



# General code of practice

January 2024

# General code of practice

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10 January 2024

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## Status of the code of practice

1. This code applies to governing bodies of occupational, personal, and public service pension schemes. Some legal obligations do not apply to all types of governing bodies or schemes.
2. Governing bodies are responsible for complying with their legal duties, even where they have chosen to delegate the task of meeting these to another party, such as an administrator or sub-committee.
3. Governing bodies may wish to take professional advice to establish the extent to which the law applies to them.
4. The code sets out our expectations of the conduct and practice governing bodies should meet to comply with their duties in pensions legislation.
5. We assume users of this code will have a good knowledge of pensions law, and we do not seek to set out in detail all the requirements of the law.
6. Additionally, in many instances, the code is not prescriptive about methods that governing bodies should use to meet our expectations, in recognition that different approaches may be appropriate for different schemes.
7. Governing bodies need to use their judgement as to what is a reasonable and suitable method of ensuring compliance for their scheme.
8. This code of practice is issued by The Pensions Regulator under the powers given to us in section 90 and section 90A of the Pensions Act 2004 and is a combined code in accordance with section 90A(6)(a).

In this code, references to the law in Great Britain should be read as including references to the law in Northern Ireland where appropriate.

9. The expectations we have set for governing bodies within this code have been developed in light of our statutory objectives, which were introduced by the Pensions Act 2004.
10. Codes of practice are not statements of the law and there is not usually a direct penalty for failing to comply with them. However, they do set out our expectations of how governing bodies should comply with their legal duties.
11. It is not necessary to follow all parts of a code of practice in every circumstance. Any other approach, which is not in the code of practice, will need to meet the underlying legal requirements and a penalty may be imposed if these requirements are not met. See our [Regulatory and enforcement policies](#) for more details.

12. The absence of reference to any piece of legislation must not be taken to mean that governing bodies do not need to comply with that legislation.
13. When determining whether the legal requirements have been met, a court or tribunal must take any relevant terms of a code of practice into account.
14. If there are grounds to issue an improvement notice, or a compliance notice, we may direct a person to take, or refrain from taking, such steps as are specified in the notice. These directions may be worded by reference to a code of practice issued by us.
15. Governing bodies should be confident that they have a working knowledge of the pensions law relevant to them. If they do not, we urge them to consider whether they are meeting the requirements for knowledge and understanding, as these apply to them, and to undertake training as appropriate.
16. If governing bodies are, for any reason, unable to act in line with the standards referred to by this code, they should consider if they have a statutory duty under section 70 of the Pensions Act 2004 to assess and report breaches of the law.

# The governing body: Board structure and activities

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## Role of the governing body

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. The governing body is responsible for running a scheme. The governing body may be trustees or managers of an occupational pension scheme or, in a public service pension scheme, the scheme manager. Legislation may apply to each governing body differently, depending on the type of scheme they govern.
2. The governance of a public service pension scheme will need to take into account the differing responsibilities of the scheme manager, pension board and, where appropriate, pension committee. Each public service pension scheme should determine who fulfils the role of scheme manager according to their regulations and local arrangements. This code also sets out expectations for pension boards to help them assist the scheme manager. A pension board must have an equal number of employer and member representatives<sup>1</sup>.
3. Those responsible for appointing members to the governing body should do so using the principles of proportionality, fairness, and transparency while also considering the mix of skills and experience needed by the governing body. As far as possible, the governing body should be well-balanced and diverse, with its members demonstrating varied skills, knowledge and experience. See also **Recruitment and appointment to the governing body**. The law also requires that members of certain governing bodies are fit and proper to carry out their duties<sup>2</sup>.
4. In some cases, legislation may dictate how the governing body is made up, who can be a member and how members are appointed<sup>3,4,5</sup>. The governing body remains accountable for any functions it delegates to third parties. Read more about appointing and managing relationships in **Managing advisers and service providers**.
5. Our expectations for how trustees of trust schemes<sup>6</sup> should act can be found below. They also represent appropriate standards for the governing body of other schemes.

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1 Section 5 of the Public Service Pensions Act 2013 [Article 5 of the Public Service Pensions Act (Northern Ireland) 2014]

2 Section 3(1) Pensions Act 1995 [Article 3(1) Pensions (Northern Ireland) Order 1995]

3 Section 29(1) Pensions Act 1995 [Article 29(1) Pensions (Northern Ireland) Order 1995]

4 Section 5(4) of the Public Service Pensions Act 2013 [Article 5(4) of the Public Service Pensions Act (Northern Ireland) 2014]

5 Sections 241 to 243 Pensions Act 2004 [Articles 218 to 220 Pensions (Northern Ireland) Order 2005]

6 Section 3(1) Pensions Act 1995 [Article 3(1) Pensions (Northern Ireland) Order 1995]

6. Expected behaviours and standards:
  - a. Act honestly and with integrity, competence, and capability.
  - b. Act with financial probity, including in matters outside their role.
  - c. Meet their legal obligations and govern their scheme properly and according to scheme rules.
  - d. Act in the interest of scheme members and beneficiaries.
  - e. Seek to ensure that all scheme members, whether active, deferred, drawing a pension, or in a decumulation phase, benefit from good governance, see **Systems of governance**.
  - f. Be open and honest in their dealings with us.
  - g. Have or be able to acquire the appropriate levels of knowledge and understanding (see **Knowledge and understanding**) and keep these up to date (see **Governance of knowledge and understanding**).
  - h. Identify and, where relevant, challenge others on any potential or actual failure to comply with the scheme rules, regulations, and legislation (see **Managing advisers and service providers**).
  - i. Where acting in a professional capacity, members of governing bodies should be financially sound and not be experiencing severe trading difficulties.
  - j. Those acting as professional trustees should comply with our professional trustee standards and guidance, and professional codes of conduct and trustee accreditation, such as those published by the APPT and PMI.

## Glossary

### Active member

An employee qualifies for benefits that continue to accrue as a member of the employer's benefits scheme.

### Decumulation

The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

### Deferred member

A person with benefits preserved in the scheme.

### Pensioner member

A person who is receiving pension payments or other benefits for their pensionable service under the scheme or through transferring into it.

### Pension board

The board set up as required by section 5 of the Public Service Pensions Act 2013, to assist the scheme manager with matters set out in that section.

### Scheme manager

The person responsible for managing or administering:

- the scheme, and
- any statutory pension scheme that is connected with it

(See section 4 of the Public Service Pensions Act 2013).

## Recruitment and appointment to the governing body

1. Trustees and scheme managers should have processes in place to exercise any powers they have in recruiting and appointing members to the governing body. This also applies to public service scheme pension boards. Please also see **Arrangements for member-nominated trustee appointments**.
2. Many schemes will have governing bodies where appointments are made by the sponsoring employer or in accordance with scheme-specific legislation. In these cases, the governing body, or pension board, should seek to inform those making the appointment of the expectations and any legislative requirements placed on members of the governing body.
3. The governing body may wish to consider good practice approaches to make sure its recruitment practices are inclusive. It is important to regularly review the governing body's membership to ensure a diverse spread of members with varied technical skills and experience.
4. Our expectations for appointing service providers and advisers can be found in **Managing advisers and service providers**.
5. Processes for appointing members to the governing body should have the following features:
  - a. Be clear who is responsible for the recruitment, selection, and appointment process.
  - b. Include any input required from other parties.
  - c. Identify gaps in skills and competencies across the governing body and how these can be addressed within a defined timescale.
  - d. Have a succession plan in place to maintain the skills and competencies needed by the governing body to operate properly.
  - e. Document the principles for determining any remuneration of members of the governing body (see **Remuneration and fee policy**).
  - f. Document processes to deal with temporary and extended absenteeism for members of the governing body.
  - g. Have a resignation and removal policy which provides clarity on who can remove a member of the governing body, under what circumstances and the steps for doing so.
  - h. Follow any scheme rule or regulation requiring representation<sup>1</sup> of certain bodies or groups and have a process to ensure this is maintained.
  - i. Include a procedure for appointing a chair (see **Appointment and role of the chair**).

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1 Section 5 of the Public Service Pension Act 2013 and [section 241 and 242 of Pensions Act 2004]

6. When recruiting members to the governing body of a relevant multi-employer scheme, further requirements will apply. The governing body of a relevant multi-employer scheme<sup>2</sup> must:
  - a. follow specific rules on representation and independence of the trustees , including restrictions on how long a trustee can remain in post as a non-affiliated trustee
  - b. have at least three trustees, or where there is a sole corporate trustee that isn't a professional trustee body (a professional trustee body is treated as one trustee), that trustee must have at least three directors
  - c. appoint non-affiliated trustees in an open and transparent way
  - d. have a process in place to encourage scheme members, or their representatives, to speak up about matters that affect them

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<sup>2</sup> Section 1(2) The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 1 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

## Arrangements for member-nominated trustee appointments

1. Some governing bodies must establish and implement arrangements that enable at least one-third of their trustees to be member-nominated trustees (MNTs). However, there are many exemptions to this. Trustees should consider seeking legal advice where they believe an exemption may apply and record any conclusion reached<sup>1,2,3</sup>.
2. The cost and nature of MNT arrangements should be in proportion to the circumstances of the scheme. The arrangements should also include nomination and selection processes that are fair and transparent for all scheme members. Treating members fairly does not, however, mean that all categories of members need to be treated the same.
3. It is good practice to consider how MNT arrangements can be designed to support applications and nominations representing the diversity of the scheme's population – to encourage a wider and more representative pool of prospective candidates.
4. The governing body should have MNT arrangements in place within six months of a scheme's start date. However, this period may vary according to the scheme's size, structure, and circumstances.

