



Occupational Pensioners' Alliance

2009 Survey of Pension Schemes

By

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December 2009

1. The Occupational Pensioners' Alliance (OPA) comprises members from 36 occupational pensioner organisations nationwide and represents the interests of over 50 pension schemes with over two million members.

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3. Executive Summary

3.1 This survey has revealed that as many as 15% of respondents are unhappy with both the extent and frequency of their scheme's communications. On the other hand, in addition to the normal published reports, 26% of schemes do manage to address the need for good communications with members by holding open meetings either annually or just occasionally. The OPA would like to see this example of best practice extended.

3.2 Many schemes were found to fail to make the results of the full annual financial reports and triennial actuarial reviews available within a reasonable timeframe. Whereas 16% of the schemes manage to publish their annual report within a period of between 1 and 3 months and a triennial actuarial valuation within 8 months, as many as 8% manage to spin out the period for the annual report to 10-12 months and longer than 15 months for actuarial valuation. Thus the information becomes hopelessly outdated by the time it reaches the ordinary members and causes considerable concern during times of recession.

3.3 On scheme governance, and in particular the management of conflicts of interest, the survey revealed issues of grave concern. 80% of the respondents' schemes' trustee boards were found to embody a director of the sponsoring company, 24% with even the Finance Director and 35% a member who reports directly to the Finance Director. The OPA believes that Finance Directors should be disqualified altogether from being scheme trustees. Furthermore we urge the Regulator to intervene when there are clear examples of conflicted directors such as the recent case of British Airways^{4,5}.

3.4 As many as 12% 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 Member Nominated Trustees (MNTs) are clearly being ignored by some schemes.

3.5 56% of our members' schemes do not yet have a board consisting of 50% MNTs. 24% of schemes were found to have expressed some opposition to having 50% MNTs and significantly the majority of these also had company directors on the board. In the 2004 Pensions Act the government gave a commitment to introduce the 50% level by 2009 but there is no sign of this happening and the OPA now calls on the government to implement this commitment now or at least before the coming General Election.

4. Introduction

4.1 This is the 5th OPA members' survey we have undertaken and the second one which has been conducted on-line. It was conducted over a period of 3 months from August to November 2009. A total of 27 responses from the members' schemes were received which is slightly lower than the 32 of last year. One of our member associations requested that their submission should be deleted due to a disagreement amongst members of their management committee as to what the correct answers should be, thus reducing the sample size to the 26 as listed in the Appendix. This is about the average response rate to be expected from on-line surveys and is comparable with a recent survey conducted by Aon Consulting¹ which had a sample size of 35 with a total membership of 350,000 compared with our total of over 1 million.

Some of the questions this time also required a greater contribution from respondents than previously in terms of the research required to answer the questions accurately. Consequently a greater proportion of responses (16%) resulted in skipped questions in the more abstruse areas such as whether the pension fund has a voting policy that requires voting of all shares.

For reference on future surveys members are recommended to study the survey help page on the OPA website at: www.opalliance.org.uk/helpus.htm and to obtain their fund documentation on a regular basis.

This survey covered different issues from last years'² and concentrated mainly on the issues of communications and governance by trustee boards. It also included two questions on investment on behalf of FairPensions which is affiliated to the OPA and also there was a question on commutation rates.

5. Survey Results

5.1 Communications

Fig.1 How satisfied are you with the extent of the information provided by your scheme?

