Occupational Pensioners' Alliance

2010 Survey of Pension Schemes

By

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1. The Occupational Pensioners' Alliance (OPA) is a democratic, non-party-political organisation of occupational pensioners' associations in the UK. It comprises members from 36 occupational pensioner organisations nationwide and represents the interests of about separate 50 pension schemes with over two million members.

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3. Executive Summary

3.1 It is noteworthy that the OPA members' annual survey is unique in that, unlike other such surveys, it is conducted and completed by the end-users of pensions and therefore provides a very different but vitally important viewpoint.

3.2 The 24 schemes in the survey covered a wide range of sizes, the membership varying between 200 and 160,000 and the assets from £160k to £10bn.

3.3 The survey reveals many issues of real concern, e g the management of conflicts of interest. Although it was pleasantly surprising to see as many as 38% of these schemes did have an independent chairman it was disturbing to find that 45% of the employer nominated trustees who were chairmen were also company directors of the sponsoring company. The OPA maintains that an Independent chairman is the best way to maintain this proper balance in the governance of the scheme and to avoid any conflicts of interest.

3.4 33% of the schemes had 50% or more Member Nominated Trustees (MNTs) on their boards. However the employer nominated trustees were out-numbered in 79% of the boards which also had independent trustees. The OPA therefore repeats its call on the present government to implement the increase to the minimum of 50% MNTs.

3.5 As many as 33% of our respondents were not at all happy with the level of representation of pensioners' interests on the trustee board. The OPA believes that the principles laid out in the 2004 Pensions Act of proportionality, fairness and transparency in the nomination and selection processes for MNTs are clearly being ignored by some schemes. The OPA believes that the Pensions Regulator (TPR) should be seen to be actively encouraging conformance of its Codes of Practice and not turning a blind eye simply because these lack the power of legal enforcement.

3.6 The survey has revealed that as many as 12% of respondents are unhappy with both the extent and frequency of their scheme's communications. On the other hand, it also found that nearly 60% of the schemes now hold open meetings for members, either occasionally or annually, a significant improvement on last year's survey[1] when only 26% did so. The OPA wishes to see this example of best practice extended further.

3.7 Many schemes continue to fail to make the results of the full annual financial reports and triennial actuarial reviews available within a reasonable timeframe but there has been some improvement this year. Whereas about 60% of the schemes now manage to publish their annual report within a period of 6 months and 35% a triennial actuarial valuation also within 6 months, about a quarter of the schemes manage to spin out the period for the actuarial valuation to beyond 12 months. Thus the information becomes hopelessly outdated by the time it reaches the ordinary members and this causes considerable anxiety to members particularly during times of recession.

3.8 A third of all schemes were found to have no website with which to make any details readily available to members. Of the schemes which did have an on-line presence there were not always as comprehensive as they could be. For example only 42% made their Statement of Investment Policy available.

3.9 Finally it was found that Environmental, Social and Governmental (ESG) issues are still not being taken seriously by the overwhelming majority of trustee boards

4. Introduction

4.1 The OPA members' annual survey is unique in that, unlike surveys conducted by the National Association of Pension Schemes and Aon for example, it is conducted and completed by the end-users of pensions and therefore provides a very different but vitally important viewpoint.

The respondents' schemes covered a wide range of sizes, the membership varying between 200 to 160,000 and the assets from £160k to £10bn.

This is the 6th annual survey we have undertaken and the third one which has been conducted on-line. It was conducted over a period of 5 months from August to December 2010. A total of 24 responses from the members' schemes listed in the Appendix were received which is slightly lower than the 26 of last year[1].