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1 Sections 241(8) and 242(10) of the Pensions Act 2004 [Articles 218(8) and 219(10) Pensions (Northern Ireland) Order 2005]

2 Regulations 2 and 3 The Occupational Pensions Schemes (Member-nominated trustees and directors) Regulations 2006 [Regulations 2 and 3 The Occupational Pensions Schemes (Member-nominated trustees and directors) Regulations (Northern Ireland) 2006]

3 Among the exemptions are schemes where all the trustees or directors are independent, as defined in section 23 of the Pensions Act 1995 [Article 23 of the Pensions (Northern Ireland) Order 1995]

## Expectations for member-nominated trustee arrangements

5. The governing body should follow the law and its scheme's governing documents when establishing MNT arrangements. The governing body should document how its arrangements comply with these requirements. They may also wish to record the reasons for any decisions made while establishing the processes.
6. Arrangements for the nomination of prospective MNTs:
  - a. must include a process for active and pensioner members, or any organisation that adequately represents these groups, to nominate potential candidates for MNT positions.
  - b. may include a process for deferred members to nominate potential candidates for MNT positions.
  - c. should include the eligibility criteria for prospective nominees, considering any legislation that prohibits certain individuals from being trustees. Read more in **Recruitment and appointment to the governing body**.
  - d. must ensure that a nominee who is not a member of the scheme has the employer's approval to qualify for selection, where this is required by the employer<sup>4</sup>.
  - e. Should, following discussions with the employer as to whether nominees who are not members of the scheme will be eligible to be candidates, set out the eligibility of nominees who are not members of the scheme for nomination and selection.
7. Arrangements for the selection process:
  - a. must include arrangements to determine who to appoint as trustee when there are more nominations than vacancies.
  - b. may provide that if there are fewer nominations than vacancies, the governing body may still run a selection process if they consider it appropriate.
  - c. must include some, or all, of the scheme members, although the chosen methods of selection may vary according to the circumstances of the scheme.

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4 Sections 241(5)(c) and 242(5)(c) The Pensions Act 2004 [Articles 218(5)(c) and 219(5)(c) Pensions (Northern Ireland) Order 2005]

## The governing body: Board structure and activities

### Arrangements for member-nominated trustee appointments

8. The nomination and selection process should take place within six months of an MNT vacancy arising. Reasonable periods for completing the nomination and selection process will vary according to the scheme's size, structure, and circumstances.
9. If there are still unfilled MNT vacancies after the selection process, the governing body must repeat the selection process at reasonable intervals – this should be no more than three years from the end of an unsuccessful nomination process.
10. If there has been a material change to the scheme's circumstances and/or membership (for example, a bulk transfer in of new members or a significant number of redundancies), a nomination and selection process should be done sooner.
11. Where there are sustained difficulties in recruiting MNTs which are affecting the quality of governance, the governing body may wish to consider appointing a professional trustee, subject to the scheme's governing documentation.

## Role of MNTs and reviewing arrangements

12. MNTs have no additional responsibilities compared to any other trustee. The governing body must not exclude MNTs from the exercise of any trustee functions solely because they are an MNT. More information about our expectations for appointing MNTs can be found in the modules: **Recruitment and appointment to the governing body**, **Knowledge and understanding** and **Governance of knowledge and understanding**.
13. The governing body should document and review the scheme's MNT arrangements at least every five years. For schemes with larger memberships, or those with more categories, a review every three years is more appropriate. Earlier reviews should also be considered if there is a material change to the scheme's circumstances and/or membership.



## Communicating with scheme members

14. Our expectations for governing bodies communicating to scheme members at each stage of the MNT process are detailed in paragraphs 15 to 17. The governing body should use their established means of communicating with members (see also **General principles for member communications**) and provide enough time for them to consider their nominations.
15. The nomination stage communication should include:
  - a. the number of MNTs the scheme needs to have and the current number of vacancies
  - b. an explanation of the role and what we expect of trustees
  - c. details of training that will be provided
  - d. any eligibility criteria
  - e. how to make a nomination and any time limits that apply
  - f. details of the selection process and what would happen if not enough nominations are received
  - g. a contact for queries
16. The selection stage communication should include:
  - a. the outcome of the nomination stage
  - b. details for members involved in the selection stage of their next steps
  - c. the selection method
17. The outcome communication should include:
  - a. an explanation of the process and details of any appointments that were made as a result of this
  - b. where not enough nominations were received to fill all vacancies, confirmation of when the process will be repeated

### Glossary

#### Corporate trustee

A company that acts as a trustee for a scheme and, in some cases, may be the sole trustee.

#### Member-nominated trustee (MNT)

Trustees who are nominated because of a process involving all active and pensioner members of a scheme or an organisation that adequately represents these groups, and that are then selected by a process involving some, or all, of the scheme members. MNTs should be taken to include 'member-nominated directors' (MNDs) of corporate trustees.

## Appointment and role of the chair

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. The governing body of an occupational pension scheme, and any committee, need to appoint a chair as good practice. The governing body of a relevant scheme<sup>1</sup> must appoint someone as chair, and for certain schemes, the role of chair will form part of its effective system of governance. See also **Systems of governance**.
2. The role of chair is an important one, and the appointment should be carried out within a robust and documented process. The members of the governing body remain responsible for running the scheme and are equally responsible for any decisions taken.
3. Where it exists, the legal duty to appoint a chair typically falls on the governing body, although the chair may be appointed by an employer. The governing body should review its scheme's rules and other relevant scheme documents, which in the case of a corporate trustee, will include that company's articles of association or constitution in order to check whether there is a scheme-defined process for appointing a chair.

### Specific requirements for relevant schemes

4. The identity of the person appointed as chair must comply with the provisions of regulation 22 of the Scheme Administration Regulations<sup>2</sup>. The chair has the extra responsibility of signing the annual chair's statement<sup>3</sup>. See **Chair's statement**.
5. A chair of trustees must be appointed within three months of a scheme being established or within three months of an existing chair resigning or being removed<sup>4</sup>. Trustee boards should treat the timescale permitted by law as a maximum and appoint a chair as quickly as possible. The governing body must inform us of the name of the chair<sup>5</sup>.

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1 Regulation 1 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 1 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

2 Regulation 22(2) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 22(2) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

3 Regulation 23(1)(e) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 23(1)(e) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

4 Regulation 22 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 22 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

5 Regulation 3(1)(da) Register of Occupational and Personal Pension Schemes Regulations 2005 [Regulation 3(1)(a) Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005]

## Expectations of a chair

6. We do not expect a higher standard of knowledge from the chair. As a matter of good practice, the chair needs to be able to demonstrate the skills and behaviours outlined below:
  - a. Act as the leader of the governing body and demonstrate the standards of behaviour expected from other members of the board.
  - b. Represent the interests of the scheme to all relevant parties, including employers, advisers, service providers, and members.
  - c. Have an independent viewpoint when necessary and be able to manage potential conflicts (see **Conflicts of interest**).
  - d. Be able to recognise each individual trustee's potential, and ensure their knowledge and skills are used effectively (see **Knowledge and understanding**).
  - e. Encourage members of the governing body to think strategically and take the broad, long-term view.
  - f. Help achieve compromise and consensus between differing parties to achieve good member outcomes.
  - g. Encourage participation from all members of the governing body, including new members.
  - h. Be able to demonstrate elements of the following skills:
    - Communication with the governing body and its stakeholders.
    - Organising teaching, and training (sourcing if not delivering). See **Governance of knowledge and understanding**.
    - Debating, challenging, and negotiating.
    - Ability to gather and understand diverse views.
    - Managing conflicts of interest.

## Glossary

### Articles of association

The written rules about running the company agreed by the shareholders or guarantors, directors, and the company secretary.

### Relevant schemes

Schemes defined by Regulation 1(2) of the Occupational Pensions Schemes (Scheme Administration Regulations) 1996.

## Meetings and decision-making

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. The governing body should spend an appropriate amount of time running its scheme. In most cases, the governing body will need to meet at least quarterly.
2. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. Under section 249B of the Pensions Act 2004, scheme managers of public service pension schemes are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>3</sup> and with the requirements of the law.
4. Arrangements for meetings and decision-making for councils acting as local government pension scheme authorities are set out in the Local Government Act 1972 and Local Government and Housing Act 1989 and apply to each council as appropriate.
5. The governing body must include the following in their written meeting records<sup>4,5</sup>:
  - a. The date, time, and place of the meeting.
  - b. The names of all in attendance, including professional advisers or any other person present.
  - c. The names of those invited to the meeting but who did not attend.
  - d. Any decisions made at the meeting, including the names of those who took part in them.
  - e. Any decisions made outside a meeting since the previous meeting, or taken by a committee/sub-committee, including the time, place, and date of the decision, and the names of the members of the governing body who participated in the decision.
  - f. Decisions relating to the winding-up of the scheme<sup>6</sup>.

1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 As defined in Section 318(2) Pensions Act 2004

4 Section 49 Pensions Act 1995 [Article 49 Pensions (Northern Ireland) Order 1995]; Regulations 12 and 13 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulations 12 and 13 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

5 Regulation 6 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 6 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]

6 Section 49A Pensions Act 1995 [Article 49 Pensions (Northern Ireland) Order 1995]; the Occupational Pension Schemes (Winding Up Notices and Reports etc) Regulations 2002 [the Occupational Pension Schemes (Winding Up Notices and Reports etc) Regulations (Northern Ireland) 2002]

6. When planning and running meetings, governing bodies should:

### Meeting processes and procedures

- a. Understand and adhere to any prescribed governance processes in the scheme rules and legislation.
- b. Set the frequency of meetings for the governing body.
- c. Agree the basis of attendance (for example, in person or online) and the circumstances where this might change.
- d. Establish the circumstances, including legislative restrictions<sup>7</sup>, where and how extraordinary meetings may be called.
- e. Consider the complexity and urgency of any issues affecting the scheme to determine the length of the meeting.
- f. Ensure that postponed meetings are rescheduled.
- g. Set expectations for governing body members to prepare for meetings, and actions needed in between them.
- h. Agree who has responsibility for setting the agenda and who else is consulted in its development.
- i. Agree standing agenda items, for example, **Risk register** and **Conflicts of interest** items, and administration tasks.
- j. Establish how many members of the governing body need to attend for any meeting to be considered quorate.
- k. Consider the extent to which the governing body can influence or direct other parties (such as sponsoring employers) in decisions that may have material consequences for the scheme or the business supporting it.

