

Implementing New Governance Arrangements

Karen McWilliam

2 & 5 July 2013

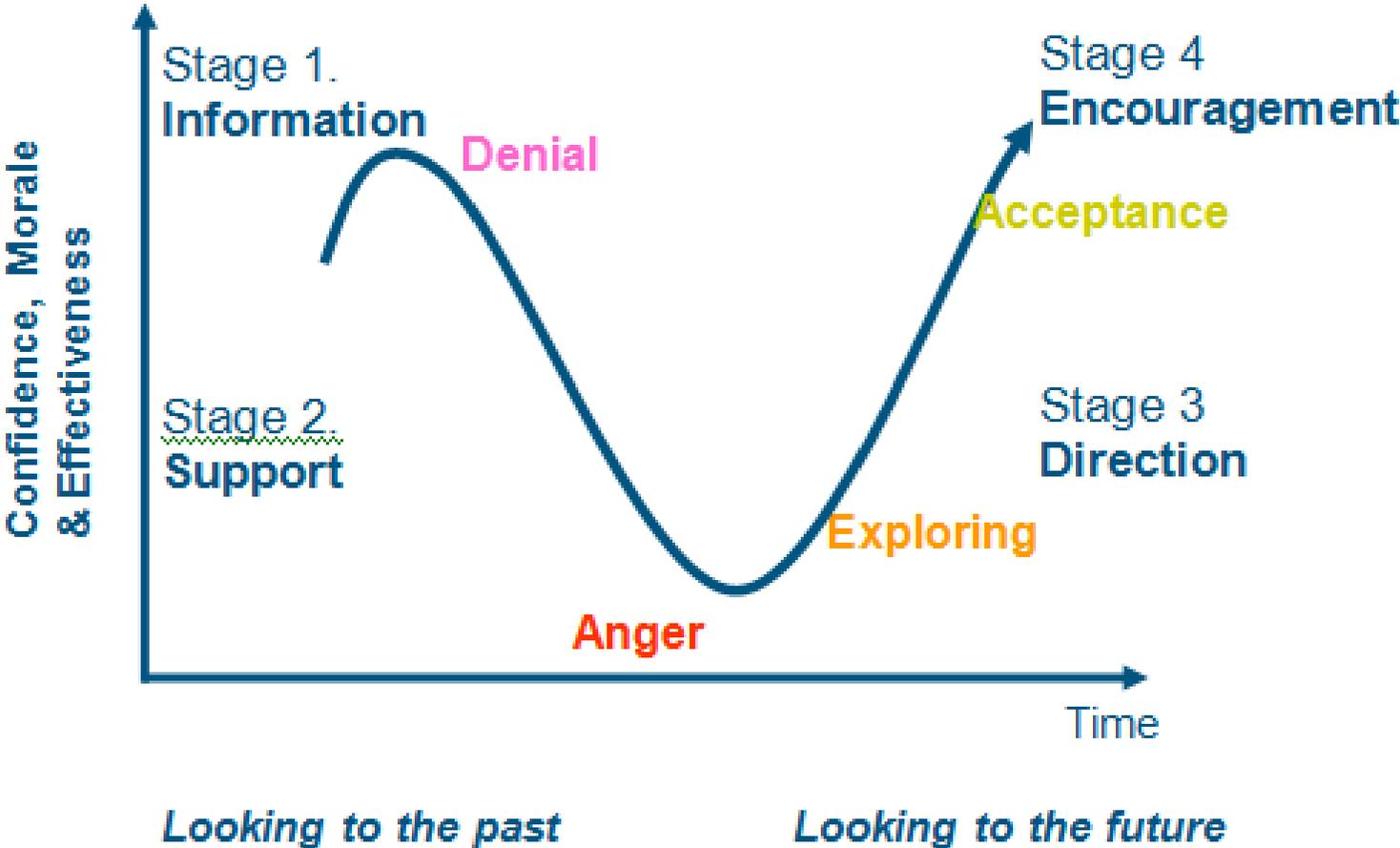
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Presentation to CIPFA Pensions Network

The logo for AON Hewitt, featuring the word 'AON' in a large, bold, black sans-serif font, followed by 'Hewitt' in a smaller, black sans-serif font. The background of the slide is a light blue gradient with a dynamic splash of water and bubbles on the right side.

The Change Curve



Planning Change

1. Be clear about the 'goal' of change – develop a clear vision
2. Be clear about what exactly needs to change
3. Identify steps in the change process
4. Avoid undue haste
5. Identify change agents and resisters
6. Inspire confidence by:
 - Forestalling problems / planning for contingencies
 - Monitoring processes / progress
 - Communicating (regularly!)



- Step 1 - The Goal of Change / A Clear Vision
- Step 2 - What Needs to Change
- Steps 3 & 4 - Identify steps and avoid undue haste
- Step 5 - Inspire confidence

Step 1 - The Goal of Change / A Clear Vision

Why do we need to do this?

