Local Pension Board Members & Code of Practice 14 & the Cohort Engagement Report

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&

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Code of Practice 14

Scheme Manager direct application
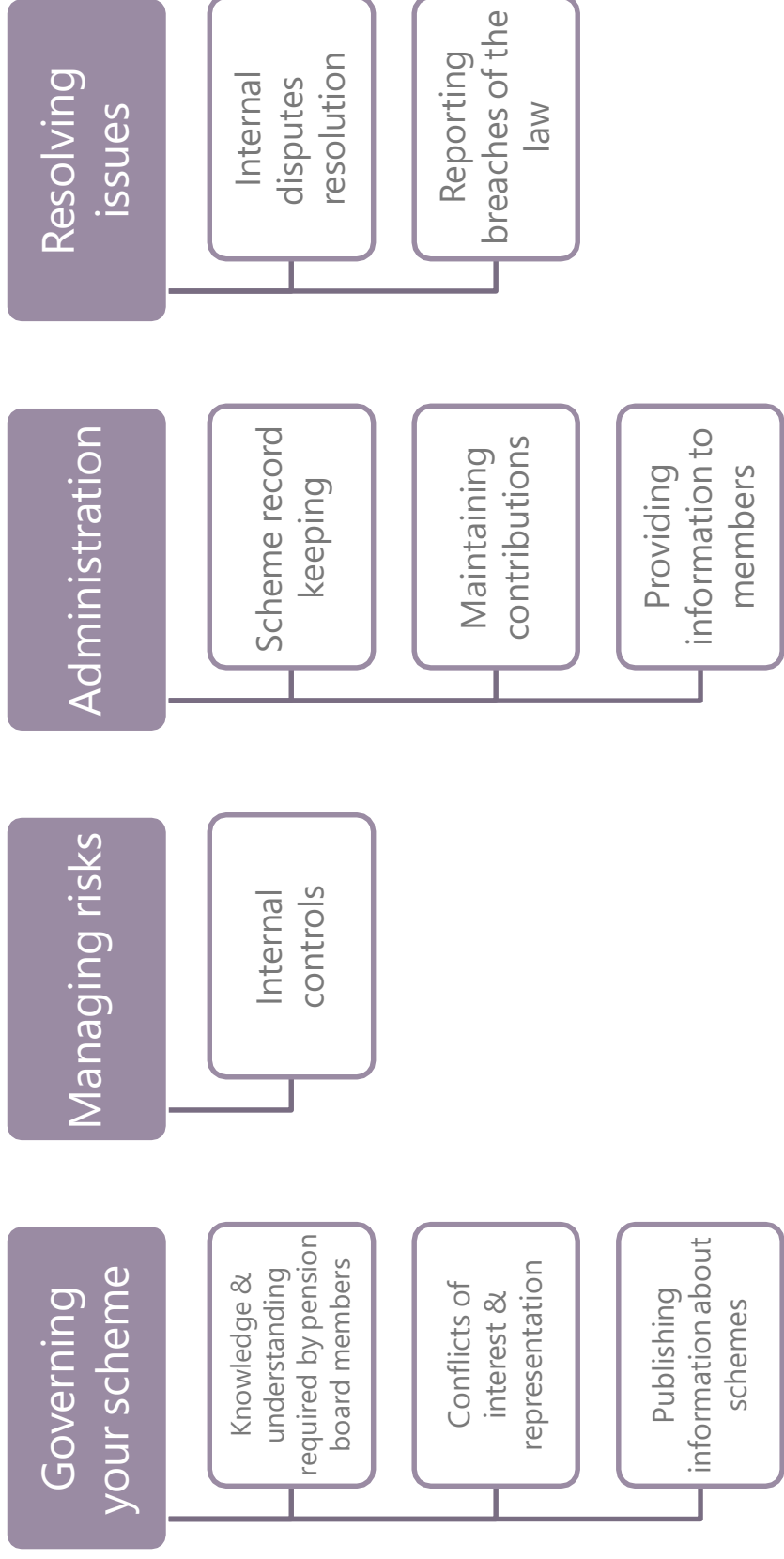### *LPB to assist*

- Publishing information about schemes

- Internal controls

- Scheme record keeping

- Maintaining contributions

- Providing information to members

- Internal disputes resolution

- Reporting breaches of the law

LPB direct application
Scheme Manager some actions

- Knowledge & understanding

- Conflicts of interest & representation

- Reporting breaches of the law

tPR cohort review recommendations
Pension board members should be fully engaged & challenge parties where appropriate