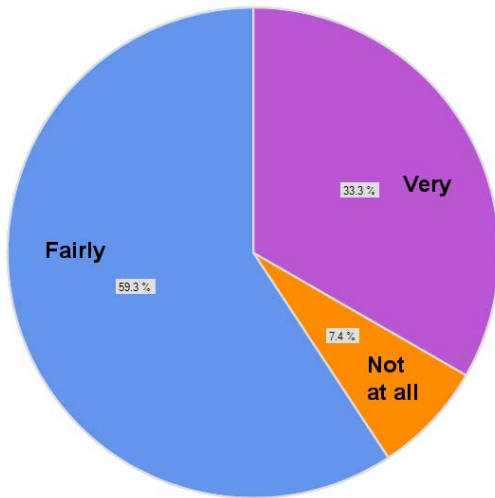
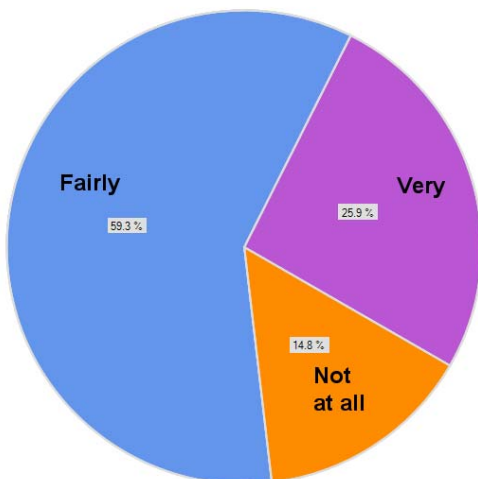


Fig.2 How satisfied are you with the frequency of the communications from your scheme?



Whilst the majority of respondents found that both extent and frequency of the communications from the pension scheme to be acceptable, a worrying 15% were clearly not happy. 26% of schemes do in fact address the need for good communications with members by holding open meetings either annually or just occasionally. The latter is an example of best practice which should be encouraged.

Fig.3 Do your trustees ever hold open meetings to answer questions from members?

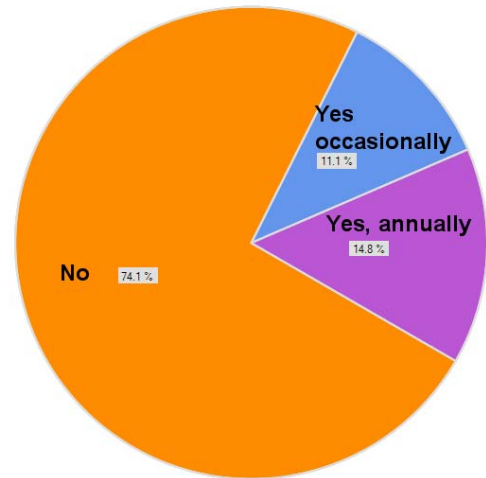


Fig.4 How long after the end of the fund's financial year does it normally take before you receive a summary statement?

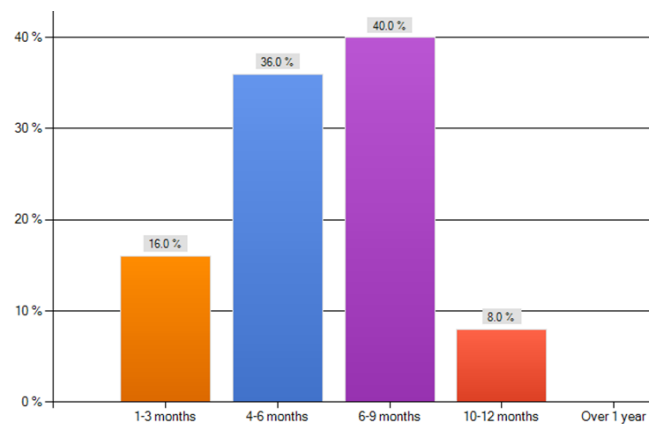
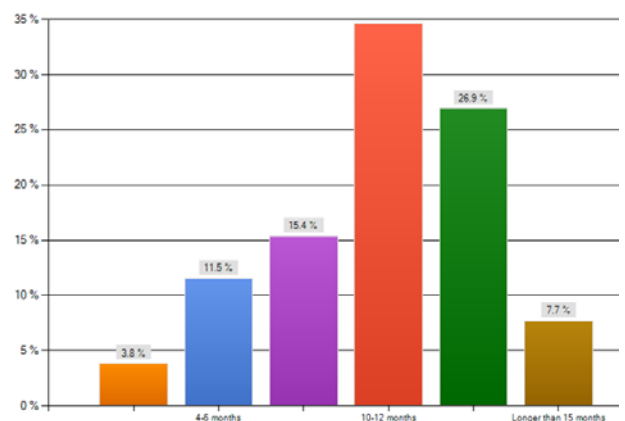
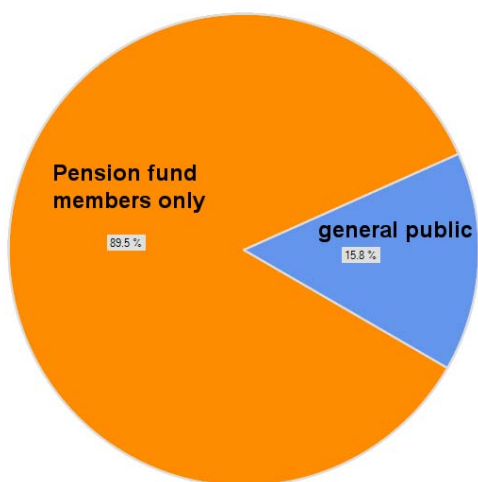