- Lord Hutton identified...
- Oversight is a key part of governance...
- If we're doing a good job, it will provide reassurance..
- If we're not, it will help identify where we need to improve.
- Many funds don't focus enough on admin and governance matters



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Step 2 – Be clear about what needs to change

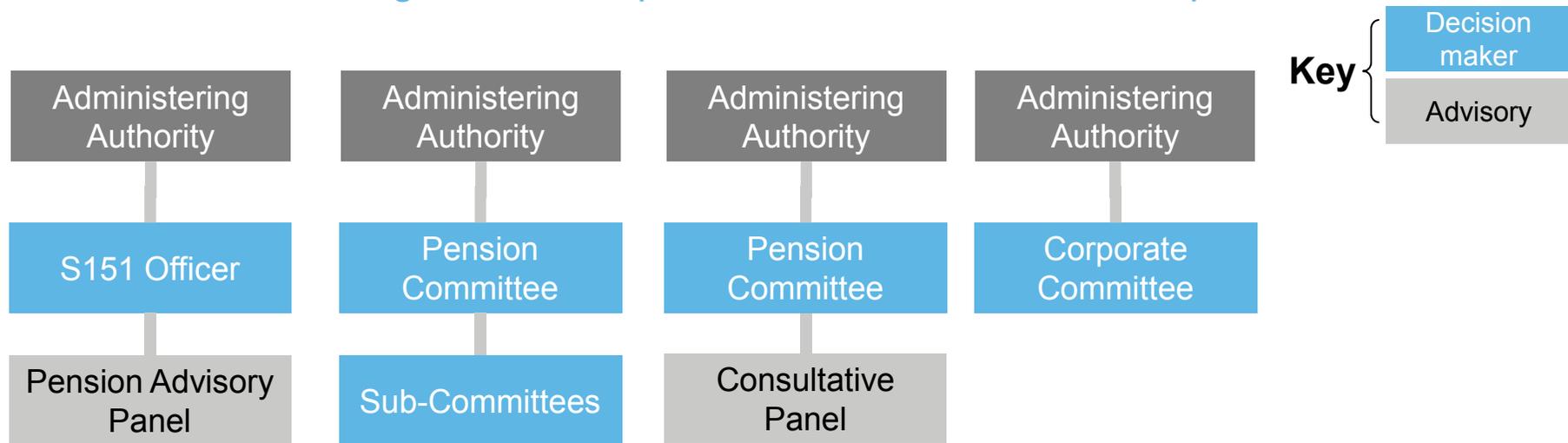
- Structure
- Content – ensuring ‘compliance’
- Police and Fire Uniformed Schemes

A chance for a rethink? Ask yourself...

- What bits of the current arrangements work e.g.?
 - Good debate
 - Unions/employers add value/are engaged
 - They understand the key risks
 - They guide us on what we should be trying to achieve
 - Are there already good elements of compliance
- What bits don't e.g.?
 - Key man risk
 - Lack of engagement with some/they don't turn up
 - Admin areas aren't fully covered
 - Very rushed and too long
 - Lack of transparency

Scheme manager

Just some of a range of current permutations – with their own pros and cons



- Option for member and/or employer reps
- Voting rights for non administering authority representatives?
- Consider proportion to administering authority representatives
- Independent advisers – investment, governance, administration

Pension Board

Employer Representative(s)

- How many of each?
- Move any from Scheme Manager Committee?
- Any cross border or joint committee potential?
- From what range of employers?
- Administering authority included?
- Officers and/or elected members?

Member Representative(s)

- Representing actives and/or deferred and/or pensioners?
- Union representatives or not?

Pension Board – just some potential options

	Member Reps	Employer Reps	Other
Option 1	<ul style="list-style-type: none"> ▪ 1 active member representative (Union representative) ▪ 1 deferred/pensioner member representative (individually nominated) 	<ul style="list-style-type: none"> ▪ 2 AA elected members 	
Option 2	<ul style="list-style-type: none"> ▪ 2 active member representatives (1 Union representative plus 1 individually nominated) ▪ 1 deferred/pensioner member representative (individually nominated) 	<ul style="list-style-type: none"> ▪ 2 from AA -Head of HR and Chief Solicitor ▪ 1 representative for all other employers (individually nominated) 	
Option 3	<ul style="list-style-type: none"> ▪ 2 member representatives (1 Union representative plus 1 individually nominated) 	<ul style="list-style-type: none"> ▪ 1 local LGA representative ▪ 1 representative for non-local authorities (individually nominated) 	<ul style="list-style-type: none"> ▪ 1 Adviser (focussing on governance and administration)

What might compliance checking look like?