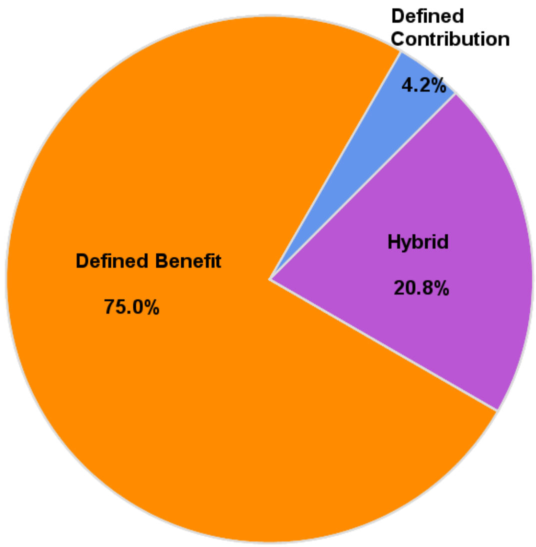
Although some of the questions required a considerable degree of research to answer accurately only 2% of the questions were in fact entirely skipped. This compares very favourably with the 16% in the 2009 survey[1] and reflects the greater degree of knowledge and understanding of their pension schemes now being developed by our members.

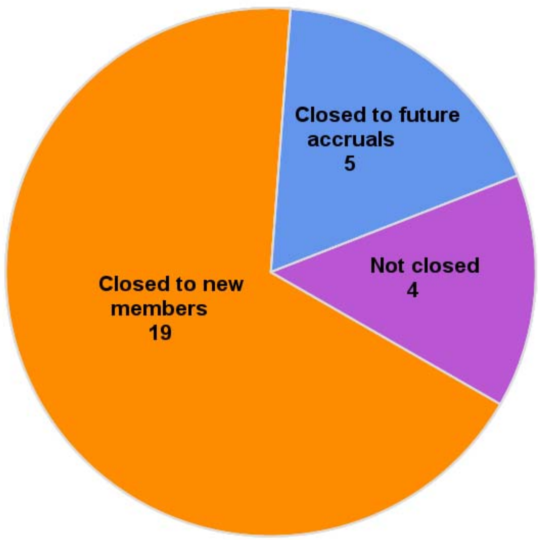
This survey covered questions on the issues of scheme governance, communications, rates & conversion factors and responsible investment policy.

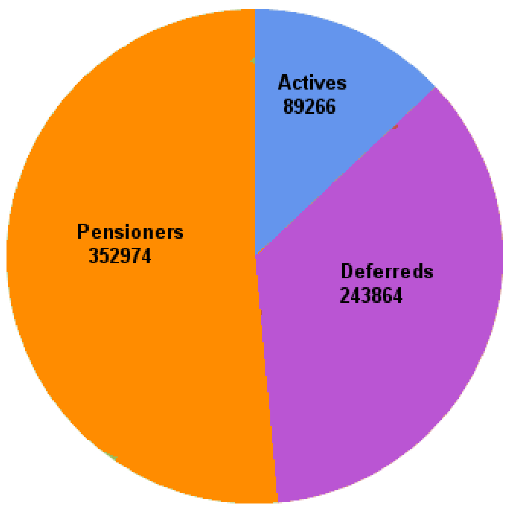
5. Survey Results

5.1 Summary of the Schemes' Details

Scheme Types

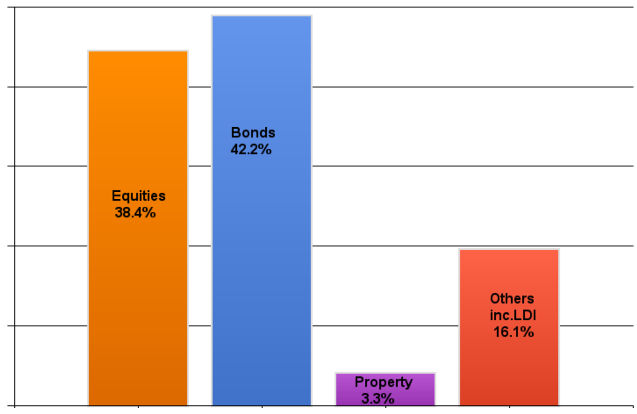






5.2 Financial Details

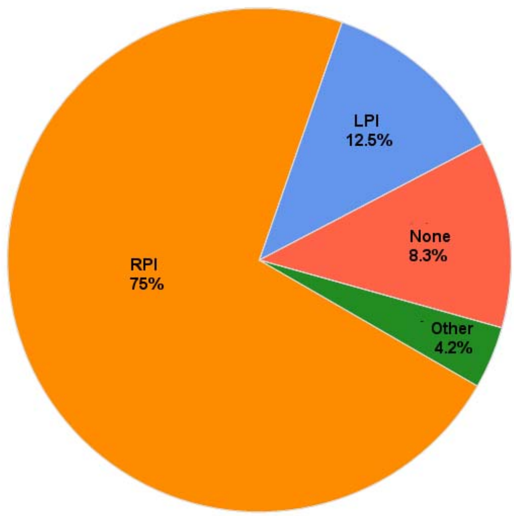
Total Assets: £964.9 M
Total Liabilities: £1,194.8 M
Mean Funding Level: 80.7%



The reported percentage return on assets displayed a surprisingly wide variation from +38.3% to - 18.1%.

