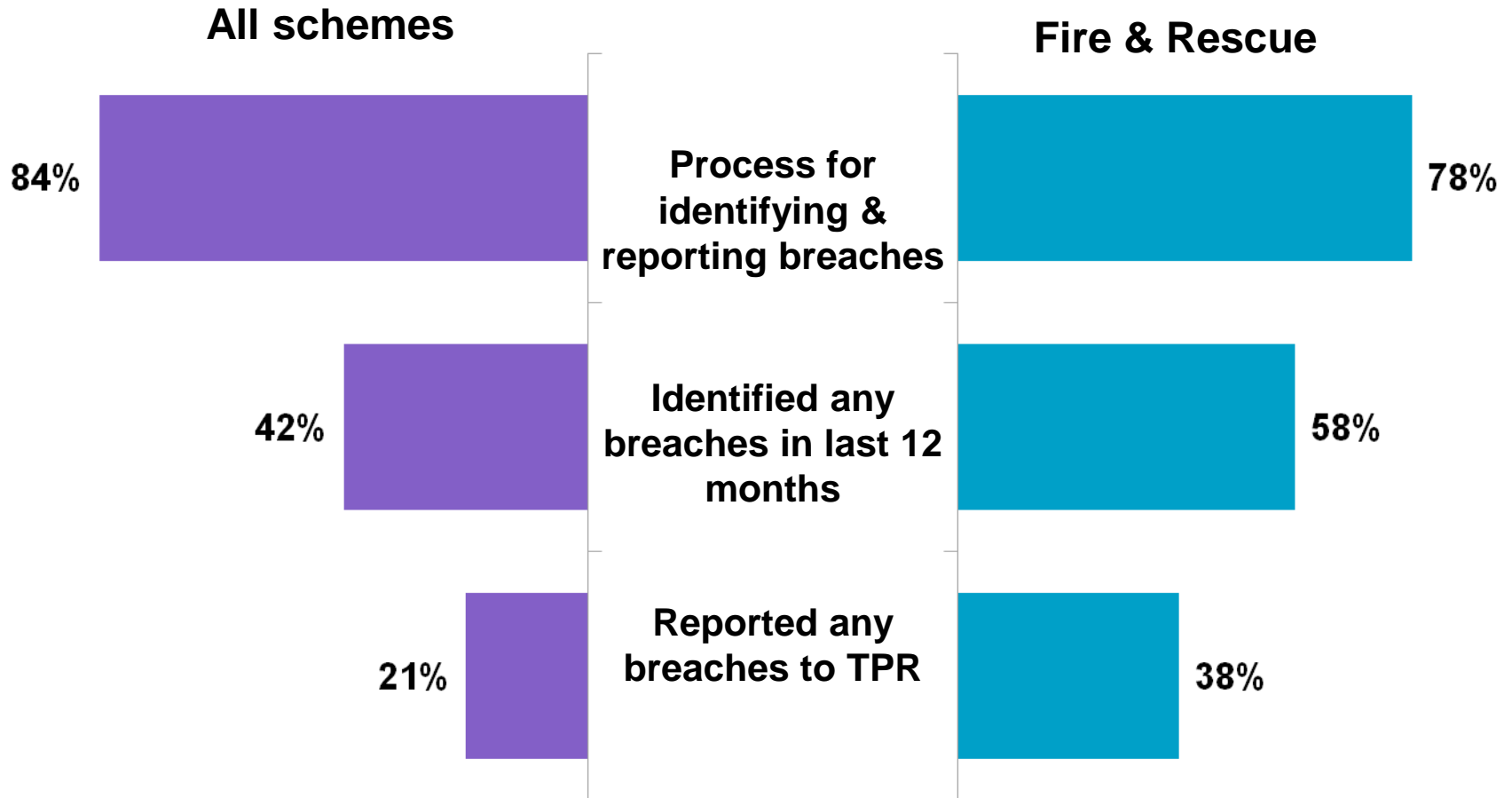| Top Mentions (5%+) | All schemes | Fire & Rescue |
|---|---|---|
| *Base: All respondents* | *188* | *50* |
| **Resourcing** | **29%** | **20%** |
| **Securing compliance with legislation** | **28%** | **34%** |
| *- Volume of change* | *15%* | *10%* |
| *- Scheme complexity* | *16%* | *26%* |
| **Poor or ineffective governance** | **18%** | **22%** |
| **Recruitment, training & retention of staff & know how** | **11%** | **10%** |
| **Systems** | **8%** | **10%** |
| **Failure of internal controls** | **5%** | **6%** |
| **There are no barriers** | **15%** | **9%** |