- Reporting on key risks/risk changes
- Business plan updates – new tasks and recurring tasks
- Audit reports
- Independent reviews
- Feedback – compliments and complaints
- KPIs/Performance measurements (e.g. CIPFA or other benchmarking)
- Perhaps amalgamate into score card/compliance report format?



Compliance reports

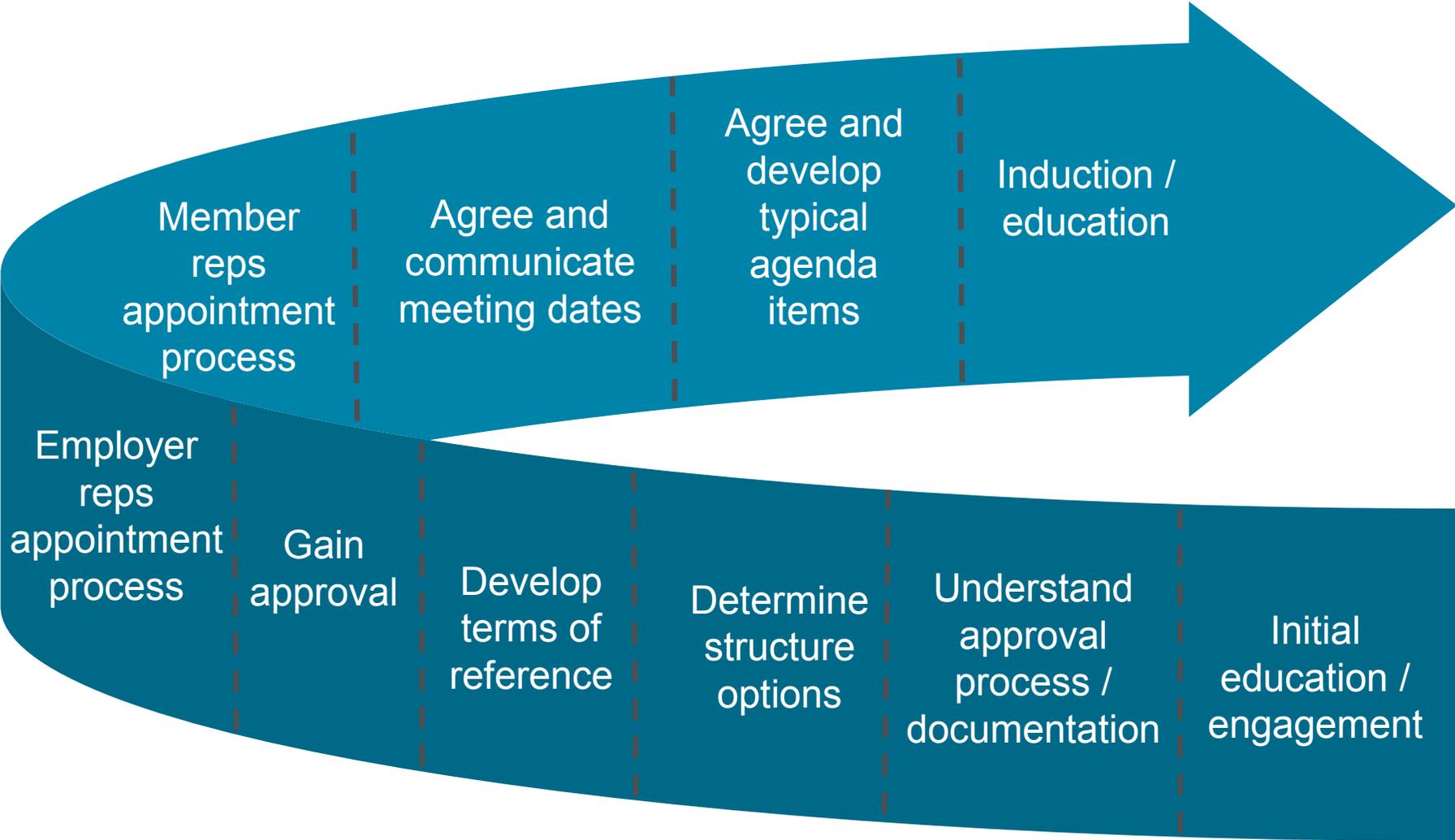
XYZ Pension Fund compliance report as at 30 September 2015

Requirement / Objective	Detail	Frequency	Last Review / Delivery Date	Completed	Fully compliant (if relevant)	Notes
TPR – Internal Controls	Set Objectives	Triennial	31/3/2013		N/A	
	Provide regular updates against agreed objectives	6-monthly	31/3/2015			
	Identify and review risk and controls in place	6-monthly	31/3/2015		N/A	
	Implement new controls as required	6-monthly	31/3/2015			Monitoring of employers being developed
	Draft a business plan	Annual	31/12/2014		N/A	
	Finalise business plan	Annual	31/3/2015		N/A	
	Provide regular updates to business plan	Quarterly	30/6/2015			Two items behind agreed timescale