Fig.5 After the fund's triennial actuarial review how long does it take before you receive a summary of the results?



There is considerable room for improvement for most schemes in providing financial reports to members. Only 16% of the schemes manage to publish their annual financial report within a period of between 1 and 3 months and a triennial actuarial review within 8 months. In contrast as many as 8% manage to spin out the period for the financial report to 10-12 months and longer than 15 months for the actuarial review. This is clearly unacceptable in this day and age given that it has recently been reported that one board of trustees is able to update its financial position on a weekly basis³. During periods of recession prolonged delays in reporting can only serve to cause considerable anguish to members.

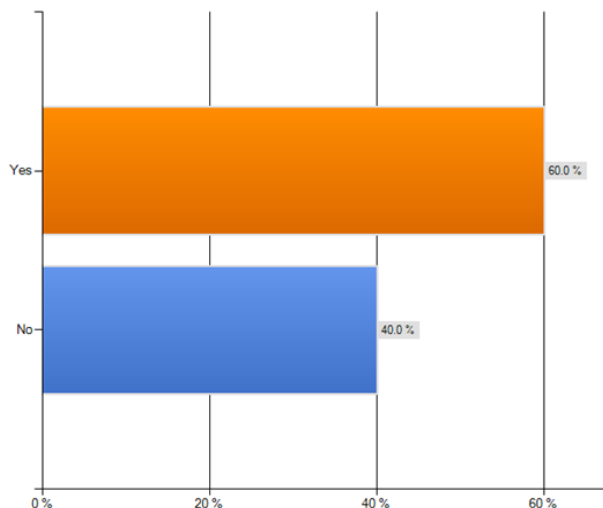
Fig.6 Is the pension fund's Annual Report made automatically available (i.e. not on a specific request basis) to (a) pension fund members only or (b) the general public?



Only 16% of schemes make their annual reports available to the general public, e.g via websites.

5.2 Trustee Board

Fig. 7 Are any of the trustee board members also directors of the sponsoring company?



Scheme governance is another area in which this survey has revealed an urgent need for improvement. 80% of the respondents' schemes' trustee boards embody a director of the sponsoring company, 24% even the Finance Director and 35% a member who reports directly to the Finance Director.

Fig. 8 Is a member of the trustee board also the Finance Director of the sponsoring company?