### Decision-making

- l. Ensure that decisions are made according to scheme rules and regulations, and any sub-committees' terms of reference.
- m. Keep records about any decisions taken by members of the governing body, including related advice or information received, and any conflicts of interest declared.
- n. Establish appropriate retention periods for records of decisions made.
- o. Consider publishing information about their activity (see **General principles for member communications**), for example, through regular member communications, including information that has been requested, to encourage scheme member engagement and promote a culture of transparency.

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7 Section 32 Pensions Act 1995 [Article 32 Pensions (Northern Ireland) Order 1995]; Regulations 9 and 10 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulations 9 and 10 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

## Glossary

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme (Section 249A of the Pensions Act 2004).

### Quorate

The necessary representation of members of the governing body to make a decision.

### Scheme rules

The rules and associated documentation that set out how a given scheme is to operate.

## Remuneration and fee policy

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. This module is for those schemes with more than 100 members that are required to operate an effective system of governance, see **Systems of governance**. There are some exceptions<sup>1</sup>. Other schemes may wish to adopt these principles as good practice.
2. A remuneration policy sets out the basis and means for paying those undertaking activities in relation to the scheme that are paid for by the governing body.
3. Relevant governing bodies should establish a remuneration policy and keep a written record of it. This policy should:
  - a. be in proportion to the size, scale, nature, and complexity of scheme activities
  - b. support the sound, prudent, and effective management of the scheme
  - c. be aligned with the scheme's long-term interests and help assess the value of the remunerated services
  - d. set out the principles for determining pay and the decision-making process for payment levels
  - e. cover all persons or corporate bodies including service providers, who effectively run the scheme, those who carry out key functions, or whose activities materially impact the scheme's risk profile
  - f. include measures to mitigate potential conflicts of interest and focus on 'in-house' roles, such as trustees, trustee secretary, administrators, and subcommittees
  - g. be reviewed at least every three years, but in most cases, it will be appropriate to do so annually, or immediately following any significant changes to the scheme's governance arrangements
  - h. include an explanation of the decision-making process for the levels of remuneration, and why these are considered appropriate

### Glossary

#### Risk profile

Includes consideration of the scheme's membership demographics, funding, asset allocation, and sponsor covenant (where applicable).

<sup>1</sup> Section 249A (3) Pensions Act 2004 [Article 226A (3) Pensions (Northern Ireland) Order 2005]

# The governing body: Knowledge and understanding requirements

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Knowledge and understanding

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Governance of knowledge and understanding

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## Knowledge and understanding

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. All governing bodies should maintain a list of items the members of the governing body should be familiar with. The list should be available in an accessible format and reviewed regularly. The governing body should regularly carry out an audit of skills and experience and review its members' experience to identify gaps and imbalances, which will help inform training and recruitment needs. Our expectations for learning and development are set out in **Governance of knowledge and understanding**.
2. Our expectations of knowledge and understanding apply equally to any individual who exercises any trustee function within a company acting as trustee of the scheme<sup>1</sup>.
3. Within public service schemes the requirements for knowledge and understanding fall on pension board members<sup>2</sup>. It is good practice for the scheme managers, or their delegates, to achieve at least basic competence.
4. Professional trustees, and those appointed because of their specialist expertise, should be able to demonstrate a greater level of knowledge than members without such expertise. In addition to the matters listed below, and as good practice, professional trustees should be able to demonstrate progress towards, completion of, or compliance with, a relevant standard for professional trustees or a recognised appropriate qualification.
5. Our expectations in relation to learning and maintaining knowledge can be found in **Governance of knowledge and understanding**.

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1 Section 247 and 248 Pensions Act 2004

2 Section 248A Pensions Act 2004

## Specific expectations for trustees of occupational pension schemes

6. Trustees must<sup>3</sup> be familiar with:
  - a. the trust deed and rules of the scheme
  - b. any statement of investment principles
  - c. in relation to a scheme providing defined benefits (DB), any statement of funding principles
  - d. any other policy relating to the administration of the scheme generally
7. Trustees must also have knowledge and understanding, at a level that is sufficient to enable them to properly exercise their role, of:
  - a. the law relating to pensions and trusts
  - b. the principles of funding pension schemes
  - c. investing assets of pension schemes

## General expectations for all relevant governing bodies

8. Anyone who has a requirement for knowledge and understanding should have a working knowledge of the items listed in 9 to 15 below. The lists are not exhaustive, and some elements of them will not be relevant to certain schemes; governing bodies and pension boards should tailor this list to the circumstances of their own scheme.

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<sup>3</sup> Section 247 Pensions Act 2004

9. Pensions law and associated legislation:
- a. The roles, responsibilities, and duties of the governing body.
  - b. The governing body's liabilities and potential liability for decisions made.
  - c. The law relating to pensions and trusts.
  - d. The definition and nature of a pension trust (if applicable).
  - e. The separation of the scheme's assets (if applicable) from any sponsoring employer.
  - f. Fiduciary duties and safeguarding the financial interests of all beneficiaries.
  - g. The responsibility to act prudently and according to the scheme rules.
  - h. Other legislation that might affect the scheme and the governing body, for example:
    - anti-discrimination
    - data protection
  - i. Our codes of practice as they apply to the scheme.
  - j. Proposals for legislative change.
  - k. Tax treatment of pension schemes.
  - l. Main features of the state pension provision.
  - m. Key elements of **automatic enrolment legislation**.

10. The scheme:
  - a. Trust deed, rules, and any amendments (if applicable).
  - b. Scheme regulations and statutory guidance (public service schemes only).
  - c. The governing body's powers and discretions.
  - d. The benefit structure, including the pension or decumulation options available to members.
  - e. The balance of powers between the governing body and the employer.
  - f. Any written policies and procedures relating to:
    - internal dispute resolution
    - the appointment of members of the governing body
  - g. Statements of policy about the exercise of discretionary functions.
  - h. How policies, practices, and scheme rules are reviewed and amended.
  - i. Terms of reference, structure, and operational policies of any sub-committees of the governing body.
  - j. Any admission body policies (public service schemes only).
  - k. Any categories of membership of the scheme.
  - l. The annual chair's statement (certain defined contribution (DC) schemes). See **Chair's statement**.
  - m. The scheme's remuneration policy (where applicable).
11. Scheme funding and investments:
  - a. **Statement of investment principles** (if applicable).
  - b. Statement of funding principles (if applicable).
  - c. Any policies the governing body has adopted about stewardship of investments, environmental, social and governance matters and climate change. See **Stewardship** and **Climate change**.
  - d. The choice of investments, if any, offered to members, and any **default arrangement**.
  - e. The contribution rate(s) or amount(s) payable by employers participating in the scheme.
  - f. The contribution rate(s) or amount(s) payable by scheme members participating in the scheme.
  - g. The impact of investment charges and fees. See also **Value for members**.
  - h. The key features and processes of investment management.

12. Principles of investment (excluding LGPS):
  - a. How investments can affect scheme member outcomes.
  - b. Awareness of diversity and inclusion on investment decisions, such as if scheme investments are aligned with member's responsible investment preferences or religious beliefs.
  - c. Custody arrangements, including monitoring and record keeping.
  - d. The operation of financial markets.
  - e. The major asset classes and their characteristics.
  - f. Characteristics of alternative asset classes, financial instruments, and investment techniques.
  - g. The implications of overseas investment, including foreign exchange risk and political risk.
  - h. The nature of financial risk, including:
    - risk/reward profile of each major asset class
    - basic principles of matching assets to liabilities (DB)
    - basic principles of matching assets to pension expectations (DC)
    - managing risk by diversifying assets.
  - i. The investment strategy adopted by the governing body.
13. Risk management:
  - a. The risk register.
  - b. The schemes' **own risk assessment**, where applicable.
  - c. Risk assessment framework and risk management policies for the scheme.
  - d. Any policies and procedures, including documentation relating to:
    - **Conflicts of interest**
    - **Reporting breaches**
    - **Maintaining scheme contributions**
    - Gifts and hospitality
  - e. The governing body's cyber security policies (see **Cyber controls**).

14. Scheme administration and service providers:

- a. The need to obtain professional advice in certain circumstances.
- b. The pension administration strategy or equivalent documents, setting, for example, details of performance targets.
- c. The law and our expectations in relation to financial transactions (see **Financial transactions**).
- d. Whether the scheme is being used for automatic enrolment.
- e. The roles and responsibilities of appointed advisers and service providers.
- f. Any policies and procedures, including documentation relating to:
  - **Record-keeping**
  - **Cleaning and maintaining data**
  - collection of data

15. Scheme communications:

- a. Any scheme-approved booklets, announcements, and other key communications to scheme members and employers.
- b. Statements of policy about communications with scheme members and employers. See **General principles for member communications**.
- c. Policies relating to the public provision of information and information given on request.
- d. Where applicable, procedures for dealing with freedom of information requests.

## Glossary

### Accessibility

Making sure that communications and online services can be used and understood by as many people as possible. This includes those with impaired vision or hearing, motor difficulties, cognitive impairments and learning disabilities. The government has produced helpful guidance on this: <https://www.gov.uk/government/publications/inclusive-communication/accessible-communication-formats>

### Beneficiary

A person who benefits from a trust; the member, spouse, or children, for example.

### Custody arrangement

An arrangement where a third party holds assets on behalf of someone else (a pension scheme, for example). The custodian may carry out certain reconciliation and transaction activities.

### Decumulation

The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

### Employer covenant

The extent of the employer's legal obligation and financial ability to support the pension scheme now and in the future.

### Money laundering

The concealment of the origins of illegally obtained money.

### Passive management

Passive management (also called passive investing) is an investing strategy that tracks a market-weighted index or portfolio rather than making decisions about specific stocks or assets to hold.