8 schemes were able to report financial details from 2010, 13 from 2009 and 2 from 2008.

The type of indexation found in the schemes varied widely:



Those that answered "Other" said:

1. A combination of RPI and statutory revaluation
2. LPI applies to post 1997 accruals; pre 1997 pension increases are discretionary - no increase has been granted since 2002
3. RPI for portion of pension above the Guaranteed Minimum Pension (GMP) for pensioners who have pensionable service before 1st January 2008. Service after this date is capped at 3% unless extra contributions have been paid for a 5% cap. A

career average scheme applies to all new starts after 1st January 2008 with a cap on increases at 2.5%

4. Fixed 3%

We expect to see a major change in the next survey when the CPI will have been implemented in many schemes.

5.3 Governance

5.3.1 Trustees

Employer Nominated	Member Nominated	Independent
3	3	1
2	4	0
7	7	0
3	6	0
7	11	0
3	3	1
7	5	0
3	3	1
5	3	0
5	4	0
5	5	0
5	5	0
4	3	1
6	4	0
1	3	1
3	4	4
4	4	0
3	4	2
4	4	1
4	2	2
5	4	0
6	4	2
6	6	1
2	3	2

Here 33% of schemes had 50% or more Member Nominated Trustees (MNTs) on their boards compared with 44% found in our survey in 2008 and with 24% found by the TUC with a larger sample size. However in this survey the trustees nominated by the employers were out-numbered in 79% of the boards which also had independent trustees.

The 2004 Pensions Act intended that occupational pension scheme trustee boards should comprise at least a minimum of 50% MNTs by 2009. However following extensive lobbying by the NAPF the previous government agreed to a delay and commissioned a research study to see what impacts there might be by raising the level of MNTs from 33% to 50%.

Over 2 years later the independent (qualitative rather than quantitative) study[2] was finally published at the end of July 2010. It utilized remarkably small sample sizes possibly due to a misunderstanding about the nature of "closed" defined benefit schemes because it completely excluded these from the sample altogether and also, for example, only interviewed 2 MNTs from schemes with over 1000 members. Nevertheless it did find that only a "small number" of employers said that they were unwilling to increase the number of MNTs on the trustee board because they were concerned about losing overall control of the pension scheme. We all remember how Robert Maxwell certainly exercised "overall control" of his company' schemes but these days scheme members rightfully believe they have a right to an equal say in the management of their own deferred pay.

In contrast the study also found that "Trustee boards that had already met, or exceeded, 50% MNT representation were generally pleased with how the trustee board operated and felt that scheme governance was enhanced, although this depended on whether the Chair had a casting vote".

Furthermore "there was a sense from MNTs and trade union representatives that one-third MNT representation did not go far enough to creating equality on the board".

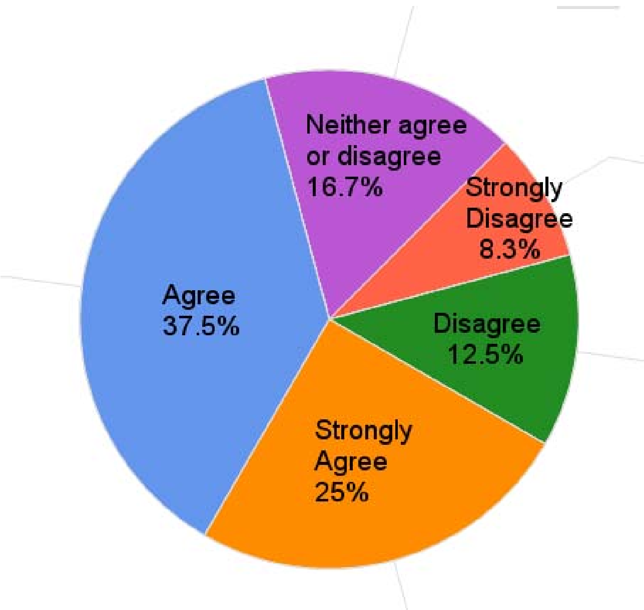
"Having 50% MNT representation was considered to be equal and fair and would allow decisions to be made openly and by consensus. This was a view supported by trustee boards already with 50% MNT representation who were described as generally functioning in a very democratic manner."