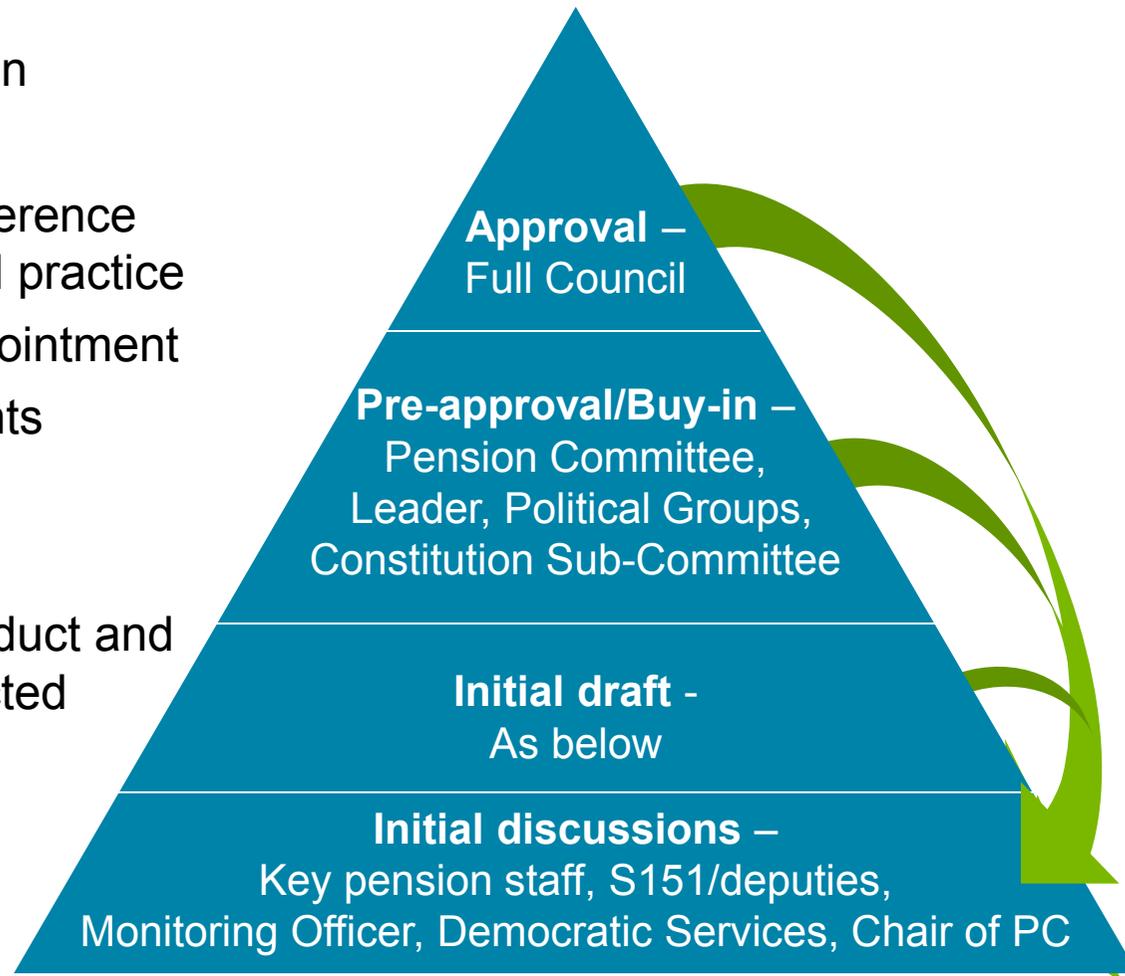
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Steps to implementing a Pension Board (or Scheme Manager)