### Pension Protection Fund

A statutory fund in the United Kingdom, intended to provide limited protection to DB scheme members if their pension scheme winds up without sufficient funds to pay all the benefits.

### Professional trustee

A person whose business includes trusteeship. Someone will normally be considered a professional trustee if they have represented themselves to one or more unrelated schemes as having expertise in trustee matters generally (rather than just in certain areas). See <https://www.thepensionsregulator.gov.uk/en/trustees/professional-pension-trustee-standards>

### Recovery plan

A plan put in place to enable a DB scheme to return to being fully funded on a statutory basis.

### Scheme rules

The rules and associated documentation setting out how a given scheme is to operate.

### Working knowledge

Sufficient knowledge of the items, so that they can be used effectively when required to do so.

## Governance of knowledge and understanding

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. This module applies to schemes required to maintain an effective system of governance<sup>1</sup>, (see **Systems of governance**), and to the pension boards of public service pension schemes.
2. It is important that the governing body, or pension board, can demonstrate that, as a group, they possess the skills, knowledge, and experience<sup>2</sup> to run the scheme effectively.
3. The governing body should:
  - a. have a balance of skills and experience throughout the board and be able to demonstrate this
  - b. be able to apply its knowledge to governing the scheme
  - c. have enough skills to judge and question advice or services provided by a third party
  - d. be able to identify and address skills gaps
  - e. have enough understanding of industry good practice and standards to assess scheme performance and its service providers. See **Managing advisers and service providers**.
  - f. keep records of the learning activities of individual members and the body as a whole
  - g. be able to demonstrate steps it has taken to comply with the law
  - h. have and maintain training and development plans to ensure that individual and collective knowledge and understanding is kept relevant and up to date. See **Knowledge and understanding**.
4. Members of a governing body should be aware that their responsibilities and duties begin from the date they take up their post.

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1 Section 249A Pensions Act 2004 [Articles 226A of The Pensions (Northern Ireland) Order 2005]  
2 Sections 247-248 Pensions Act 2004



## The governing body: Knowledge and understanding requirements

### Governance of knowledge and understanding

5. Members of governing bodies required to have knowledge and understanding should invest enough time in their learning and development, alongside their other responsibilities and duties. Governing bodies should provide the necessary training and support. Trustees of occupational pension schemes have the right to time off to perform their duties as a trustee of their employer's scheme and for trustee training<sup>3</sup>.
6. Learning programmes should be flexible, allowing those taking them to update areas of learning and to acquire new knowledge. Members of governing bodies who take on new responsibilities will need to ensure they gain relevant knowledge and understanding.
7. As a matter of good practice members of governing bodies can work towards completing our trustee toolkit (or public service toolkit for members of pension boards of public service schemes) or equivalent learning programme.
8. To enable governing bodies to ensure their knowledge and understanding is established and maintained, members of a governing body should:
  - a. be able to demonstrate the basic level of **knowledge and understanding** needed to run their scheme within six months<sup>4</sup> of their appointment<sup>5</sup>.
  - b. start on a programme of learning immediately on appointment, if not before, in conjunction with a scheme-specific induction programme, if one is provided
  - c. undertake advanced scheme-specific learning once a good understanding of the scheme has been obtained
  - d. consider how they are meeting our expectations of **knowledge and understanding**.
  - e. review their own knowledge and understanding and identify any gaps at least annually, particularly in relation to changes in legislation or their scheme
  - f. keep records of any review of knowledge and understanding and steps taken to address any gaps
  - g. keep records of any alternative or further learning activity (for example, reading, attending conferences, sessions with the scheme advisers)

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3 See section 58 of the Employment Rights Act 1996 [Article 86 The Employment Rights (Northern Ireland) Order 1996]

4 This does not apply to professional trustees, or those appointed to the governing body in a professional capacity, or for their specialist expertise. Those individuals should be able to demonstrate the relevant competency from the day of appointment.

5 Sections 247 and 248 of The Pensions Act 2004 [Articles 224 and 225 of The Pensions (Northern Ireland) Order 2005]

# The governing body: Value for scheme members

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Value for members

page 35

## Value for members

1. Unless exempt<sup>1</sup>, governing bodies of trust-based occupational pension schemes providing defined contribution (DC) benefits must, at least annually:
  - a. calculate the charges, and as far as they can, the transaction costs borne by members' funds
  - b. assess the extent to which the charges and costs borne by members represent good value for members<sup>2</sup> (VFM)
  - c. explain their assessment of VFM in the annual chair's statement<sup>3</sup> and publish the explanation on a publicly accessible website. See also **Chair's statement**.
2. Hybrid schemes should consider VFM for their DC benefits alone, separately to any defined benefits they provide.
3. Schemes with assets under £100m that have been operating for at least three years must carry out a more detailed value for members assessment at every scheme year end after 31 December 2021. The governing bodies of these schemes must follow the **statutory guidance on VFM assessments**.
4. Paragraphs 5 and 7 below describe how governing bodies not subject to the more detailed VFM assessment should assess, determine, and manage VFM.
5. In assessing VFM, governing bodies should:
  - a. Engage early with relevant parties, such as investment managers, administrators, and scheme advisers, and establish the lead in time required to provide information about charges and costs.
  - b. Record any problems faced in obtaining the necessary information and the steps taken to resolve them.
  - c. Document the evidence used to arrive at conclusions.

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1 Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]. See the definition of 'relevant scheme' for the exemptions.

2 Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 25(1) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

3 Regulation 23(1)(c) Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 25(1)(c) Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

6. In determining VFM governing bodies should:
  - a. Make efforts to understand the characteristics of their members in a way that is proportionate to the scale, size, and resources of their scheme.
  - b. Consider characteristics such as scheme member demographics and, where possible, their salary profile.
  - c. Consider all available evidence when exercising judgement about what represents VFM. Remembering that VFM does not necessarily equate to 'low cost'.
  - d. Where direct member feedback is limited, consider what other methods can be used to assess VFM.
  - e. Consider using publicly available industry research reports to compare their scheme to similar ones.
  - f. Where the costs of a service are shared between members and employers (for example, through a rebate arrangement, or a proportional contribution from the employer, as opposed to a distinct division of cost) take into account all elements of services provided when carrying out their assessment and set out the basis of cost sharing in their explanation of the VFM assessment in the chair's statement.
7. Where governing bodies have identified areas of poor VFM, they may wish to consider the following actions:
  - a. Document the issues identified, as well as the steps needed to improve VFM in those areas.
  - b. Where it is not possible to improve VFM, document the reasons for this.
  - c. Where they are unable to resolve matters leading to poor VFM, consider whether winding the scheme up is an appropriate action.
  - d. Where the power to trigger winding up sits with the sponsoring employer, engaging with the employer regarding whether to wind up the scheme.
  - e. Record the outcome of this consideration and review it at agreed intervals whilst poor value persists.

# The governing body: Advisers and service providers

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Managing advisers and service providers

page 38

## Managing advisers and service providers

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies of schemes with 100 or more members<sup>1</sup> that are required to maintain an effective **system of governance** should follow the processes set out in paragraphs 6 to 9 below for selecting, appointing, managing, and replacing professional advisers and service providers. Other schemes may wish to consider them as good practice.
2. The governing body often appoints professional advisers and service providers to its scheme. In some cases<sup>2</sup>, the governing body is required to make these appointments. Advisers and service providers may be appointed to carry out specific tasks such as administration. They also provide advice and supplement the skills and knowledge of the governing body.
3. Where the governing body appoints advisers and service providers, it retains ultimate accountability. The governing body should be able to demonstrate that it can manage commercial relationships. The principles below apply equally to in-house and third-party appointments.
4. When appointing service providers, governing bodies of certain defined contribution schemes must disregard any requirements of the trust deed or scheme rules which prescribe or restrict the choice of any adviser or service provider to the scheme<sup>3</sup>.
5. The policies described below regarding outsourcing should:
  - a. only take effect after they have been approved by the governing body, and
  - b. be reviewed at least once every three years.

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1 Section 249A Pensions Act 2004 [Article 226A Pensions (Northern Ireland) Order 2005]

2 Section 47 Pensions Act 1995 [Article 47 Pensions (Northern Ireland) Order 1995]

3 Regulation 6A Occupational Pension Schemes (Scheme Administration) Regulations 1996

6. In selecting advisers and service providers, governing bodies should:
  - a. Establish agreed and documented policies for making appointments to the scheme. These should be reviewed at least every three years, and before commencing any procurement or appointment process.
  - b. Consider running a tender process when appointing advisers and service providers, and commit enough time and resources.
  - c. Carefully consider any proposed degree of delegation, as well as the experience and skill set of the chosen service provider.
  - d. Be familiar with and understand the impact of the terms and conditions of contracts with service providers (See our **Scheme management skills guidance**).
  - e. Review relevant independent frameworks, such as ISO certification or accreditation frameworks for specialist functions like administration.
  - f. Assess service providers and carry out due diligence as part of the appointment process.
  - g. Clearly set out the roles and responsibilities of service providers and advisers.
7. When appointing advisers and service providers, governing bodies should:
  - a. agree appropriate delegations and procedures for referral
  - b. agree performance indicators on appointment and secure accountability within the service provider
  - c. include a process for managing advisers, recording decisions taken as well as escalation points
  - d. ensure the flow of communication with the service provider or adviser, so all parties have the necessary information to make key decisions and to fulfil their assigned roles
  - e. take steps to identify and manage conflicts of interest. See **Conflicts of interest**.
  - f. understand the implications of data protection legislation<sup>4</sup> for any information that will be shared with or handled by service providers

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4 Data Protection Act 2018 and UK GDPR

8. When managing advisers and service providers, governing bodies should:
  - a. seek to ensure that advisers make you aware of any relevant obligations, professional conduct rules and whistleblowing requirements that they may be obliged to follow
  - b. ensure service providers are able to demonstrate that they are fulfilling the requirements of any legal obligation that has been delegated to them
  - c. ensure service providers are able to demonstrate that they have adequate internal controls relating to the services they provide. See **Internal controls** and **Assurance reports on internal controls**.
  - d. regularly assess performance against agreed key performance indicators (KPIs) and service level agreements (SLAs). Record outcomes and ensure all actions are allocated for remedy with progress tracked
  - e. review the performance of advisers and service providers against the objectives set for them, including strategic objectives. See our **objective setting guidance**.
  - f. Periodically review the market for relevant service providers and consider if the scheme continues to receive quality service and value for money. This may be part of any value for members assessment run by the scheme.
  - g. Have enough knowledge and understanding to enable them to fully understand any advice or information they receive.
  - h. Understand how any advice or information they receive affects decisions or activities that they are legally responsible for.
  - i. Have a process to ensure that improvements are made where poor service is identified.
  - j. Work with service providers to understand and secure any necessary resources to deal with forthcoming legislative or scheme changes.
  - k. Have clear documented procedures in place, to allow a continuous and consistent service if the service provider changes or fails. See **Scheme continuity planning**.