The OPA therefore maintains that the case has been clearly made and again calls on the present government to implement the increase to 50% MNTs without further delay.

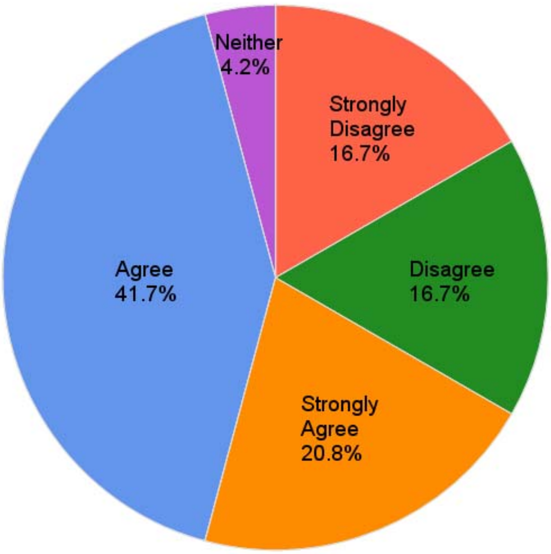
5.3.2 Nomination of Trustees

This survey also finds that 11 schemes had MNT positions which were reserved for nomination by Actives only, 9 by Pensioners only and 17 by all members regardless of status.

Q: Do you agree that the process of nomination and selection of MNTs to be "fair, transparent and proportionate"?



The presence of as many as 20.8% of respondents who either disagreed or strongly disagreed with process of nomination is worrying.



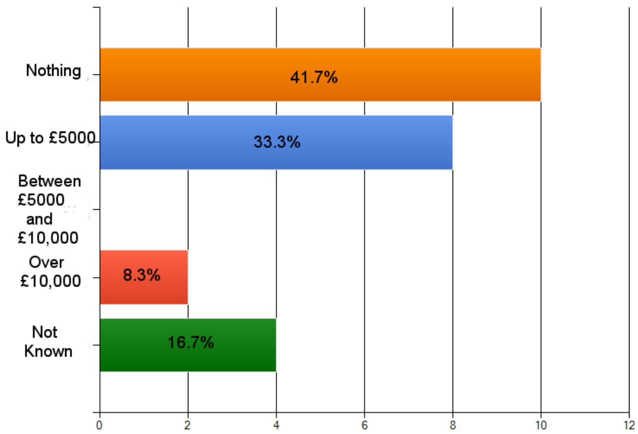
Furthermore when we asked "do you agree that the level of representation of pensioners on the trustee board is reasonable" we found a total of 33.4% either disagreed or strongly disagreed. This compares with just 12% who expressed that view in answer to a similar question in 2009[1].

The OPA believe that the principles laid out in the 2004 Pensions Act of proportionality, fairness and transparency in the nomination and selection processes for MNT/MNDs are being ignored in some schemes, despite being emphasised in TPR's Code of Practice – "MNT/MND – putting arrangements in place". An example of "unfairness" provided there being where a constituency of 100 members nominates 2 MNTs whereas a constituency of 10,000 members nominates only 1.

The OPA is aware that many trustee boards amongst its members' schemes appear to be completely ignoring this code and indeed an individual member has formally complained to the Regulator about a MNT selection process in his scheme in which less than 1000 members of one constituency select 3 trustees and 10,000 select just one. TPR's response was that the Codes of Practice have in fact no legal force and therefore TPR can take no action on this issue. Even after lodging a formal complaint TPR confirmed its intention to take no action.