Main barriers to improvement are securing compliance with legislation – including scheme complexity, poor or ineffective governance, and resourcing.

# Top barriers to improving governance and administration



Main barriers to improving governance and administration are securing compliance with legislation – including scheme complexity, poor or ineffective governance, and resourcing.

# Breaches of the law

**All schemes**

**Fire & Rescue**

| | Process for identifying & reporting breaches | |
|---|---|---|
| 84% | | 78% |

| | Identified any breaches in last 12 months | |
|---|---|---|
| 42% | | 58% |

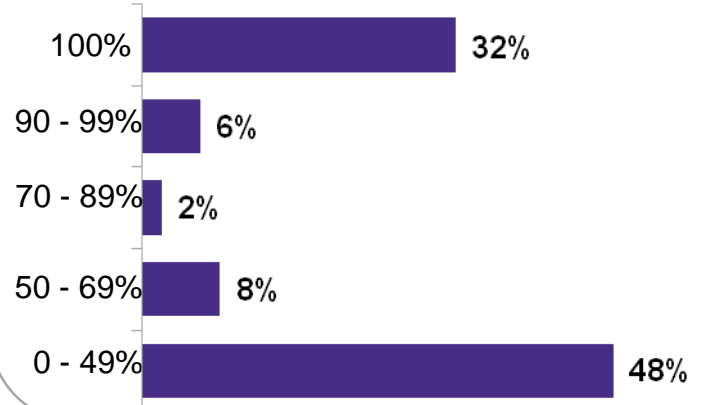| | Reported any breaches to TPR | |
|---|---|---|
| 21% | | 38% |

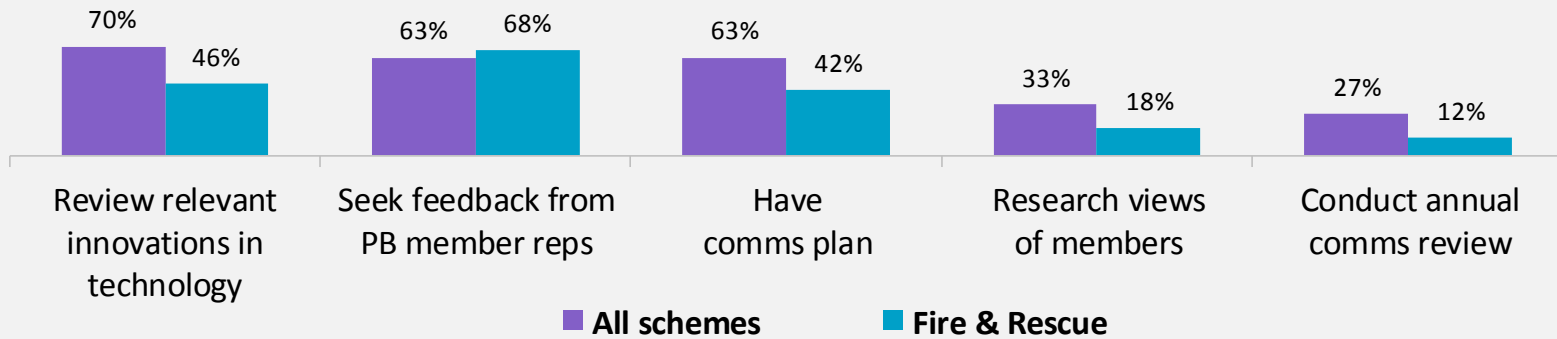FPS are more likely than average to identify or report breaches to the regulator.