## The governing body: Advisers and service providers

### Managing advisers and service providers

9. There may be circumstances where it is necessary for the governing body to replace an adviser or service provider. This may include cases where service has been consistently poor or no longer demonstrates good value; or where a contract is not or cannot be renewed. In such circumstances, it would be appropriate for the governing body to act to ensure that there is no member detriment from their actions. In replacing advisers and service providers, governing bodies should:
  - a. Consider the interests of the scheme members when replacing the adviser or service provider.
  - b. Understand the impact of the terms and conditions of contracts, including any fees or penalties, and procedures for releasing relevant information to the governing body and new advisers.
  - c. Understand the risks associated with transitioning to a new provider and put plans in place to mitigate them.
  - d. Plan effectively for the transition to a new adviser or service provider, setting out the key steps, actions, decisions, owners, and timescales, including how costs will be met.

## Glossary

### Advisers

In the context of the code of practice, advisers is a broad-reaching term and may refer to one or more of the following: actuary, benefit consultant, lawyer, independent financial adviser, investment consultant, insurance broker, professional trustee, investment manager, fiduciary manager.

### Key performance indicator

A quantifiable measure which can be used to evaluate success.

### Service level agreements

An agreement between a service provider and governing body setting contractually binding service levels that are to be met by the service provider in providing the service.

### Service providers

Any person or body providing services to a pension scheme, including advisers. Examples include insurer, administrator, accountant, and auditor.

# The governing body: Risk management

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## Identifying, evaluating and recording risks

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
2. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup> and with the requirements of the law.
3. Before designing internal controls, the governing body should identify risks, record them, and regularly review and evaluate them. The evaluation of risks will help the governing body determine which risks require internal controls to be put in place to reduce their incidence and impact (see **Internal controls**).

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Article 226B of The Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

## Identifying risks

4. The range of risks will vary from scheme to scheme and may include matters such as investment, employer covenant, funding, administration, communications, fraud, and pension payment, or decumulation options.
5. The governing body should identify risks including:
  - a. scheme investments, including asset-liability management (if applicable). See **Investment governance**.
  - b. those affecting operational resilience, including where those risks belong to service providers. See **Scheme continuity planning**.
  - c. insurances, compensation funds, and other risk-mitigation techniques
  - d. environmental, social, and governance risks (if applicable). See **Stewardship** and **Climate change**.
  - e. scheme funding and the strength of the employer covenant (if applicable)
  - f. the risk of fraud
  - g. failure to comply with the law and/or scheme rules
  - h. poor record-keeping, poor administration, and IT and database failures
  - i. cyber security risks. See **Cyber controls**.
  - j. governance and decision making, or existing controls are not operating to the standard required by pensions legislation
  - k. actual or potential conflicts of interest (the module on **conflicts of interest** sets out the actions that governing bodies should take in relation to these matters)

## Evaluating risks

6. The governing body should evaluate all the risks faced by their scheme to determine the key risks. They should then set acceptable parameters for each key risk with key indicators.
7. In evaluating risks, the governing body should:
  - a. set scheme objectives (for example, to provide pensions benefits)
  - b. refer to documents the governing body is required to be familiar with.  
See **Knowledge and understanding**.
  - c. consider relevant sources of information, such as records of internal disputes and breaches of law consider the various functions and activities carried out in the running of the scheme
  - d. evaluate the likelihood and impact of the risks occurring
  - e. evaluate the likelihood and impact of separate risks coinciding and the interdependencies between such risks
  - f. be prepared to monitor, challenge, and review their risk evaluation process and outputs
8. In recording and updating risk records, the governing body should:
  - a. record the risks identified and ensure that they are reviewed regularly (including identifying new risks, such as significant changes affecting the scheme, employers, and members)
  - b. record the key risks in a risk register and keep that up to date
  - c. maintain contingency plans for actions to be taken if risks materialise.  
See **Scheme continuity planning**.
  - d. record and implement plans with target dates for mitigating risks
  - e. carry out 'after action reviews' and incorporate any lessons learnt
9. In allocating roles and responsibilities, the governing body should:
  - a. have processes that establish ownership and a responsible party for monitoring risk and issues between meetings of the governing body (particularly if the action is the responsibility of a third party)
  - b. receive information from relevant parties (for example administrator, investment manager) at least quarterly to enable the risk register to be updated
  - c. be able to recognise when professional advice is required.

## Glossary

### Asset liability management

The ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities, to achieve financial objectives for a given set of risk tolerances and constraints.

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### Public service pension scheme

Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

### Sponsoring employer

The employer, or employers, responsible for making payments to a pension scheme (see our [Statement on identifying your statutory employer](#)).

## Internal controls

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls. However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
2. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup> and with the requirements of the law.
3. The legal obligations, in certain areas such as scheme funding and scheme investment, are different for public service pension schemes<sup>6</sup>. However, as far as these matters are either set out in the scheme rules<sup>7</sup> or in the requirements of the law, scheme managers of public service pension schemes must establish and operate adequate internal controls in relation to them.
4. Internal controls refer to all the following:
  - the arrangements and procedures to be followed in the administration and management of the scheme
  - the systems and arrangements for monitoring that administration and management, and
  - arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.
5. Before designing internal controls, the governing body should identify risks, record them, review them regularly, and evaluate them. See **Identifying, evaluating and recording risks**. The evaluation of risks will help the governing body to determine which risks require internal controls to be put in place to reduce their incidence and impact.

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Article 226B of The Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions [Northern Ireland) Order 2005]

5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions [Northern Ireland) Order 2005]

6 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

7 As defined in section 318(2) Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

6. The governing body should design internal controls which ensure that the scheme is administered and managed in accordance with the requirements of the law and the scheme rules. The scheme's internal controls should also:
  - a. include a clear separation of duties for those performing them, and processes for escalation and decision-making
  - b. require the exercise of judgement, where appropriate, in assessing the risk profile of the scheme and in designing appropriate controls.
7. The governing body should then make sure that their internal controls are documented.
8. A scheme's internal controls should be reviewed:
  - a. in line with the timescales for **own risk assessments** for the governing body, who are required to carry out such assessments, see own risk assessment
  - b. at least annually for governing bodies of public service pension schemes
9. However, the review of controls can be staggered if they address different areas of a scheme's operations or governance.
10. In addition, reviews should also be carried out when:
  - a. substantial changes to the scheme take place. These include changes to pension scheme personnel, service providers, scheme advisors, or administration and other IT systems
  - b. a control is not working to the standard required by the law.
11. A persistent failure to put internal controls in place could be a cause of an administrative breach. If this failure is likely to be of material significance to us in carrying out any of our functions, the governing body should submit a breach of law report. See also **Decision to report**.
12. The governing body should be aware that an internal controls framework is not infallible and will not eliminate error or fraud from pension schemes. At any stage in a process where judgement is involved, the possibility of error remains. Similarly, a failure to understand how or why a particular control is operating or, more seriously, collusion to circumvent a control, is a risk that cannot be entirely removed.
13. It is not necessary, nor possible, to eliminate all risks from a pension scheme. For example, some investment risks may be accepted by the governing body in their desire to seek greater returns.
14. The governing body should decide what internal controls are appropriate to mitigate the key risks they have identified and how best to monitor them. They should exercise judgement, both in assessing the scheme risk profile and in designing appropriate controls to mitigate such key risks.



15. The legal responsibility for internal controls always rests with the governing body, even if functions or activities are delegated to advisers or service providers. See also **Managing advisers and service providers**.
16. The rest of our expectations for internal controls can be found in paragraphs 17 and 18 below.
17. When designing internal controls, governing bodies should consider:
  - a. how the control will be implemented and the skills of the person performing the control
  - b. the level of reliance that can be placed on information technology processes (whether fully automated or not) and the testing of such processes
  - c. whether a control can prevent future recurrence or merely detect an event that has already happened
  - d. the frequency and timeliness of a control process
  - e. how the control will ensure secure data management
  - f. processes for identifying errors or control failures
  - g. what would be appropriate approval and authorisation controls
  - h. whether professional advice is needed when designing internal controls
18. To maintain internal controls governing bodies should:
  - a. regularly consider the performance of internal controls in mitigating risks, and where appropriate, achieving long-term strategic aims
  - b. consider obtaining independent or third-party assurance about controls. See **Assurance reports on internal controls**.
  - c. obtain assurance that service providers are meeting their own standards for internal controls. See **Managing advisers and service providers**.

## Glossary

### Public service pension scheme

Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

### Sponsoring employer

The employer, or employers, responsible for making payments to a pension scheme (see our **Statement on identifying your statutory employer**).