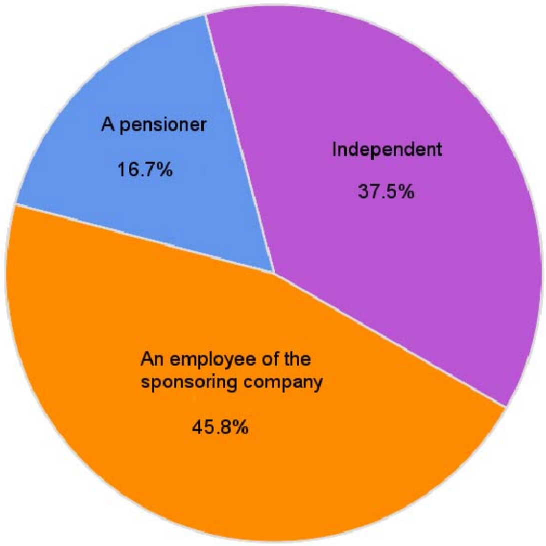
The OPA believes that TPR should be seen to be actively encouraging conformance of its Codes of Practice and not turning a blind eye simply because it lacks the legal enforcement powers required, particularly on the two above issues.

Q: Apart from expenses, what additional income is paid to your Member Nominated Trustees / Directors for their trustee services each year?



Considering the level of responsibility the OPA believes it is wrong for middle and large sized schemes not to provide any additional income at all to MNTs who are also pensioners whose income might be well below that of the other board members.

Q: Is the chairman an employee of the company, a pensioner or an independent?



It was pleasing to find that as many as 37.5% of our schemes had an independent chairman. This figure is close to the 33% found amongst the FTSE 100 companies' scheme boards found in a survey by GAAPS[3]. The OPA believes that an Independent chairman is the best way to maintain this proper balance in the governance of the scheme and to avoid possible conflicts of interest.

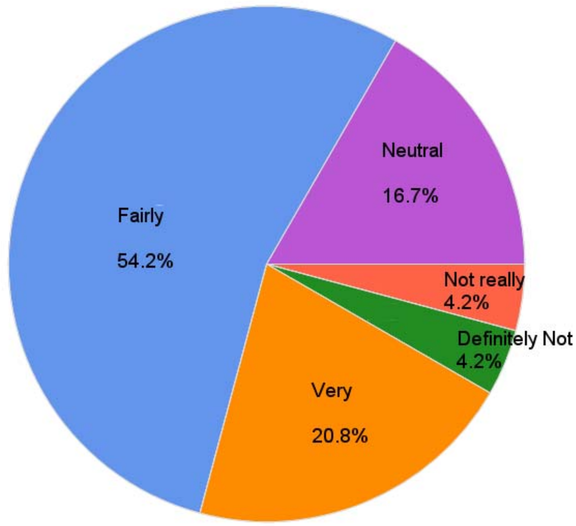
On the other hand it was disturbing to find that 45.5 % of the employer nominated chairmen were found to be directors and 55.5% were senior executives of the sponsoring company which must produce serious conflicts of interest. A company director has a legal duty to act in the best interest of shareholders, which may mean keeping company pension contributions to a minimum. In contrast a trustee needs to protect member interests and that could mean negotiating increased funding from the employer.

It is therefore more worrying when considering that the larger pension schemes are more likely to have better standards of corporate governance than smaller ones where the practice of having directors as chairman appears to be greater.

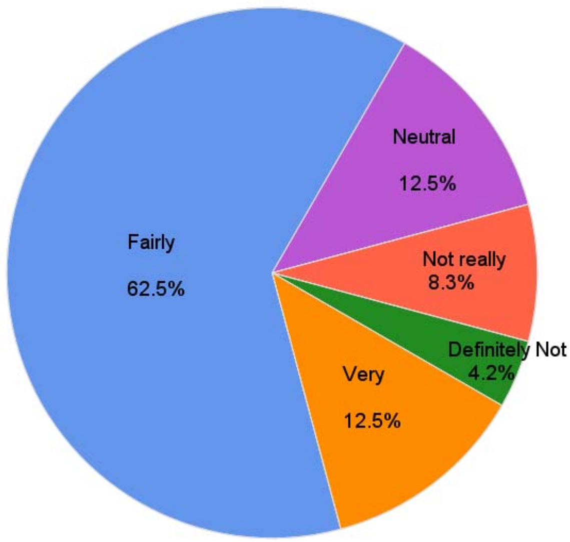
The OPA maintains that the government should make it mandatory that the chairman of trustee boards should be independent.