Scheme Manager *Function*: Approval Process / Documentation

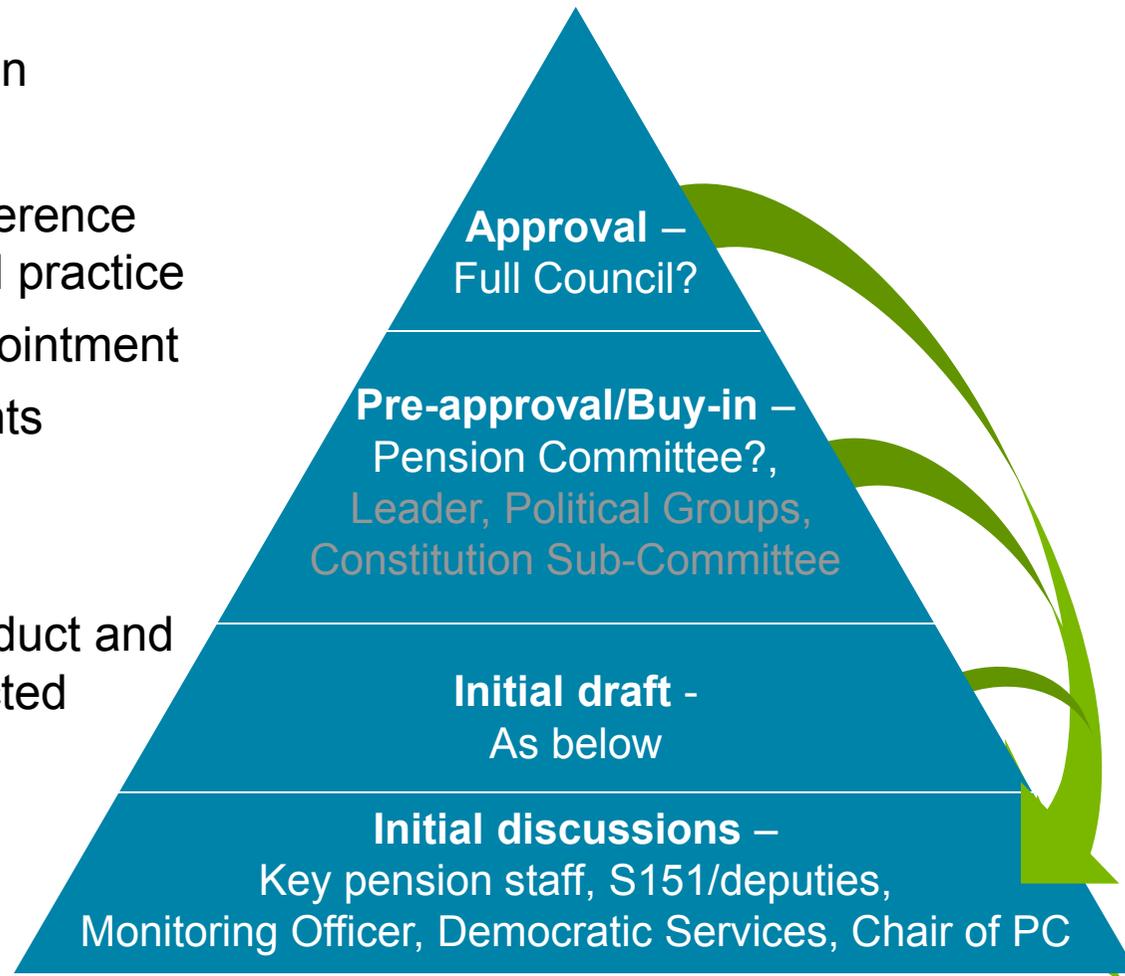
- Monitoring Officer discussion
 - ✓ Approval process
 - ✓ Should full terms of reference go in constitution – good practice
 - ✓ Format of terms of appointment
 - ✓ Staggering appointments
 - ✓ Substitutes
 - ✓ Voting rights
 - ✓ Impact of Code of Conduct and Constitution on non-elected members
- Don't forget to update your Governance Policy!



Each Administering Authority will be different

Pension Board (*Entity*): Approval Process / Documentation

- Monitoring Officer discussion
 - ✓ Approval process
 - ❓ Should full terms of reference go in constitution – good practice
 - ✓ Format of terms of appointment
 - ✓ Staggering appointments
 - ✓ Substitutes
 - ❓ Voting rights
 - ❓ Impact of Code of Conduct and Constitution on non-elected members
- Don't forget to update your Governance Policy!



Each Administering Authority will be different

Appointment Process

- A fair, transparent and proportionate process
- Guidance from monitoring officer / democratic services
- Examples of selection methods
 - a ballot
 - postal votes
 - voting at AGM / employer forum
 - selection panels (officers and/or committee members)
 - selection by Pension Committee
 - selection by other Constitution/Appointments type Committee
 - via a representative body (e.g. a union, local LGA, etc)
- The Pension Regulator Code of Practice for MNT:
<http://www.thepensionsregulator.gov.uk/codes/code-mnt-mnd-arrangements.aspx#s1970>

Appointment Process

Somewhere Pension Fund Appointment of Employer / Member Representative

Contents

1. Why the position is available
2. The appointment process
3. Terms of Reference
4. Job/person specification
5. Conflict Policy
6. Time commitment
7. Meeting dates
8. Knowledge and skills commitment
9. Training dates / conferences
10. Background information

- If Unions or other representative body:
 - Ensure they understand they have a responsibility for all members & employers
 - Put a deadline before moving to alternative process
 - Explain to members/employers (e.g. newsletter)

Induction and Education

“Pension Board members must be conversant with—

(a) the rules of the scheme, and

(b) any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

(3) An individual to whom this section applies must have knowledge and understanding of—