## Assurance reports on internal controls

1. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
2. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup> and with the requirements of the law.
3. Assurance reporting is the process through which the different processes, procedures, and the operations of an entity are analysed. The governing body may consider using assurance reports to assess whether the scheme or a service provider meets the relevant legislative requirements on internal controls.
4. Assurance reporting may be carried out by resources that the governing body has available in-house or by a participating employer(s). Service providers may be able to provide assurance reporting on their own internal controls. It is also possible for the governing body or service providers to commission assurance reporting from independent third parties.
5. There are various assurance frameworks that may be suitable for use for aspects of pension scheme operations. We set out some examples of assurance reporting the governing body may choose to use below.

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1 Articles 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A(3) of The Pensions (Northern Ireland) Order 2005]

3 Articles 226B of The Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

## Statutory audit

6. The governing body of most occupational pension schemes will be familiar with the annual statutory audit<sup>6</sup> (see **Audit requirements**). But the governing body should not rely solely on the output of the audit as a means of assurance reporting. It provides assurance about a limited number of financial elements, but it does not for example, communicate that benefits are being paid correctly.
7. Under certain circumstances, the statutory auditor may be prepared and able to carry out an audit with a wider scope. However, this may be limited by their profession's ethical guidelines. For example, a statutory auditor cannot hold the office of 'internal auditor'.

## Internal audit

8. Some governing bodies may have access to internal auditors within a participating employer, or within the scheme, who could provide scrutiny to a similar level as an independent external assessment.
9. The scope and nature of internal audit work can be tailored to meet the requirements of the governing body. This type of audit may include financial and non-financial processes and controls. If selecting a suitable internal auditor, the governing body should consider:
  - a. the candidate's independence
  - b. any actual or potential conflicts of interest (see **Conflicts of interest**)
  - c. the candidate's knowledge of the subject

**Note:** Not all internal auditors within a sponsoring employer will have sufficient pensions knowledge to perform an adequate assessment of all scheme operations.

## Assurance reporting by service providers

10. Some service providers may be able to supply assurance reports about their own operations. The governing body should read and understand assurance reports provided by service providers to establish if the controls used by the organisations that they outsource various functions to are adequate. This will also include assurance reports produced by the scheme's investment manager and custodian.
11. The governing body should satisfy themselves of the scope of such reports and the degree to which these are applicable. For example, whether the reports cover the specific team or office providing services to the scheme.

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6 Section 47(1)(a) of the Pensions Act 1995 with exemptions in Regulation 3 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) [Exemption in Regulation 3 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No. 94 N.I.)]

## Assurance reporting commissioned by the governing body

12. The governing body may, from time to time, decide to commission assurance reports for some aspect of scheme operation. Before commissioning or relying on any assurance report, the governing body should understand the limits of each type of assurance, the limits to the scope of any assurance process, and how any assurance might play a part in the scheme's internal controls framework.
13. For each assurance report, the governing body should:
  - a. consider the process for appointing service providers. See **Managing advisers and service providers**.
  - b. understand the scope, methodology and supporting evidence used as the basis for the assurance report
  - c. recognise the control objectives that have been included, excluded, or modified in any assessment, and how the scope is relevant to the scheme
  - d. understand the level of interrogation that has been carried out in assessing the scheme, for example if a site visit was carried out
  - e. identify and act upon any issues or concerns they consider to be material

## Scheme continuity planning

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
2. Scheme managers of public service pension schemes<sup>3</sup> do not have the same obligations in pensions legislation. This is therefore not part of our expectations on them, but it is good practice for them to consider carrying out continuity planning in the same way.
3. Governing bodies should develop and implement continuity plans to ensure that their scheme operations can be maintained, in the event of a disruption to scheme activities. Additional resources on continuity planning are available online (The UK national standards body, BSI, maintains various resources for **business continuity under ISO 22301**).

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1 Articles 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 (Article 226A (3) of The Pensions (Northern Ireland) Order 2005)

3 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

4. Governing bodies should:
  - a. seek to ensure that the performance of scheme activities are continuous and regular
  - b. have a resilient business continuity plan (BCP) that sets out key actions, in case of a range of events occurring that impact the scheme's operations
  - c. make sure key areas of scheme activities, including member data and general scheme administration, are included in the BCP
  - d. ensure advisers and service providers also have a BCP in place to maintain services to the scheme
  - e. choose how to rely on reports and information about their service providers' BCP arrangements
  - f. set out roles and responsibilities within the plan, and agree these with service providers
  - g. regularly review process documents and maps, particularly after a system or process change and periodically test the BCP arrangements
  - h. prioritise scheme activities in the event of the BCP being triggered, for example: receiving and monitoring contributions, pension payments, retirement processing, bereavement services, and minimising the risk of pension scams
  - i. ensure continued access to resources, services, and communications with key parties
  - j. have an awareness of the timeframes required to bring new resources on board
  - k. understand what contingency is in place to mitigate any under resource due to, for example, increase in work volumes or the loss of staff
  - l. identify any events which may reasonably occur that may require additional resources

## Glossary

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### Public service pension scheme

Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

## Conflicts of interest

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Conflicts of interest may arise from time to time while running a pension scheme, either among members of the governing body themselves, or with service providers, sponsoring employers, advisers, and others. Conflicts can also arise for members of the governing body who for example, are members of the scheme or who represent trade unions. Conflicts of interest may be either actual conflicts or potential conflicts. Unless otherwise stated, references to ‘conflicts of interest’ include both actual and potential conflicts.
2. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup> and with the requirements of the law. To the extent that conflicts of interest are:
  - a. within that section: scheme managers should take that into consideration in identifying and evaluating risks (see **Identifying, evaluating and recording risks**). Our expectations of scheme managers for identifying and recording conflicts of interest are in paragraphs 6 to 8. The specific expectations that apply will vary from scheme to scheme.
  - b. not within that section: what is set out below does not form part of our expectations of scheme managers, but it is good practice for them to adopt those measures.
4. There are also additional requirements for the management of conflicts of interest in relation to pension boards of public service pension schemes (see paragraphs 22 to 24).

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Article 226B of The Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

5 As defined in section 318(2) of the Pensions Act 2004 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

5. When identifying and evaluating risks (see **Identifying, evaluating and recording risks**), governing bodies should consider conflicts of interest. A conflict of interest may arise when a member of the governing body:
  - a. is obliged to act in the best interests of the members; and
  - b. at the same time has or may have either:
    - a separate personal interest or
    - another fiduciary duty or other duty owed to a different person in relation to that decision, giving rise to a possible conflict with the obligation to act in the best interests of the members<sup>6</sup>.

## Identifying and recording conflicts

6. It is possible that members of governing bodies will have other interests and responsibilities. They therefore need to understand when actual or potential conflicts arise.
7. Certain legal and professional requirements and legislation that apply to English local authorities, set standards for conduct, conflicts of interest, and disclosure of certain interests. These may apply to members of governing bodies, advisers, and service providers.
8. When identifying and recording conflicts of interest, governing bodies should:
  - a. have a clear understanding of the importance of managing conflicts of interest and the circumstances in which they may arise
  - b. understand any requirements of the scheme's governing documentation, or regulations under which it may operate, in relation to conflicts of interest
  - c. encourage a culture of openness and transparency in relation to conflicts of interest.
  - d. maintain a written policy for managing actual and perceived conflicts of interests and consider where to publish it on the scheme's website
  - e. maintain a register of interests, which should be considered in every meeting of the governing body
  - f. ensure all members of the governing body, advisers, and service providers make declarations of interests and conflicts at their appointment, and as they arise
  - g. ensure contracts and terms of appointment require advisers and service providers to operate their own conflicts policy, and disclose all conflicts to the governing body
  - h. record conflicts of interest in relation to a decision-making process, as well as the action taken to manage them, in the written records of the meeting (see **Meetings and decision-making**)
  - i. if carrying out transactions with related parties, ensure transparency by complying with **financial reporting standard (FRS) 102 - related party disclosures**

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6 Such conflicts of interest may affect not only trustees but also directors, agents, professional advisers and others



## Dealing with conflicts

9. Governing bodies should have processes in place to ensure that their decision-making is not compromised by actual or potential conflicts. The processes required to manage the conflict will need to take into account the particular circumstances of the conflict, the actual, and potential risks the conflict poses, and the rules (and legislation where applicable) governing the scheme.
10. Members of governing bodies who are also directors of the sponsoring employer(s) will need to consider the requirements of section 175 of the Companies Act 2006 (duty to avoid conflicts of interest). The governing body should adopt control procedures (see **Internal controls**) to manage conflicts and mitigate the risks of tainted decision making. The governing body should therefore assess the nature of the conflict being managed and the risk or threat to decision-making<sup>7</sup>.
11. Different options for dealing with conflicts of interest are set out below. The effectiveness, validity, and attendant risks will vary depending on the option. Some conflicts of interest may be so acute or pervasive that it would be better to avoid them entirely – for example, an acutely conflicted member of the governing body could resign.
12. In cases where resignation is deemed appropriate, careful consideration needs to be given to the identity of any replacement member of the governing body and the conflicts that they may face. Governing bodies should consider seeking independent legal advice, to help decide whether an actual or potential conflict of interest can be eliminated (and if so, the best way of achieving it).
13. Where conflicts of interest are not eliminated, depending on the situation, the options below either singly, combined, or with other appropriate options should be put in place to manage the conflict. Governing bodies should consider seeking independent legal advice to help decide the best approach to manage an actual or potential conflict of interest.

## Withdrawal from discussions and the decision-making process

14. A member of a governing body who is conflicted should consider withdrawing from decision(s) and decision-making process(es). The governing body should consider whether the presence of a conflicted individual could undermine discussions, invalidate, influence, or be perceived to influence a decision. A conflicted individual who simply abstains may still unduly influence an outcome.

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<sup>7</sup> Governing bodies should also seriously consider seeking legal advice if they are in any doubt whether a conflict is non-trivial or whether it could have the potential to be detrimental to the conduct or decisions taken by them

## Establishing a sub-committee

15. Delegation to a sub-committee can help ensure that decisions are made by an independent group whose views will not be compromised by another conflicted member of the governing body.
16. Governing bodies should consider seeking legal advice, if considering delegating certain tasks to a sub-committee(s). This is because there are many scheme-specific and legal factors which need to be considered. This will include whether delegation is possible or desirable, and the extent to which the full governing body is bound by the decisions of the sub-committee.