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Code of Practice 14

Governing your scheme
- Knowledge & understanding required by pension board members
- Conflicts of interest & representation
- Publishing information about schemes

Managing risks
- Internal controls

Administration
- Scheme record keeping
- Maintaining contributions
- Providing information to members

Resolving issues
- Internal disputes resolution
- Reporting breaches of the law

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Code of Practice 14 & the Engagement Report

Governing your scheme

Knowledge & understanding required by pension board members
- Report area of focus (6) pension boards

Conflicts of interest & representation

Publishing information about schemes

Managing risks

Internal controls
- Report area of focus (2) Internal controls
- Report area of focus (9) Internal fraud & false claims

Administration

Report area of focus (3) Administrators

Scheme record keeping
- Report area of focus (1) Record keeping

Maintaining contributions
- Report area of focus (7) Employers & contributions

Providing information to members
- Report area of focus (4) Member communication

Resolving issues

Internal disputes resolution
- Report area of focus (5) IDRP

Reporting breaches of the law

Not in COP 14

Report area of focus (8) Cyber security

Area of focus numbers are order of appearance in cohort engagement report

Governing Your Scheme

Knowledge & understanding required by LPB members

Conflicts of interest & representation

Publishing information about schemes

Knowledge & understanding required by LPB members

Principles

Must be conversant with rules of scheme and scheme documents & policies

"Conversant with" = working knowledge

Must have knowledge & understanding of pensions law & any other matters prescribed in Regs

Degree of K&U: (from day 1 and ongoing!) enable you to properly exercise the functions of a pension board member

Details

Scheme regulations, updates

Fund policies: examples

Conflicts/register of interests, IDRP, record keeping, reporting breaches, maintaining contributions.

Risk assessments, new risks, booklets, comms policy, admin strategy,

SIP > Investment Strategy Statement

Funding Strategy Statement

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Knowledge & understanding required by LPB members

tPR cohort review recommendations

- Scheme Manager (SM) to arrange training, setting expectations

- Individual TNAs assessed & recorded

- Impact of loss of experienced members

- Policy for underperforming LPB members?

- Minimum 4 meetings per annum

- Regular contact SM/LPB Chair

- Both Chairs (Committee & Board) to attend each others' meetings

At your Fund?

- Who keeps records?

- Who co-ordinates training?

- TNA completed by all?

- Personalised training plan?

- Fast track for new appointments?

- Awareness of new legislation & expectations? How?

- *NB individual accountability*

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Conflicts of interest & representation

Principles

No conflicts of interest on appointment or subsequently

Actual conflicts prohibited

Only potential conflicts can be managed

3 stages: identify/monitor/manage

Equal number of scheme member & scheme employer reps

Details

Defined by s5(5) of PSPA 2013

Membership of LGPS is NOT a conflict of interest

"Seven principles of public life" (Nolan) apply to LPB members

Register of interests

Opening agenda item

Dual interest: (cost savings, employer contribution levels)

Right balance of skills, experience & representation

Code of practice no. 14
Governance and administration of public service pension schemes

The Pensions Regulator

april 2015

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Conflicts of interest & representation

tPR cohort review recommendations

- Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.

- Independent chairs not compulsory, but can help ensure LPB operate effectively

At your Fund?

- Are declarations of interest sought at each meeting?

- Is there a register of interests?

- Is it examined? By whom?

- How are dual interests dealt with at Board & Committee? Evidence?

- Are Board voting rights clear? Are many things voted on?

- Is the Pension Committee a politics-free zone?

- Does the current mix of skills & experience at the Board allow for efficient operating? How are replacements found? Any substitutes? Succession planning?

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Publishing information about schemes

Principles

Must publish:

Who are members of LPB

Their representative role

The matters falling within the LPB's responsibility

and **must** keep up to date

Any HMT directions

Details

Appointment process

Full terms of reference

Any specific roles & responsibilities of individual LPB members

Should consider publishing agenda and minutes

Transparency

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Publishing information about schemes

tPR cohort review recommendations

- Information should be clear, precise & free from jargon

- Senior oversight of communications

- measure effectiveness of communications (hits?)

- Clear on line presence?

- Work through employers

- Publish satisfaction surveys

At your Fund?

- Have you checked your own details?

- How recently?

- Do you have procedures for recruiting new members?

- Are they publicly available?

- Are there procedures for publishing & for informing TPR of new LPB appointments?

