SCHEME GOVERNANCE

KEY ISSUES

Scheme governance committees aren't required by law for contract-based group pension schemes, but failure to ensure that arrangements are regularly reviewed is a business risk.

A governance committee should include representatives of the main stakeholders, such as HR and finance departments, employees, unions and advisers.

The committee's job is to ensure that the scheme is operating effectively and successfully for both its members and the employer.

It should review and report regularly on member concerns, HR/employer issues, scheme provider and advisers.

A good governance committee can improve employee engagement with, and participation in, the pension scheme, as well as reducing risk to the employer.

Why is scheme governance important?

Whilst with trust-based group pension arrangements, the employer is required to put in place governance arrangements, the same does not apply for contract-based group pension schemes. Employers select the scheme and provider and have the ability to change them but there is no contractual relationship with the scheme provider. Instead, the contract lies between the individual member and the pension provider. The employer merely facilitates the arrangements and only has obligations to make payroll deductions and to forward contributions on time.

But once the scheme has been put in place, who checks if the charges are still competitive, if the investment choices are suitable or if the scheme provider is doing a decent administrative job? Good practice suggests that scheme operation should at least be reviewed periodically. But best practice goes a lot further. Increasingly, larger employers are looking to constitute scheme governance committees, comprising a number of stakeholders, with a remit to ensure that the scheme is operating effectively and successfully for its members and for the employer.

WHAT DOES A GOVERNANCE COMMITTEE DO?

The Pensions Regulator has provided guidance about best practice and suggests that the activities of a governance arrangement should be broken down into three main areas:

MONITORING SERVICES

- Provider selection and monitoring of investment and administration performance
- Review the costs/charges and services of product providers, advisers and any other parties associated with the scheme
- Analysis of investment choices made by members e.g. assessing whether there is a good take-up of the different options.

HR/EMPLOYER ISSUES

- Determination of contribution rates
- Take-up/enrolment rates
- Leavers and joiners
- Administration of the scheme (payroll deduction/payment of contributions)
- Legal and legislative issues (e.g. age discrimination, automatic enrolment)

MEMBER CONCERNS

- Improving understanding of and engagement with the scheme
- Improving communications to all members
- Being a point of contact for members to raise issues they may have
- Arranging additional support for members, including advice to employees on investment and retirement decisions

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Benefits of a governance committee

An effective governance committee can benefit both the employer and employees in a number of ways:

Provides a forum for reviewing reports from, and assessing the performance of, stakeholders. Topics would normally include:

- Scheme data such as enrolment rates, joiners, leavers, retirements and deaths, contribution levels and the extent to which retirement funding goals are being met
- Investment options, fund choice, costs and investment performance
- Provider administrative service levels and performance
- Adviser performance and any remuneration direct from the employer
- Legislative and taxation changes bearing on scheme operation and contributions

Improves understanding and communication of the benefits internally. This often results in better employee engagement with, and improved perceptions of, the value of the scheme - leading to improved take-up and contribution levels.

Provides a forum for identifying issues. Allows action to be taken by the employer/adviser before things escalate.

Offers a conduit for members experiencing difficulties with administrators or other parties, bringing more weight to bear in solving problems.

Mitigates the employer's risk factors associated with pension scheme operation. For example:

- failure to take up the benefits
- poor member understanding of the scheme
- limited or inappropriate investment choices and processes

Keep it simple

Scheme governance needn't be time consuming. Much of the data and analysis should be provided by the scheme advisers and the provider itself. But it's not just about ticking the "risk-assessment" box; it's about making sure the scheme is understood and valued by all employees and provides the best retirement saving solution for everyone.

COMMITTEE REPRESENTATIVES

The standing representatives on a governance committee should include people from:

- HR, including benefits and/or rewards
- Finance, including payroll
- Employee (member) representatives from relevant operational divisions
- Scheme advisers (corporate financial adviser or employee benefits consultant)
- Union representatives, as appropriate.

We do not recommend inviting membership from the scheme administrators or product providers. Instead, these parties should be invited to deliver reports and presentations to the committee from time to time.

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