The Trustee toolkit downloadable

Scenario one

In this scenario you attend your first trustee board meeting, review the risk register and in particular the risk relating to member data.

As you work through this scenario you will be tested on your knowledge at decision points. Here you will have the option to work through a related technical tutorial before returning to the scenario or you can skip the tutorial. You can always work through the tutorial separately later if you would prefer.

This scenario includes three tutorials:

▶ Scheme governance

▶ Risk management and internal controls

▶ Scheme admin and member data

Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at www.trusteetoolkit.com

The Pensions Regulator

The agenda

Here is the agenda for your first board meeting.

1. Minutes of last meeting

2. Matters arising

3. Introduction of new trustee

4. Risk register: Complete and accurate member data

5. Member complaints

6. Trustee's business plan review

7. AOB

You call Tony to talk it through and make sure you understand what you need to prepare.

Tony says: "The minutes of the last meeting is usually the first item on all meeting agendas – it reminds everyone what happened last time and gives them a chance to point out any inaccuracies in the recording of it.

'Matters arising' is a short discussion of actions taken since the last meeting, and any points that need to be addressed as a result of the minutes.

'Introduction of new trustee' – this is you, of course. You will be introduced formally, and I will record your name in the minutes.

'Risk register' is part of the ongoing governance of the scheme which involves us having a list of the scheme risks and how the trustees manage them. This is called a risk register. In governing the scheme the trustees need to discuss actions taken to manage particular risks. The administrators have provided a report on the scheme's member data for this meeting which I will present. There is a copy of the risk register and the report attached to the papers.

'Member complaints' is two deferred members have made complaints about their benefits. I'll be talking about what to do with those at the meeting.

'Trustee's business plan review' – the scheme has a business plan which sets out all of the actions and reviews the trustees need to complete throughout the year. The business plan is reviewed during each meeting to make sure the trustees are on track and I invite the right advisers and service providers to particular meetings throughout the year. There is a copy of the business plan attached to the papers.

Then 'any other business' allows for any other matters to be discussed. Any member of the board can introduce something, including you."

Decision point: What is governance?

You've noticed that Tony has mentioned 'governance' a lot during your conversation. Of the statements below, which one do you think most accurately describes 'scheme governance'?

1. The advisers to the trustees are accountable for ensuring that the members receive the pensions they are promised.

2. The trustees are accountable for ensuring the scheme is managed in such a way that all members receive the pensions that they need.

3. The trustees are accountable for ensuring that the scheme is well managed and the pension outcomes of its members are protected.

4. The trustees need to make sure that the scheme assets and/or the investment options made available to DC members never fall in value.

Answers at the back

? Need help with this question? Read the Tutorial 'Scheme governance'

Your first meeting

So, now you know what is on the agenda, you are all set, and you have arrived at your first meeting. The other trustees are introducing themselves.

Edmund says: "Hello. Edmund Hall. I've seen you around I think? I'm an employer-nominated trustee." (You've seen him too, he's the company's finance director.)

Tony says: "Hello again – my name's Tony, just in case you've forgotten!"

Meryl says: "I'm sure you know who I am!" (She's Meryl Jacobs, the Human Resources manager.) "I'm appointed to the board by the company – which makes me an employer-nominated trustee, and I'm also chair of the board. Lovely to have you join us."

Alicia says: "Hi, I'm Alicia Graham – I'm the trade union rep." (That makes her a member-nominated trustee like you.)

Rodney says: "And I'm Rodney Grant. I'm your actual pensioner!" (Although he's a pensioner, in this case he is also a member-nominated trustee.)

Paul says: "And I'm Paul Baines. I'm Head of Operations, and also an employer-nominated trustee."

The meeting

After the introductions and general conversation, Meryl calls the meeting to order. The minutes of the last meeting are approved, and a couple of minor matters arising are dealt with.

Then it is item three – your big moment. You're formally introduced as the new trustee. Everyone welcomes you and your name is recorded in the minutes, together with a note that you have signed a deed of appointment. The minutes also record that you have read and signed the trustees' conflicts of interest policy, which Tony had explained to you previously.

You are now a fully fledged trustee.

Reviewing the risk

The next item on the agenda is a review of the 'complete and accurate member data' risk and a report from the administrators. Meryl leads the conversation. She says: "At the last meeting we added a new risk to the register which was the need to have 'complete and accurate member data'. We commissioned a report from the administrators so we can understand the data as it stands."

Edmund says: "Yes, and it looks like uncomfortable reading."

Rodney says: "I agree, and I think our initial assessments of the likelihood and impact of not having complete and accurate data are too low."