## Appointing an independent to the governing body

17. An independent member of the governing body, such as a professional independent trustee or otherwise, can help ensure that decisions are not prejudiced by a conflict of interest.

## Confidentiality agreement and disclosure of information

18. Confidentiality agreements are documents under which members of governing bodies agree not to share with third parties the information they receive in order to carry out their role. Such agreements therefore:
  - a. facilitate the sharing of confidential and sensitive information with governing bodies and help to ensure that the information will not become public
  - b. provide extra comfort to sponsoring employer(s) in relation to disclosing information to governing bodies
19. Confidentiality agreements do not necessarily eliminate the conflict and there may still be a need to manage it. Governing bodies considering the use of a confidentiality agreement will need to seek independent legal advice.
20. Legislation<sup>8</sup> requires sponsoring employer(s) and former sponsoring employer(s) of certain schemes to disclose to the trustees or managers:
  - a. on request, information reasonably required by the trustees or managers or the professional adviser(s)<sup>9</sup> to perform their duties (the duty to disclose also extends to those who act as auditor(s) and actuary(s) to such sponsoring employer(s)).
  - b. Within one month, any event relating to the employer(s) that could be reasonably be considered to be of material significance in the exercise of any of the functions of the trustees, or managers, or their professional advisers.

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8 Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations 1996 [Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations (Northern Ireland) 1997]

9 As defined in Section 47(4) of the Pensions Act 1995 [Article 47(4) of The Pensions (Northern Ireland) Order 1995]

## Application to the courts

21. If one or more members of the governing body of a trust scheme have serious conflicts, which cannot be satisfactorily managed or avoided (or if there is no agreement on how to manage or avoid the conflict), the governing body can apply to the courts for approval of a decision, or to surrender their discretion to the courts.

## Public service pension schemes – pension boards

22. Under section 5 of the Public Service Pensions Act 2013, scheme managers of public service pension schemes<sup>10</sup> have to meet certain requirements relating to conflicts of interest regarding the pension board. In this situation, a conflict of interest is a financial or other interest, which is likely to prejudice the way in which someone carries out their role as a member of the pension board. It does not include a financial or other interest arising merely from them being a member of the scheme or any connected scheme.
23. The scheme manager must:
  - a. be satisfied that a prospective member of the pension board does not have a conflict of interest
  - b. remain satisfied that none of the members of the pension board has a conflict of interest
24. The scheme manager should:
  - a. circulate the register of interests and the other relevant documents to the pension board for ongoing review
  - b. publish these documents (for example, on a scheme's website)

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10 As defined in section 1 of the Public Service Pensions Act 2013

## Glossary

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### Pensions board

Board set up as required by section 5 of the Public Service Pensions Act 2013 to assist the scheme manager with the matters set out in that section.

### Scheme manager

The person responsible for managing or administering:

- the scheme, and
- any statutory pension scheme that is connected with it (See section 4 of the Public Service Pensions Act 2013).

### Sponsoring employer

The employer, or employers, responsible for making payments to a pension scheme (see our [Statement on identifying your statutory employer](#)).

## Own risk assessment

1. If a scheme required to operate an effective system of governance (ESOG) (see **Systems of governance**) has 100 members or more, the governing body must carry out and document an own risk assessment (ORA) as part of the ESOG. The ORA is an assessment of how well the ESOG is working, and the way potential risks (see **Internal controls**) are managed. Governing bodies of other schemes may carry out an ORA as an example of good practice.
2. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. We may consider failure to complete an ORA as an indicator of poor governance.
4. The governing body should prepare and document its first ORA before the end of the period described in Regulation 3(8)(i) of The Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. Unless specified otherwise in law or code, each element covered by the ORA should be assessed according to a timetable established by the governing body. It is not necessary for all elements forming an ORA to be assessed at the same time, but the ORA should be completed at least every three years.
5. New assessments should also be carried out where elements of the ESOG, or risk management processes, are new or updated and whenever there is a material change in the ESOG or risks facing the scheme.
6. The governing body may need to expand its existing risk assessments (see **Identifying, evaluating and recording risks**) to fulfil our expectations for the ORA. Many governing bodies will already undertake aspects of the ORA and will not need to duplicate this work. The ORA may therefore be a collation or index of other relevant documents recording these assessments. Where services or functions are outsourced, governing bodies may choose to incorporate assurance reporting supplied by service providers into their ORA.
7. The ORA does not need to document the steps taken to mitigate identified risks. However, the governing body should still ensure that it maintains appropriate records of mitigations as part of its ordinary risk management processes (see **Internal controls**).
8. As the ORA will identify the key governance risks facing the scheme, the governing body should incorporate the findings into its management and decision-making processes. The findings may be used to adjust or create new processes or procedures. They may also highlight areas of work that the governing body needs to carry out, and to prioritise these activities.

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

## Expectations for the own risk assessment

9. The governing body should carry out an ORA that is in proportion to the size, nature, and complexity of the scheme. The ORA may be carried out by a sub-committee of the governing body, the risk management function, or a third party. Those carrying out the ORA should effectively manage any actual or potential **conflicts of interest** between themselves, the governing body, employers, and service providers.
10. The governing body should:
  - a. ensure the ORA is in writing
  - b. provide the ORA documentation to all members of the governing body
  - c. consider what information to provide to members about the findings of the ORA
  - d. make sure the chair (see **Appointment and role of the chair**) of the governing body signs off the ORA
11. The governing body should record:
  - a. the date on which the ORA was prepared or revised
  - b. the date on which the ORA will next be prepared or revised
  - c. details of any interim reviews or updates that the governing body has carried out, or plans to carry out
12. The ORA documentation should cover:
  - a. how the governing body has assessed the effectiveness of each of the policies and procedures covered by the ORA
  - b. whether the governing body considers the operation of the policies and procedures to be effective and why
13. The ORA should include consideration of the effectiveness of, and risks arising from each element listed in paragraphs 14 to 19 below.
14. Policies for the governing body:
  - a. How the governing body is integrating risk assessment and mitigation into its management and decision-making processes.
  - b. The operation of policies relating to the **role of the governing body, knowledge and understanding** and **governance of knowledge and understanding**.

15. Risk management policies:
  - a. The operation of policies to identify and assess risks facing the scheme (see **Identifying, evaluating and recording risks**).
  - b. The internal control policies and procedures for the scheme (see **Internal controls** and **Assurance reports on internal controls**).
  - c. Management of potential internal conflicts of interest, and those with participating employers and service providers (see **Conflicts of interest**).
  - d. The prevention of conflicts of interest where the employer and governing body use the same service provider.
  - e. Continuity planning for the scheme (see **Scheme continuity planning**) and, where applicable, how it has performed.
16. Investment:
  - a. The scheme's investment governance processes (see **Investment governance**).
  - b. How investment performance is reviewed and monitored (see **Investment monitoring**).
  - c. How the governing body assesses investment risks relating to climate change, the use of resources and the environment (see **Climate change**).
  - d. How the governing body assesses social risks to the scheme's investments (see **Stewardship**).
  - e. How the governing body considers the potential for depreciation of assets arising from regulatory or societal change (see **Stewardship**).
  - f. How the governing body assesses the protection mechanisms available to the scheme, including how these might apply and the risks of them not functioning as intended.
  - g. How the governing body ensures the security of assets and their liquidity when they are required (see **Investment decision-making**).
  - h. How the governing body assesses the protection of member benefits in the event of the insolvency of a sponsoring or participating employer, or a decision to discontinue the scheme.
17. Additional investment matters for defined benefit schemes:
  - a. How the governing body assesses the scheme's funding needs with reference to its recovery plan.
  - b. How the governing body assesses the specific risks relating to the indexation of benefits provided by the scheme.

18. Administration:
  - a. How the governing body assesses the risks associated with the scheme's administration (see **Planning and maintaining administration**), with particular reference to financial transactions (see **Financial transactions**), scheme records (see **Record-keeping**) and receiving contributions (see **Receiving contributions**).
  - b. Action the governing body takes to manage overdue contributions (see **Monitoring contributions**), considering the degree to which they represent material amounts or delays.
  - c. Risks posed by legal and regulatory change and court decisions.
19. Payment of benefits, where applicable:
  - a. How the governing body assesses operational risks, focusing on the risk to members and beneficiaries relating to record-keeping and benefit payments.
  - b. The governing body's management of risks relating to circumstances where accrued pension benefits may be reduced, under which conditions and by whom.
  - c. The governing body's management of the risk of member benefits being reduced or altered, including the insolvency of a sponsoring or participating employer, or closure of the scheme.
  - d. Scams and the risk of members making poor choices (see **Scams**).

## Glossary

### Protection mechanisms

The mechanisms protecting retirement benefits, including as applicable, guarantees, covenants or any other type of financial support by the employer, insurance or reinsurance, or coverage by a pension protection scheme.



## Risk management function

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme<sup>3</sup>.
2. Trustees of schemes with 100 members or more<sup>4</sup> that are required to operate an effective system of governance should have in place a risk management function.
3. The risk management function should be proportionate to the size, nature, scale, and complexity of the activities of the scheme. In practice, the degree of separation between the risk management function and the governing body will be influenced by the size and internal organisation of the scheme and participating employer(s).

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

4 Section 249A Pensions Act 2004 and Regulations 3(1)(3)(a)(5),(6) and (9) of the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (SI 2018/1103)[Article 226A of The Pensions (Northern Ireland) Order 2005 and Regulations 3(1)(3)(a),(5),(6) and (9) of the Occupational Pension Schemes (Governance) (Amendment) Regulations (Northern Ireland) 2018 (SR 2018 No. 214 N.I.)]