(a) the law relating to pensions, and

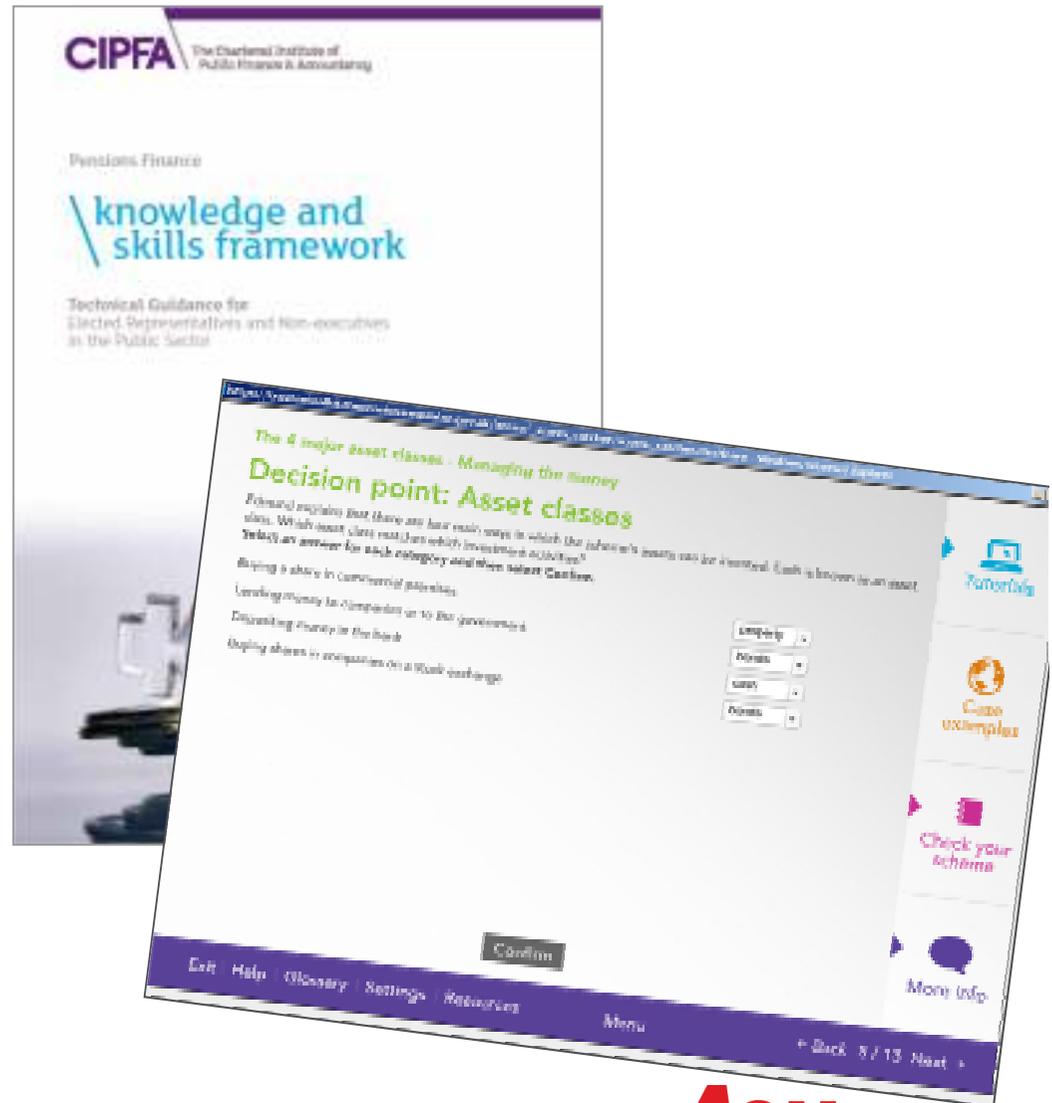
(b) such other matters as may be prescribed.

(4) The degree of knowledge and understanding required by subsection (3) is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.”

Source - Public Service Pensions Act 2013 – Schedule 4, Clause 19

Induction and Education

- Training Policy
- Different needs for Pension Board and Scheme Manager
- Initial induction on
 - General and LGPS specific Pension Knowledge
 - Local Fund Knowledge
 - Operating Protocol / Code of Conduct / Conflicts
 - Roles and Responsibilities
- Ongoing
 - Basic knowledge base
 - Evolving matters
- Easy access to information
 - Handbook
 - Web area





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- **Step 5 - Inspire** confidence