Paul says: "This report shows that the likelihood is 100%... we don't have complete data. We also have a couple of member complaints to talk about later so the impact is already being felt."

Meryl replies: "I think it might be a good idea to bring our new trustee up to speed first on how we manage the risks on the register before we start changing things. We all need to agree to any changes."

Decision point: Managing risks

The trustees each give you a description of risks, the risk register or the internal controls. Which three descriptions do you think are correct?

1. Edmund: "We need to be particularly aware of risk as we have a fiduciary duty to the scheme beneficiaries."

2. Alicia: "The internal controls we put in place completely eliminate the risks."

3. Paul: "If we delegate the risks to our advisers we are no longer responsible for them."

4. Rodney: "It is a legal requirement for us to have internal controls in place."

5. Meryl: "Failure to put in place proper internal controls can cause problems for trustees, the members and the employer, ultimately leading to financial consequences."

Answers at the back

? Need help with this question? Read the Tutorial 'Risk management and internal controls

Risk register: Complete and accurate member data

Now that you are up to speed on how risks are managed in the scheme the meeting turns to item four and the report from the administrators.

Tony says: "For the common data they found in total 272 members failed the test by having two or more common data missing. Against our benchmarks this equates to complete data for deferred members being 45% and 67% for active members across both schemes.

Conditional data was worse, with 317 members failing the same test. They have assessed the risks of missing critical data and the scheme may have some serious issues in the future with member transfers and pension benefits.

It is quite grim reading as Edmund said earlier. However they have made recommendations on processes they can improve, some you can do as trustees and also some improvements that can be made by the employer which will have a big impact."

Decision point: Member data

Which three of the following statements about member data are correct?

1. Date of birth, name, membership status and date pensionable service started are all examples of common data.

2. Salary, investment choices and membership class are all examples of conditional data.

3. If we have complaints as a result of the administrator failing to keep this data, the trustees are not responsible.

4. If the data is not complete or accurate we could have problems paying the right benefit, to the right beneficiary at the right time.

5. We only keep records for a maximum of six years so it's not surprising that we don't have some of this data for deferred members.

Answers at the back

? Need help with this question? Read the Tutorial 'Scheme admin and member data'

Next steps

The trustees discuss the recommendations in the administrator's report and agree actions to improve the completeness and accuracy of the data. Meryl says: "We can improve the information the employer provides to us when a new member joins or leaves the scheme. For the active members we'll do a data matching exercise with the employer's payroll so we can fill in gaps and check the accuracy of what we have already."

Rodney says: "But what about the deferred and pensioner members? We won't be on payroll anymore."

Tony replies: "Yes, that is more difficult and it could be expensive to write to them all to ask for an update, even if we do have their correct address. I can get a representative from the administrators in to the next meeting so we can discuss some options."

Rounding up

The board agrees to the next steps and Tony records this in the minutes. You agree to have a break before continuing with the meeting.

Now that you have completed this scenario we would recommend that you begin to work through the 'Check your scheme' worksheet for this module.

Answers

Decision point: What is governance?

Statement three is correct.

The trustees are accountable for ensuring that the scheme is well managed and that the pension outcomes of the members are protected. However, they cannot guarantee that members will get the benefits they 'need' or that the value of the investment options provided or scheme assets will never fall in value.

The trustees may delegate the day-to-day running of the scheme to a third party or parties but they retain the accountability. Because of this they need to put strong procedures and monitoring in place to ensure the scheme is being managed in a satisfactory way.

Decision point: Managing risks

Edmund, Rodney and Meryl are right. The fiduciary duty to act in the members' best interests means that trustees need to understand the risks to the scheme and manage them. As a result there is a legal requirement to have internal controls in place to manage the risks. Failure to do so can have serious consequences for the trustees, members and the employer including financial consequences if members are out of pocket as a result.

Paul and Alicia have misunderstood. Putting in place internal controls can only reduce the risks, they won't eliminate them and they still have to be monitored and managed. Even though the trustees may delegate some of the controls to advisers or service providers the trustees are still ultimately responsible for the governance of the scheme.

Decision point: Member data

Statements one, two and four are correct.

Common data applies to all schemes and includes basic information. Conditional data is needed to administer the scheme effectively and is applicable to schemes depending on the type, structure and design.

This data is needed to ensure the right benefits and paid to the right beneficiary at the right time, without it mistakes can and will be made. Trustees are responsible for ensuring that the data is complete and accurate, even if administration is outsourced to a third party or is being managed by the employer.

Trustees do need to keep records for a minimum of six years. In practice the data will need to held for much longer. If a member joins at 18, the scheme may be paying benefits to them for 80 years.