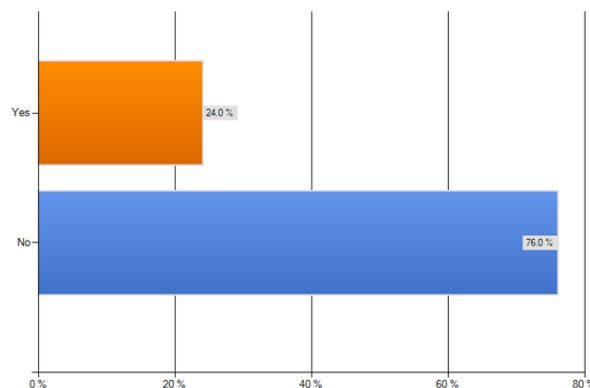
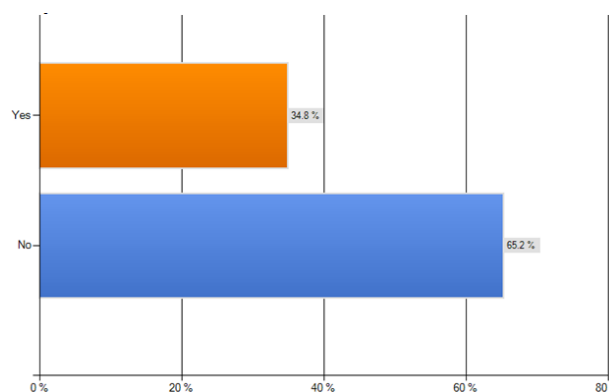


Fig. 9 Do any of the company trustees report directly to the Finance Director of the sponsoring company?



The above findings are entirely consistent with tPR's own 2009 Governance Survey⁴.

This raises serious concerns over Conflicts of Interest. This is what the Pensions Regulator has to say about such conflicts on its website:

"Conflicts of Interest are a serious concern for the regulator. They arise in the trustee governance model because many trustees have a stake in the scheme or its sponsoring employer. If not managed effectively decisions may be taken that put the interests of beneficiaries at risk, or subsequently prove to be invalid."

The advice goes on to say

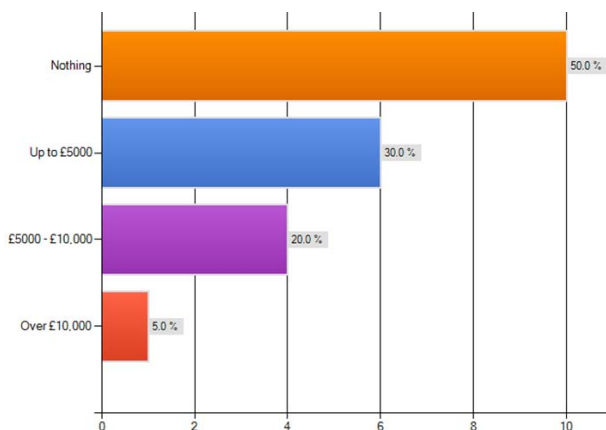
"The regulator recognises that it can be beneficial to appoint senior staff of an employer as trustees, particularly in terms of knowledge, expertise and experience. However, conflicts are inherently likely to arise before and after appointing staff of an employer as a trustee, particularly senior staff."

Recently there has been a most blatant example of a major company apparently ignoring this guidance⁵. The OPA challenged British Airways on the position of a company director who acts as chairman of both the company's pension schemes and at the same time has been in charge of negotiating a tie-up with Iberia. The Chief Executive of BA, Willie Walsh, dismissed our concerns⁶ on the grounds that the director involved was a most honorable man and therefore capable of fulfilling both roles. This is not the issue. The OPA has no reason to doubt that he is indeed a most honorable man. As the Pensions Regulator says "... it is vital that decisions are not affected or **tainted** by conflicts of interest so that valid decisions are made, and are perceived to be made, in the beneficiaries' best interests."

Appearance and transparency are essential, and even a hint of dubious decision making is unacceptable. British Airways may be confident there is no conflict of interest; the OPA is not. The OPA's position remains that Mr Maynard's multiplicity of roles at the heart of both British Airways and Iberia and the pension schemes means that his position is totally compromised, therefore untenable and he should stand down as chairman of the pension schemes. If he does not do so then the Regulator must intervene.