# FPS member communications - survey results

## Proportion of active members receiving annual benefit statement by statutory deadline

- 100%: 32%
- 90 - 99%: 6%
- 70 - 89%: 2%
- 50 - 69%: 8%
- 0 - 49%: 48%

- Only a third of fire and rescue schemes reported that all members received their ABS on time
- 54% of memberships did not receive their ABS in time

## Tools/processes to improve effectiveness of member communications

| | All schemes | Fire & Rescue |
|---|---|---|
| Review relevant innovations in technology | 70% | 46% |
| Seek feedback from PB member reps | 63% | 68% |
| Have comms plan | 63% | 42% |
| Research views of members | 33% | 18% |
| Conduct annual comms review | 27% | 12% |

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

Over half of memberships did not receive their benefit statements in time. Fire and Rescue schemes less likely to have in place processes to improve member communications.

# Challenges ahead

- Guaranteed minimum pension reconciliation

- Dashboards

- General Data Protection Regulation

- Outcome of valuations



**The Pensions Regulator**

# 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

**The Pensions Regulator**

# 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

**The Pensions Regulator**

# 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

**The Pensions Regulator**

# 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

**The Pensions Regulator**

# 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/

**The Pensions Regulator**

# 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

**The Pensions Regulator**

# Thank you

**We are here to help!**

**Request a guest speaker:**

https://secure.thepensionsregulator.gov.uk/speaker-request.aspx

**Contact us at:**

www.tpr.gov.uk/contact-us.aspx

**Subscribe to our news by email:**

https://forms.thepensionsregulator.gov.uk/subscribe.aspx



**The Pensions Regulator**

**The information we provide is for guidance only and should not be taken as a definitive interpretation of the law.**

# Additional slides

# 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

**The Pensions Regulator**

# 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.

The Pensions Regulator

# 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.

The Pensions
Regulator

# 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)

**The Pensions Regulator**

# 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.

The Pensions Regulator

# Roles and responsibilities (4)

- The **pension committee administer**, 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

**The Pensions Regulator**

# 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 now published:
  - 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) guidance
    - 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)

The Pensions Regulator

# 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

**The Pensions Regulator**

# Flowchart: designing your improvement plan

| Activity | Who does this? |
|---|---|
| Set objectives you want to achieve | Trustees or scheme managers (supported by pension boards) |
| Define outcomes and scope of plan | Typically administrators, working with trustees or scheme managers (supported by pension boards) |
| Define activities, dependencies, timeline, resources and governance | |
| Deliver   Report | Typically administrators |

The Pensions Regulator

# 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 managed well 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