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Managing Risk

Internal controls

Plus cyber risk & pension scams

Internal controls

Principles

SSM must establish & operate internal controls

Must secure compliance with scheme rules & the law

Internal controls cover:

arrangements & procedures to be followed in admin & management, & for safe custody & security of assets

systems for monitoring admin & management

Details

Identifying risks

Evaluating risks & establishing adequate internal controls

Managing risks by operating internal controls

Monitoring controls effectively

Additional controls for outsourced services

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Internal controls

tPR cohort review recommendations

- A risk register should be in place /cover all potential risk areas/regularly reviewed by the pension board.

- SM should take a holistic view to risks.

- LPB should have good oversight of the risks /review at each meeting.

- Record controls & processes; avoiding an over reliance on key person.

- SM should ensure all processes are documented & reviewed regularly.

- Decision and action logs provide a useful reference point .

- SM to review payment authorisation procedures to protect assets against fraud

At your Fund?

- Documenting & recording sources of risks

- Is there a risk register?

- Is it reviewed at each LPB meeting?

- How are new risks identified?

- Who "owns" the risks?

- How are impact & likelihood & mitigations assessed & monitored?

- Order of priority for risks?

- Other sources of assurance: internal & external audit reports?

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& not in COP14 but of *t*PR interest – cyber security & pension scams

TPR Guidance April 2018

SM accountable for security of scheme info & assets

Roles & responsibilities clearly defined, assigned & understood

Access to required skills & expertise

On risk register / reviewed

Assurance: 3rd party suppliers

Incident reporting & response plan

Regularly test controls, processes & response plan: dynamic approach

Separate guidance on pension scams: have you alerted scheme members? TPR's pdf available

Cyber security

tPR cohort review recommendations

- SM & LPB to understand risks posed to data & assets (in risk register) and mitigations in place

- Regular, independent penetration testing

- If cyber security maintained by LA not SM, SM should understand procedures & ensure Fund's requirements are met

- SM should be aware of cyber security processes used by 3rd party providers that handle Fund's data or assets

- SM to be aware of changing nature of risks & adapt accordingly

At your Fund?

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Administration

Scheme record keeping

Maintaining contributions

Providing information to members

Governance and
administration risks in
public service pension
schemes: an
engagement report

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Administrators

tPR cohort review recommendations

- Scheme managers **must** agree targets & have strong understanding of what service providers should achieve

- Scheme manager should challenge & escalate if standards not met

- Contracts lengths should be known & planned against to allow for extension or tender process

- Helpful for administrators to present at Board meetings; LPB members can use K&U to challenge reports provided

- Scheme manager should meet regularly with administrators to monitor performance

At your Fund?

- Does your Fund have a close relationship with your administrators?

- Do you have SLAs with your administrators?

- Does your Fund monitor service providers, understand what they should achieve and challenge and escalate if not met?

- Do administrators attend your Board meetings?

- Do you actively challenge reports?

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Scheme record keeping

Principles

Scheme managers **must** keep records of information relating to:

    member information

    transactions

    pension board meetings & decisions

Be able to demonstrate to tPR that they keep accurate, up to date, & enduring records

Scheme managers must establish & operate adequate internal controls, processes & systems to support record keeping

Work with employers

Details

Legal requirements in Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014, & other legislation

Failure affects ability to carry out basic functions, can lead to incorrect benefits & ineffective management of investment risks

Carry our data review at least annually including accuracy & completeness

Reconcile information with employers

Address issues through a data improvement plan

Report common & scheme specific data on Scheme Return, since 2018

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Governance and administration of public service pension schemes

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Scheme record keeping

tPR cohort review

- Scheme Managers should be aware of how data is measured

- Review data regularly

- Implement data improvement plan

- Quality of member data should be understood by SM & LPB

- Should record & track to ensure common & scheme specific data of good quality

- Pension administration strategy should be implemented

- Pension Board should review it & ensure it stands up to employer challenge

At your Fund?

- Do you see the data improvement plan at each meeting

- Do you see data KPIs?

- Have you measured common & scheme specific data?

- Have you used it to talk to employers?

- Do you have a PAS?, were you involved in its development? is it used? do you see performance reports? do you issue charges?

- What is you Fund proactively doing to improve data?

- Does your Fund collect data monthly?