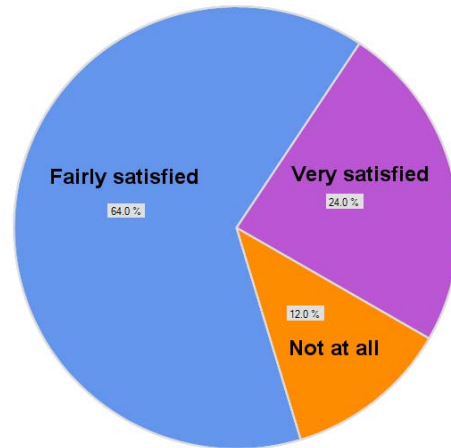
The OPA believes that the principles laid out in the 2004 Pensions Act of proportionality, fairness and transparency in the nomination and selection processes for MNTs are being ignored by some schemes. For example in one of its member schemes less than 1000 members of the constituency for active members select 3 trustees and that for 10,000 pensioners select just one. The OPA maintains that such practices, though not actually illegal, are unacceptable.

Fig.10 Apart from expenses, what additional income is paid to your Member Nominated Trustees/Directors for their trustee services each year?



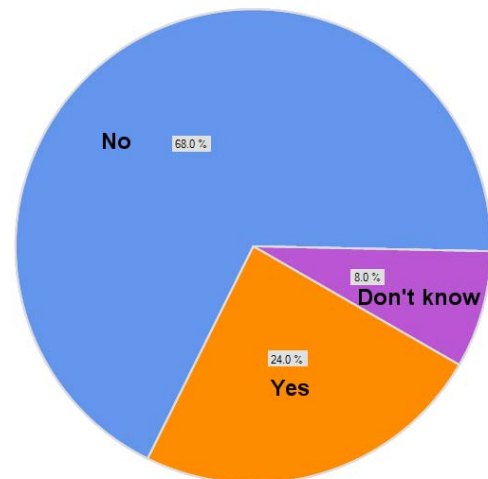
50% of the schemes' boards did not provide their trustees with any remuneration for their services but 25% of the mainly larger schemes paid them at least £5000 pa.

Fig. 11 How satisfied are you with the level of representation of pensioners' interests on the trustee board?



As many as 12% of our respondents were not at all happy with the level of representation of pensioners' interests on the trustee board presumably because the number of trustees drawn from the pensioner members was lower than they felt it should be.

Fig. 12 Has the trustee board or the sponsoring company ever expressed any opposition to having 50% Member Nominated Trustees on the board?



The 2008 OPA survey found that as many as 44% of our members' schemes already had 50% MNTs on the board but this 2009 survey enquired as to whether any of the sponsoring companies had ever expressed any opposition to having 50%. The responses indicated that as many as 24% had in fact done so but it is significant that the majority of these also had directors of the sponsoring company on the board.

The 2004 Pensions Act included the provision that the one third MNTs could be raised to 50% and the government gave a commitment to introduce the 50% level by 2009. James Purnell, the then Secretary of State for Work and Pensions, said in June 2008 that, although the government remained committed to the 50% MNT level, more research was necessary to establish that it would be safe to introduce it. Now, 17

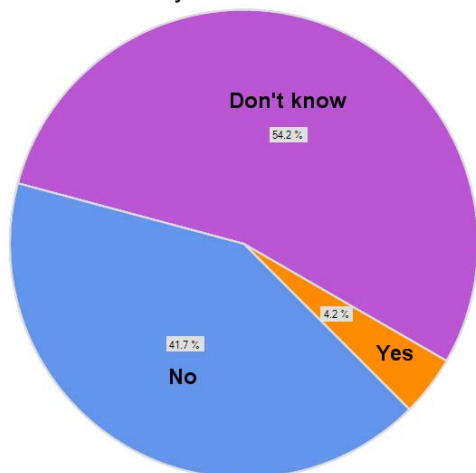
months later, nothing further has been heard from the DWP on the results of this research let alone any date by which the commitment will be implemented. With a General Election now coming within the next 5 months or so our worst fears, as expressed in our 2009 report, that the issue was to be kicked into the long grass have been realised. Nevertheless as far as the OPA is concerned this issue is NOT dead and we will continue to campaign for 50 % MNTs for all schemes.