Inspire Confidence

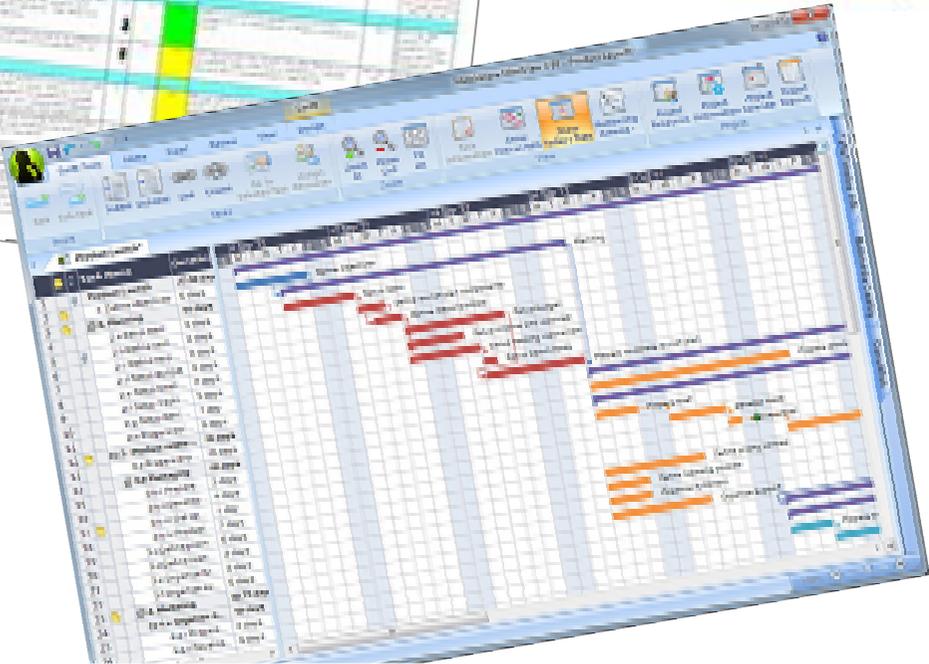
- Pre-empt and plan for problems
- Monitor progress

A project management Gantt chart with a vertical bar showing a color gradient from yellow to red to green, indicating a range of performance or risk levels.



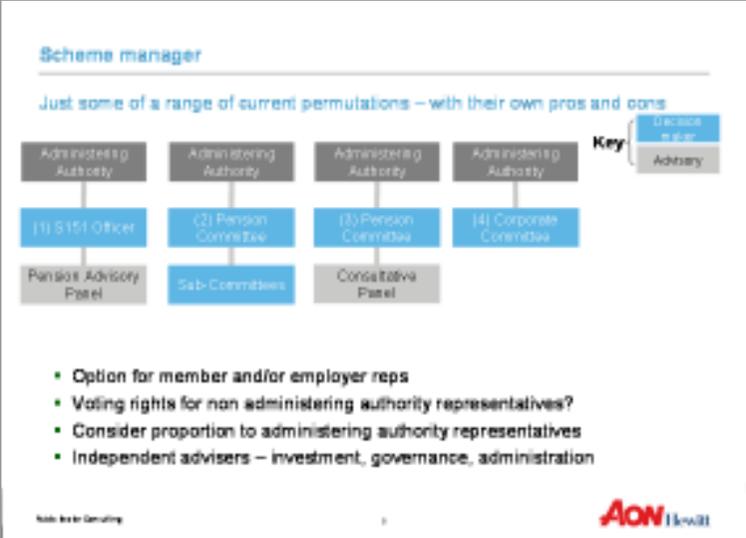
Looking to the past

Looking to the future



Inspire Confidence

- Communicate....regularly



Why is the Government making these changes?
 The Government is worried that many people are still not saving enough towards their retirement and wants to encourage employers to take greater responsibility for this.

Most people think that planning for retirement is not something they need to consider. They might have these immediate financial concerns or think it is too far off to worry about.

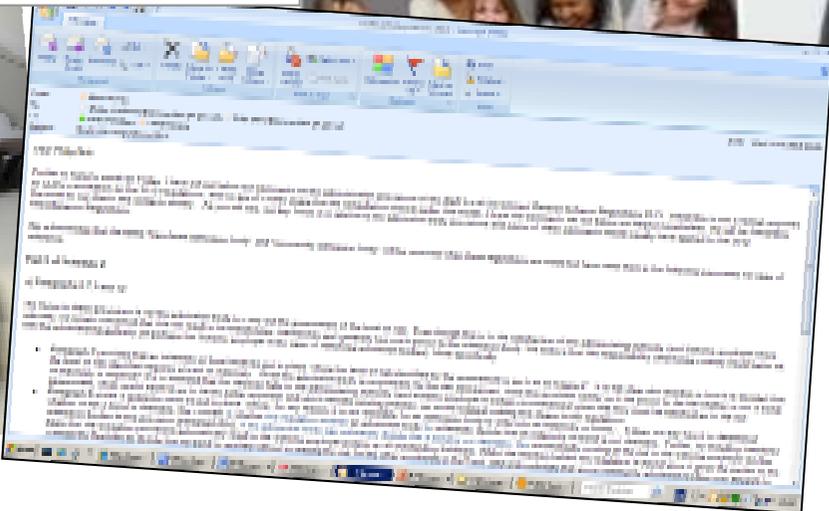
But unless you regularly save into a pension, the unlikely that you will have enough money when you retire simply by relying on the state pension.