**The Pensions Regulator**

# 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.

## 8 workforces

**16.5 million memberships**
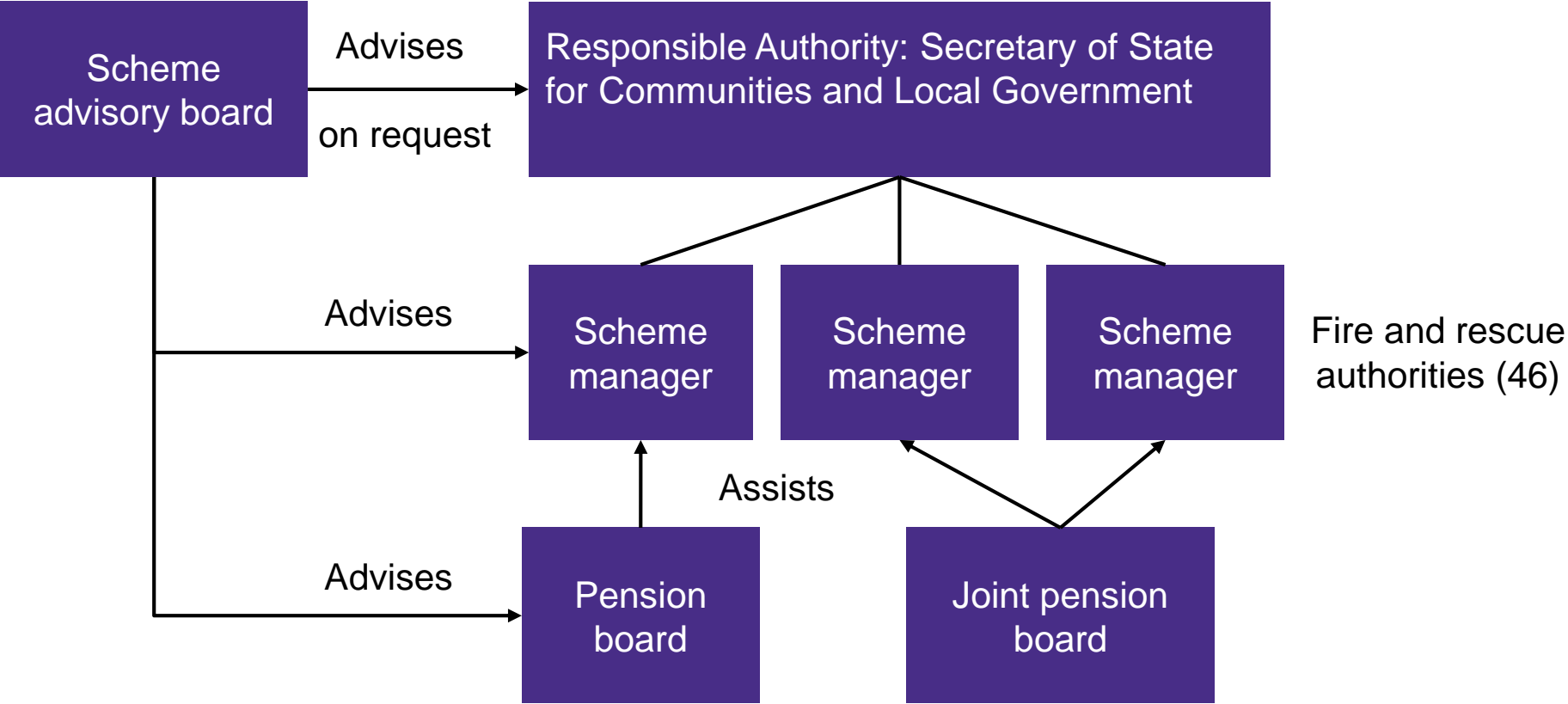
**24,000 employers**

The Pensions Regulator

# 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

**The Pensions Regulator**

# Governance structure - overview England



Scheme advisory board

**Advises** → **on request** → Responsible Authority: Secretary of State for Communities and Local Government

Scheme advisory board — **Advises** → Scheme manager

Scheme advisory board — **Advises** → Pension board

Scheme manager

Scheme manager

Scheme manager

Fire and rescue authorities (46)

Pension board — **Assists** → Scheme manager

Joint pension board

The Pensions Regulator

# 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

- 21$^{st}$ 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

**The Pensions Regulator**

# 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

The Pensions
Regulator

# 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
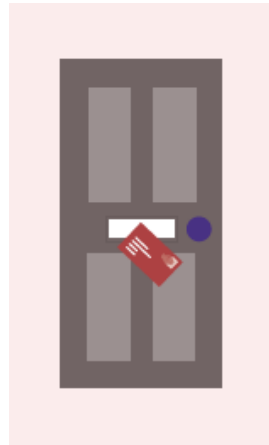
The Pensions
Regulator

# 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](www.tpr.gov.uk/docs/regulatory-intervention-section-89-teachers.pdf)

**The Pensions Regulator**

# 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

The Pensions Regulator