5.4 Communications

Q: Are you satisfied with the extent of the information provided by your scheme?

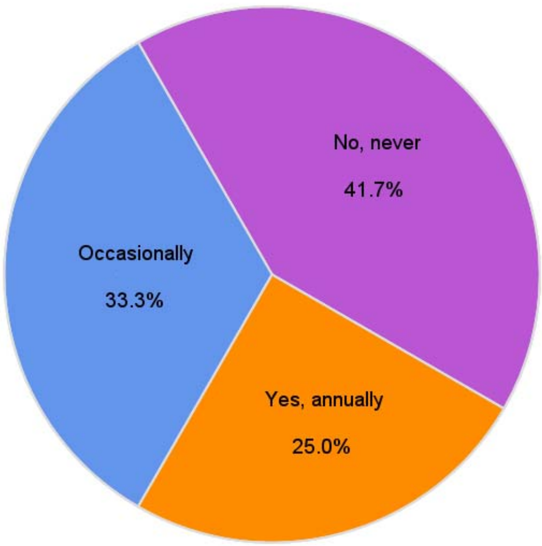


Q: Are you satisfied with the frequency of the communications from your scheme?



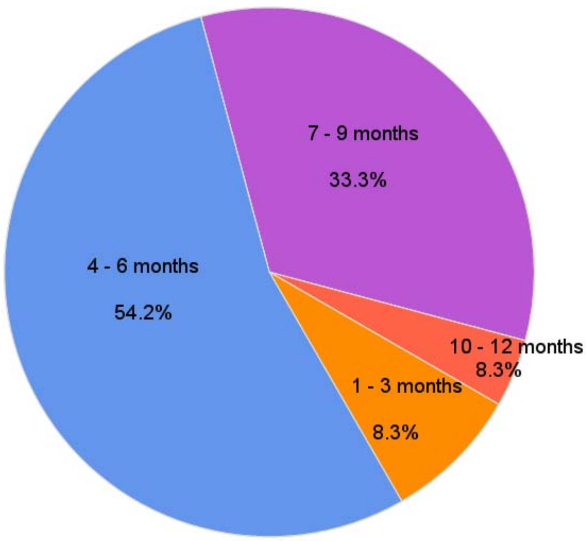
8.4% were either not or definitely not satisfied with the extent of information provided by their scheme and this rose to 12.5% when considering the frequency of communications. These figures are very similar to those found in last year's survey[1] so there is clearly progress required to be made on these issues.

Q: Do your trustees ever hold open meetings to answer questions from members?



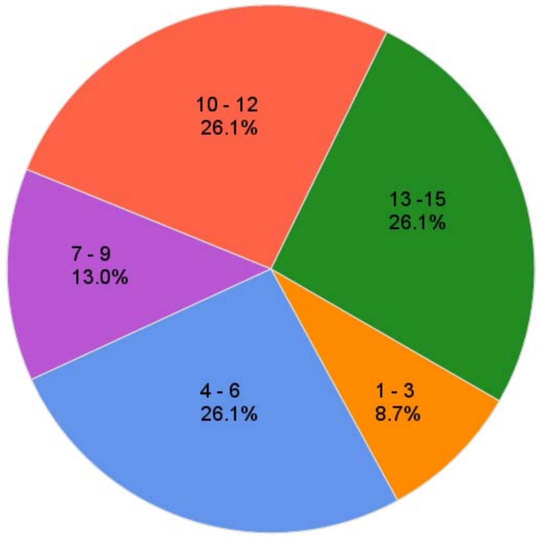
The finding that as many as 58.3% of the schemes now hold open meetings for members, either occasionally or annually is a significant improvement on last year when only 26% were reported as doing so. It is an encouraging trend.

Q: About how long after the end of the fund's financial year does it normally take before you receive a summary statement?



It is encouraging too to find a small improvement in the percentage of schemes that manage to issue the scheme's annual report with 6 months of the end of the financial year, from 52% to 62%. There is still room for improvement though.