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Officers' Autumn Seminar October 2019

Maintaining contributions

Principles

Employer contributions **must** be paid to scheme in line with scheme requirements

Employee contributions **must** be paid to scheme by 19th of month following deduction or 22nd if paid electronically

If either paid late & Scheme manager believes of material significance **must** inform tPR / tPR & members respectively

Schemes should have effective procedures & processes to identify payment failures.

Details

Schemes should monitor contributions, resolve issues & report payment failures

Employer contributions report as soon as reasonably practical

Employee contributions report within reasonable period

Procedures & processes include developing a record to monitor & monitoring payments, managing overdue contributions & reporting significant payment failures

Attempt to recover within 90 days, consider potential for fraud etc

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Maintaining contributions

tPR cohort review recommendations

- Employer solvency should be considered on ongoing basis

- Scheme Managers should understand financial position of employers & take risk based proportionate approach to identify those most at risk of not paying contributions

- Engage early with employers who outsource payroll on risks to help them manage supplier

- Have principle based policy for exiting employers

- Understand security types; consider whether accepting a range is more effective

- Scheme Managers should understand which employers don't have security & consider how to get it

- Scheme Managers should have policy on when to trigger security

At your Fund?

- Have you seen a review of participating employer covenant?

- Do you know which employers have security and a plan to increase others?

- Do you help employers manage their payrolls, a key information source?

- Do you have reports on ceasing employers & outcomes

Governance and administration risks in public service pension schemes: an engagement report

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Providing information to members

Principles

Legal requirements to disclose information about benefits & scheme administration to members & others

Includes requirements of Disclosure Regulations 2013

HMT directions may specify how ABS must be provided

Disclosure Regulations allow electronic communication, subject to certain steps & safeguards

Communications should be designed & delivered in away to ensure members can engage with their pension

Details

Must provide annual benefit statements by 31 August, notification of scheme changes, basic scheme information ,etc within deadlines

Disclosure Regulations include active, deferred, pensioner, prospective members, their spouses/civil partners, other beneficiaries, recognised trade unions

Members & others can request information on scheme constitution & transfer credits

Members can opt out of electronic data

Information should be clear, simple to understand, accurate & easily accessible

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Providing information to members

tPR cohort review recommendations

- Information should be clear, precise & free from jargon

- There should be senior oversight of communications to members & prospective members

- Measure effectiveness of communications

At your Fund?

- Do you test your communications for understanding with members & pension board members?

- Where information is provided on line, do you monitor access?

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Resolving issues

Internal dispute resolution

Reporting breaches of the law

Internal dispute resolution

Principles

Scheme managers **must** make & implement legally compliant dispute resolution arrangements which help resolve disputes

Must make decisions and notify applicant in reasonable period

Procedures **must** say how to make application, how decisions reached, & specify timescales

Scheme manager must communicate arrangements to members & sign post to Pension Ombudsman etc

Details

Does not apply to exempted disputes e.g. where court or tribunal proceedings have commenced

Schemes decide most matters for procedure & should ensure it is fit for purpose. Although, COP14 details reasonable timescales, eg four months to decide the matter

LGPS Internal Dispute Resolution Procedure (IDRP) requirements detailed in LGPS regulations, provides two months to decide the matter

Can be two stage or one stage process – LGPS is two stage process

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Internal dispute resolution

tPR cohort review recommendations

- Should be clear internal policy on handling complaints, including escalation

- Those entitled to use IDRP should be given easily accessible clear information about how it operates

- Pension Board & Scheme Manager should have oversight of all complaints & outcomes, including those not dealt with in-house

At your Fund?

- Do you see a register of complaints & outcomes?

- Are complaints & compliments analysed to identify changes to improve operations?

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Reporting breaches of the law

Principles

Scheme managers & pension board members made aware of legal requirements & to report breaches of the law to *tPR* where:

the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions

Must report in writing as soon as reasonably practicable. Use TPR's Exchange online service

Procedure for reporting breaches policy document

Could be fined for failure to report without reasonable excuse

Details

Assess if an actual breach has occurred
- Clarify the law

Assess materiality
- Cause
- Effect
- Reaction
- Wider implication

Referral process for decision
- & for difficult cases

System for recording breaches
- whether reportable or not

Prompt timescales

Red – report

Amber – decide whether to report

Green – record but don't report

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Reporting breaches of the law

tPR cohort review recommendations

At your Fund?

- But still a requirement!

- Do you have a breaches register?

- Does the pension board see it at each meeting?

- Have you reported a breach to *t*PR?

- If you haven't had a breach, how?

Not covered in report

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