5.3 Pension Fund Lump Sums

The OPA had suspected that there would be a wide disparity between pension schemes concerning the commutation arrangements and this survey did confirm this to be the case. However before concluding 12 to be the most frequent rate it should be pointed out that the response rate (46%) to this particular question was unusually low. This probably reflects the difficulty most members found in gaining access to this information.

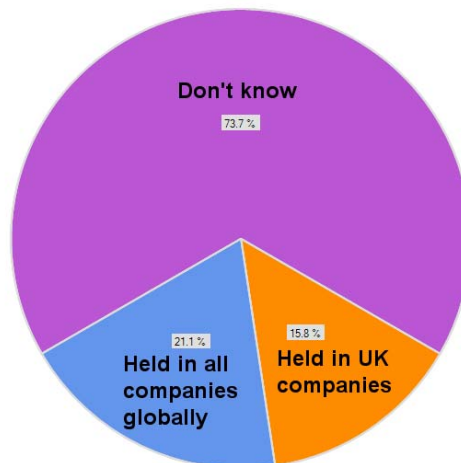
5.4 Responsible Investment Policy

Fig. 13 Did your scheme respond to the 2009 FairPensions Survey?



Again our respondents clearly had difficulties in finding the answer to the question as to whether scheme managers had completed the 2009 FairPensions Survey, only 4% being able to confirm positively that they had done so compared with 54% "don't knows".

Fig. 14 Does the pension fund have a voting policy that requires voting for all its shares:



The question concerning the voting policy on shares required access to the scheme's Statement of Investment Principles and for this the "don't knows" rose even higher to 74%.

Nevertheless the OPA will continue to advocate the adoption of a responsible investment policy and having a "do no harm" clause in their Statement of Investment Principles. Fund managers and other advisors should satisfy the trustees that their investment decisions are not causing systemic harm to the stability of the financial system and therefore to the long term interests of their beneficiaries. Environmental, social, and governance considerations should be taken into account in the selection, retention and realisation of investments and the responsible use of rights (such as voting rights) attached to investments

The OPA is affiliated to:



www.fairpensions.org.uk

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 Because of unavoidable conflicts of interest Finance Directors should be disqualified from serving as trustee board members.
- 6.4 Trustees who are also senior staff of the sponsoring company should be closely monitored for conflicts of interest.
- 6.5 The Pensions Regulator should intervene in cases when a company merger is about to occur and the pension fund chairman has conflicts of interest.
- 6.6 MNTs 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.

References

1. Financial Times, "Members stay with their pension schemes" by Denise Law, 19 November, '09
2. OPA Survey of Pension Schemes' Member Nominated Trustees Arrangements, October 2008
3. Investment & Pensions Europe, "Weekly pension updates 'relax trustees' – BP", by Nyree Stewart, 23 November 2009
4. tPR: "Occupational pension scheme governance", November 2009
5. The Times. "Pressure group turns on BA over pension chairman", by David Robertson, 19 November '09
6. Financial Times, "BA chief warns cabin staff over strike", by Pelita Clark, 23 November '09

Appendix A

The following 26 schemes participated in this survey:

Alcan Packaging Pension Plan UK
Aon Alexander & Alexander UK Pension Scheme

BBC Pensioners Association
British Airways Pension Scheme
British Steel Pension Scheme
British Telecom Pension Scheme
BTG Pension Fund
Chevron UK Pension Plan
Civil Aviation Authority Pension Scheme
E.ON Group of Electricity Supply Pension Scheme
EDF Energy Group of Electricity Supply Pension Scheme
English China Clay Pension Scheme
Foster Wheeler Pension Plan (DB)
Hewlett-Packard (Digital Section)
IBM UK Pensions Trust
Imperial Tobacco Pension Fund
MANWEB Group of Electricity Supply Pension Scheme
ntl Pension Plan
Reckitt Benckiser Pension Fund
Royal Ordnance Pension Scheme
RWE npower Group of Electricity Supply Pension Scheme
Serco Pension & Life Insurance Scheme
Thames Television section of Pearson Group Pension Plan
TRAFALGAR HOUSE PENSION TRUST
TRW Pension Scheme
Unilever UK Pension Fund