Q: After the fund's triennial actuarial review about how many months does it normally take before you receive a summary of the results?



Overall there was little or no change from last year in the time taken to issue the triennial actuarial review so greater efforts are clearly required here. During periods of recession prolonged delays in reporting can only serve to cause considerable anguish to members. Scheme members may wish to make decisions based on funding situation and prospects.

Q: Is any recovery plan always published together with the triennial actuarial review?

Only 8.7% reported that the recovery plan is sometimes published later:

Q : If your scheme is defined benefit scheme what is the accrual rate?

Answers ranged between 1/46th and 1/80th and were often age related which makes comparisons difficult.

Q: What conversion factor for Additional Voluntary Contributions does your scheme use?

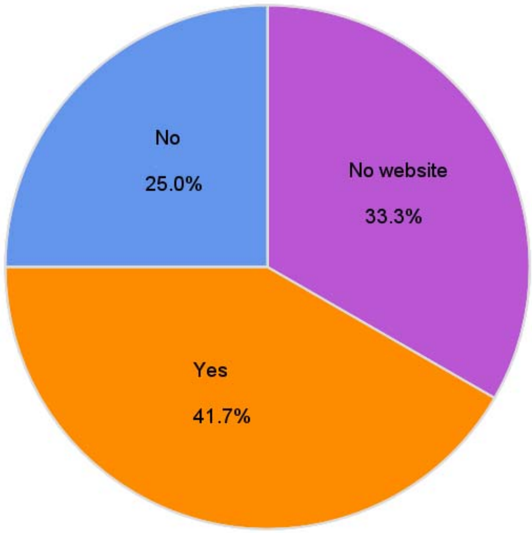
This question resulted in a response rate of only 25% and in most cases it was said to be actuarially determined on a case by case basis. .

Q26: What Early Retirement Discount Factors are used by your scheme?

This again provided a low response rate but was found to vary between 2 and 7% and was age related.

5.5 Responsible Investment Policy

Q27: Is your scheme's Statement of Investment Policy freely available on your scheme's website?



In this day and age it is very surprising that 33.3% of the schemes have no website at all with which to make any details of their scheme known to their members. Of those that have one only 41.7% make their SIP available to members in this way.

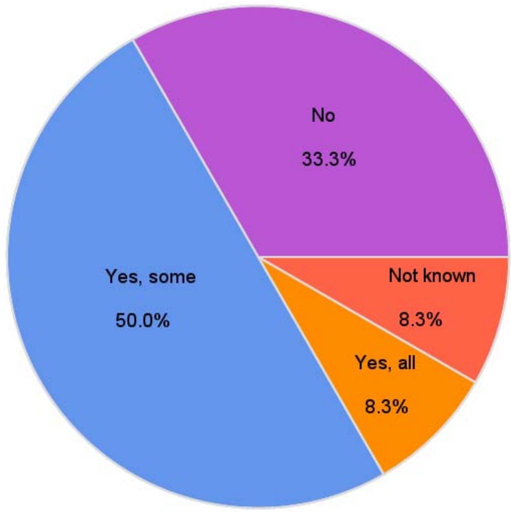
Q: Has your scheme signed up to the United Nations Principles of Responsible Investment (UNPRI)?

Only just over half of respondents were able to answer this question and of those that did so all reported that their scheme had not signed up to the UNPRI which is very disappointing.

Q: Does your Scheme's annual report include a detailed section on responsible investment?

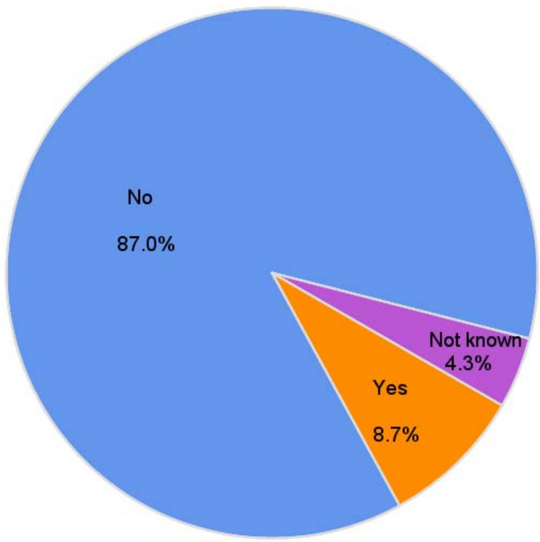
Only 17% of the schemes included any details on responsible investment which demonstrates a disturbing lack of concern on this issue.