Working long or consider to that you are all being longer healthy lives. This means that we can expect to live for longer so retirement than previous generations. The average life expectancy of a man who enters or aged 65 is now 19 years, which is a increase of 10 years.

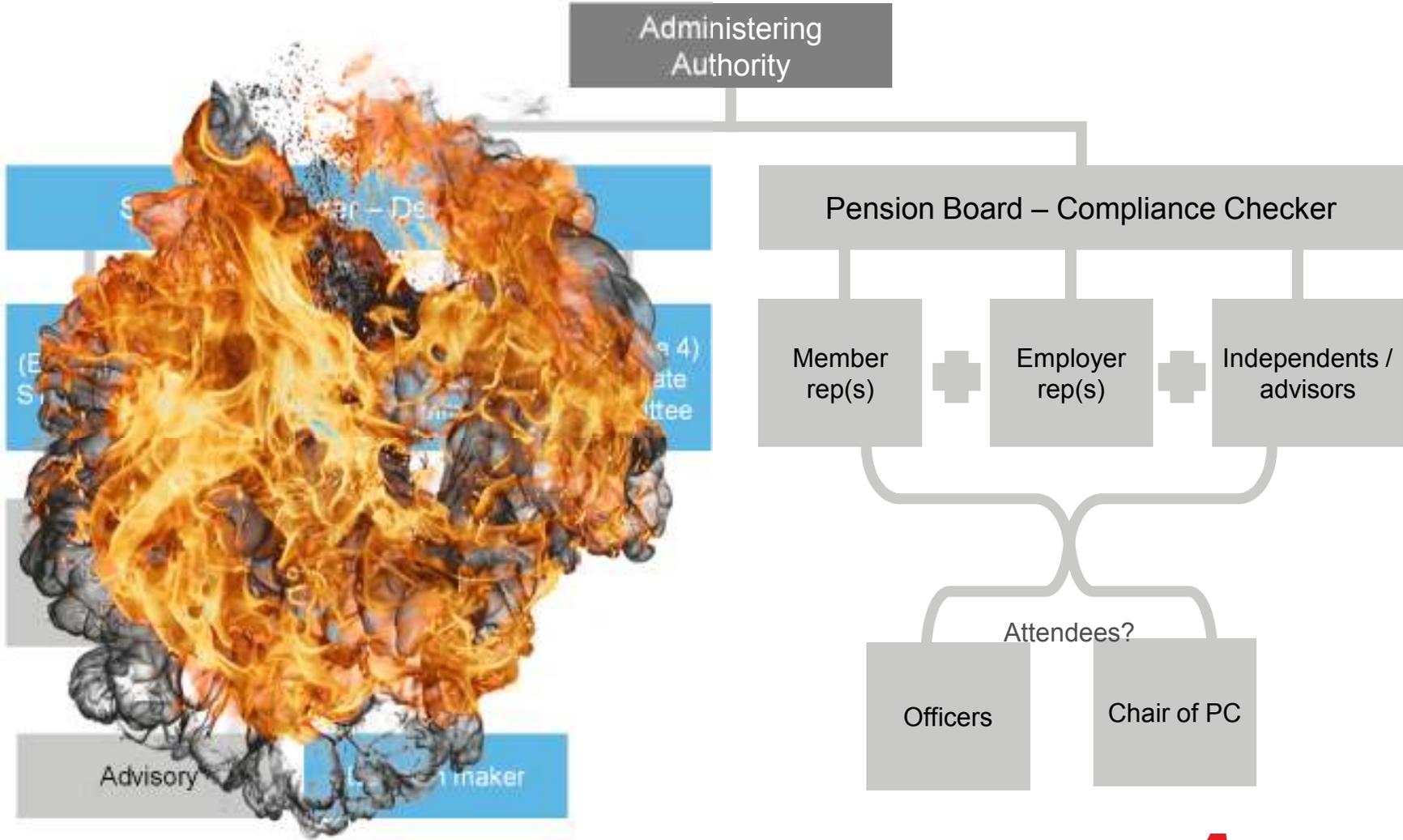
Does this affect all employees?
 Yes, all employees have to contribute from automatic enrolment into a pension scheme. The only difference is that employees with a larger number of employees have to set up a scheme.

Workplace pensions
 This document contains important additional information to help you understand the pension changes that are being introduced and how these will affect you.

Steps to a better future



But don't lose focus...





Any questions?