Q: Does your scheme's SIP contain detailed statements of Responsible Investment Policy, policy implementation and performance monitoring?



The picture here was slightly better in that about 58% provided at least some detail.

Q31: Does your scheme provide full voting records and summary voting analysis?



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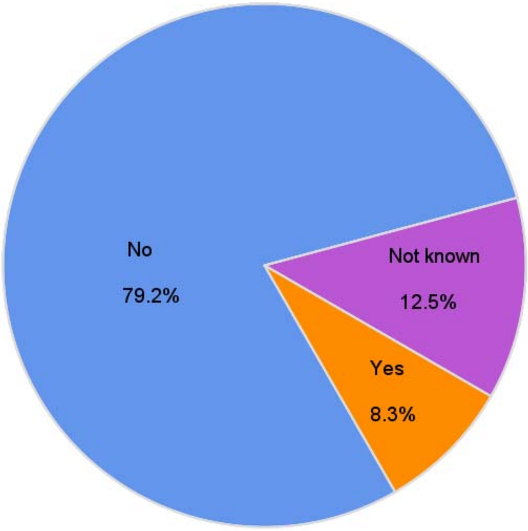
Q32: Does your scheme provide details of its Environmental, Social and Governance (ESG) engagement strategy, and reporting?



Very few schemes (about 8%) provided these details in answer to either of these two questions which again is very disappointing. It confirms OPA's suspicions that ESG issues are still not being taken seriously by the overwhelming majority of trustee boards.

The OPA believes that the trustees' duty of prudence should require the adoption of a long-term strategy aimed at preserving their beneficiaries' capital and sustainable value creation

6. Recommendations

6.1 Trustee boards should reduce the delays in making their annual financial reports and triennial actuarial reviews available to members.

6.2 The above reports should be made freely available to members on scheme websites.

6.3 It should be mandatory that the chairman of trustee boards should be independent.

6.4 Because of unavoidable conflicts of interest Finance Directors should be disqualified from serving as trustee board members.

6.5 Trustees who are also senior staff of the sponsoring company should be closely monitored for conflicts of interest.

.6.6 MNTs who are also pensioners should be paid at least a nominal remuneration for their services.

6.7 The principles of proportionality, fairness and transparency in selecting MNTs should be enforced by regulation rather than being left to guidance in Codes of Practice.

6.8 The principle of having 50% MNTs should be implemented without further delay.

6.9 Members should ensure that their trustees adopt a responsible investment policy which is open and transparent.

References

1. OPA 2009 Members' Survey. 7 Dec 2009

2. Department of Work and Pensions: RR670: "Attitudes to increasing the proportion of member-nominated trustees: a qualitative study" (conducted by British Market Research Bureau Qualitative Research). 28 July 2010

3. Trustee GAAPS: "67% of FTSE-100 pension fund boards exposed to potential conflicts of interest" (issued by Mattison Public Relations). 12 Oct. 2009

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Appendix

The following 24 schemes participated in this survey:

Aon Alexander & Alexander UK Pension Scheme
Association of Wellcome Group Pension Fund Members
BAE Systems Pension Scheme
British Steel Pension Scheme
BTG Pension Scheme
Civil Aviation Authority - CAA Section
Civil Aviation Authority - NATS Section
EMI Group Pension Fund
Foster Wheeler Pension Plan.
George Wimpey Staff Pension Scheme
Hewlett Packard Limited Retirement Benefits Plan (Digital Section)
IBM UK Pensions Trust Ltd
National Transcommunications Limited Pension Plan
Ofcom (former ITC) Staff Pension Plan
Philips Pension Fund
Reckitt Benckiser Pension Fund
Reuters Pension Fund
Reuters Supplementary Pension Scheme
Royal Ordnance Crown Service Pension Scheme
RWE npower Group of ESPS
Serco Pension & Life Insurance Scheme
Trafalgar House Pension Trust
TRW Pension Scheme
Unilever UK Pension Fund