4. The risk management function should:
  - a. be structured in such a way as to facilitate the functioning of a risk management system for which the governing body should adopt the strategies, processes, and reporting procedures necessary to:
    - **identify, evaluate, and record risks** and
    - **monitor and manage risks**
  - b. regularly review the key risks, at an individual and aggregated level, to which the scheme is or could be exposed, and the interdependencies of such risks
  - c. where members and beneficiaries bear risks, also consider those risks from the perspectives of members and beneficiaries
  - d. report to the governing body in a timely manner on the risks identified in relation to the expectations set out above in this paragraph
5. The written policies regarding the operation of the risk management function should:
  - a. only take effect after they have been approved by the governing body, and
  - b. be reviewed at least once every three years
6. The person(s) performing the risk management function may also carry out any other key function<sup>5</sup> of the scheme or be involved with the scheme in any other role.
7. The risk management function is in addition to the requirements on governing bodies to prepare an own risk assessment.

## Glossary

### Beneficiary

A person who is in receipt of benefits from the scheme and is also a survivor or dependant of a deceased scheme member.

<sup>5</sup> Regulation 3(3) of the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 [Regulation 3(3) of The Occupational Pension Schemes (Governance) (Amendment) Regulations (Northern Ireland) 2018]

# The governing body: Scheme governance

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Systems of governance

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## Systems of governance

1. All pension schemes need to have systems of governance and internal controls that:
  - a. provide the governing body with oversight of the day-to-day operations of the scheme
  - b. include any delegated activities for which the governing body remains accountable
  - c. provide the governing body with assurances that their scheme is operating correctly and in accordance with the law
2. The standards of governance required by law depend on the type of scheme the governing body operates.
3. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
4. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup> and with the requirements of the law.
5. A system of governance will include anything that can reasonably be considered part of the operation of a pension scheme. **Internal controls** are a key feature of any system of governance and are:
  - a. the arrangements and procedures to be followed in the administration and management of the scheme
  - b. the systems and arrangements for monitoring the administration and management, and
  - c. the arrangements and procedures to be followed for the safe custody and security of the scheme assets<sup>6</sup>

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Article 226B of The Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

6 Section 249A(5) of the Pensions Act 2004 [Article 226A(5) of The Pensions (Northern Ireland) Order 2005]

6. We have broadly the same expectations for each type of scheme (subject to the different legal requirements of s.249A and B). However, the standard required to meet those expectations frequently differs according to scheme type and size.
7. Where an expectation is different or applies differently in law for a specific type of scheme, this is made clear in this code. Where an expectation does not apply to a scheme because the law doesn't apply, the governing body may wish to consider whether the principles should be adopted as good practice.
8. The systems and controls put in place by a scheme should be in proportion to its size, nature, scale, and complexity. This proportionality is a feature of legislation for some schemes<sup>7</sup>.

## Effective system of governance

9. An effective system of governance should include processes and procedures to ensure compliance with the modules listed below.
10. Some of the modules only contain expectations for an effective system of governance (ESOG), and some contain expectations for ESOG and separate legal obligations. Expectations in respect of those legal obligations should be followed as part of ESOG as well as for wider legal compliance.
11. Where a module identifies a matter as good practice, this does not need to form part of the ESOG.
12. The expectations set out are subject to some exceptions for certain schemes, which are detailed in each module.
13. Management of activities:
  - a. **Role of the governing body**
  - b. **Meetings and decision-making**
  - c. **Remuneration and fee policy**
  - d. **Knowledge and understanding**
  - e. **Governance of knowledge and understanding**
  - f. **Dispute resolution procedures**
  - g. **Scheme continuity planning**

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<sup>7</sup> Section 249A(1A) of the Pensions Act 2004 [Article 226A(1A) of The Pensions (Northern Ireland) Order 2005]

14. Organisational structure:
  - a. **Appointment and role of the chair**
  - b. **Conflicts of interest**
  - c. **Managing advisers and service providers**
  - d. **Risk management function**
15. Investment matters:
  - a. **Investment governance**
  - b. **Investment decision-making**
  - c. **Investment monitoring**
  - d. **Stewardship**
  - e. **Climate change**
  - f. **Statement of investment principles**
16. Communications and disclosure:
  - a. **General principles for member communications**

## Internal review

17. Governing bodies should ensure that the elements of their ESOG are subject to a regular internal review. This should assess whether each element is functioning as intended, and whether changes are required.
18. Unless specified otherwise in law or code, each element of an ESOG should be reviewed according to a timetable established by the governing body. This review may be carried out as part of an own risk assessment if the governing body is required to do one of these. Otherwise, each element of the ESOG should be reviewed at least every three years. It is not necessary for all elements of an ESOG to be reviewed at the same time.
19. The governing body should establish and maintain policies for the review of each element of the ESOG. These policies should be established before any review is carried out and reviewed at least every three years.
20. An ESOG should have a process that ensures that any necessary changes are made to the ESOG or review policies.
21. Some options for formal internal audit and external assurance reporting are discussed in **Assurance reports on internal controls**, where this is considered necessary.

## Own risk assessment

22. Governing bodies of schemes required to have an ESOG that have 100<sup>8</sup> or more members should carry out and document an **own risk assessment** of their ESOG. This should assess how well the ESOG is working, and the way potential risks (see **Internal controls**) are managed.

## Internal controls

23. The modules set out below contain systems, arrangements, or procedures that governing bodies should have in place to comply with the requirements for internal controls. They also apply to schemes required to maintain an ESOG. The expectations set out are subject to some exceptions or limitations in scope for certain schemes, which are detailed in each module.
24. Internal controls:
  - a. **Identifying, evaluating and recording risks**
  - b. **Internal controls**
25. Administration and management:
  - a. **Financial transactions**
  - b. **Record-keeping**
  - c. **Data monitoring and improvement**
  - d. **Receiving contributions**
  - e. **Monitoring contributions**
  - f. **Maintenance of IT systems**

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8 Section 249A Pensions Act 2004 [Article 226A Pensions (Northern Ireland) Order 2005]

# Funding and investment: Investment

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## Investment governance

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. The term 'investment governance' refers to the policies and procedures that ensure a governing body complies with any obligations it has in relation to investment.
2. A governing body's powers and responsibilities regarding investment will be scheme specific, and so its governance arrangements must also be relevant and tailored to the scheme. See **Investment decision-making**.
3. The scheme managers of Local Government Pension Schemes do not have the same obligations in pensions legislation, but it is good practice for them to approach investment governance in the same way.
4. Governing bodies of most defined contribution (DC) and defined benefit (DB) schemes must:
  - a. have a good working knowledge of investment matters relating to their scheme<sup>1</sup>
  - b. understand the investment powers and duties they have under the scheme trust deed, rules and legislation<sup>2</sup> (see **Knowledge and understanding**)
  - c. appoint an investment manager to manage scheme investments<sup>3</sup> (see **Managing advisers and service providers**)
  - d. obtain and consider advice from a suitably qualified person before making investment decisions<sup>4</sup> (see **Managing advisers and service providers**)
  - e. produce a statement of investment principles (SIP), which covers their policies relating to the scheme's investments, unless exempt<sup>5</sup> (see **Statement of investment principles**)
5. Governing bodies of schemes that are required to produce a SIP, must produce an annual implementation statement as part of their annual report and accounts. See **Stewardship**.
6. The governing bodies of most DC schemes must produce a SIP for their default arrangement(s) if they have them, which is subject to different requirements. See **Statement of investment principles**.

1 Sections 247 and 248 of the Pensions Act 2004 [Articles 224 and 225 of the Pensions (Northern Ireland) Order 2005]

2 Sections 247 and 248 of the Pensions Act 2004 [Articles 224 and 225 of the Pensions (Northern Ireland) Order 2005]

3 Section 47 of the Pensions Act 1995 [Article 47 of the Pensions (Northern Ireland) Order 1995]

4 Section 36 of the Pensions Act 1995 [Article 36 of the Pensions (Northern Ireland) Order 1995]

5 Regulation 6 Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 6 Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

7. Under section 249A of the Pensions Act 2004<sup>6</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>7</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
8. We expect that governing bodies required to operate an effective system of governance and that have investment responsibilities will have the measures set out in paragraphs 9 to 11 in place.
9. The governing body should:
  - a. clearly document the objectives, roles, responsibilities, and reporting relationships of all parties involved in making investment decisions
  - b. ensure that investment decisions are taken by those with the necessary skills, knowledge, information, and resources
  - c. obtain advice and other inputs required to properly govern the scheme's investments (including considering what advice may be needed)
  - d. ensure the governance structure relating to the assessment of investment risks and how investment decisions are made is reviewed regularly and is appropriate for the scheme's circumstances and level of complexity
  - e. delegate investment decisions where appropriate for the scheme's circumstances and level of complexity. This may include delegating to an investment sub-committee or a qualified investment manager.
  - f. have appropriate oversight of any bodies with delegated responsibilities, with clearly written terms of reference and/or contractual arrangements
  - g. have written policies covering the use of advisers, including when to use advisers. These policies should consider the specific circumstances of the scheme, such as the investment knowledge and experience available to the governing body and the relevant legal requirements
  - h. have sufficient expertise to evaluate and challenge the advice they receive from advisers and service providers (see **Managing advisers and service providers** and **Knowledge and understanding**)
  - i. ensure investment policies take account of potential long-term effects on scheme investments (see also **Stewardship**)
  - j. have procedures in place to regularly monitor the performance of scheme investments (see **Investment monitoring**)
  - k. regularly monitor the performance of investment managers and advisers and consider their performance formally at least every three years, acting upon any issues identified (see **Managing advisers and service providers**)

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6 Article 226A of The Pensions (Northern Ireland) Order 2005

7 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

10. The governing body of a scheme with a DC element should:
  - a. offer an appropriate choice of investment arrangements for members who do not wish to invest in any default arrangement
  - b. provide access to information to enable members to make an informed choice about where their contributions are invested, where more than one investment arrangement is available
  - c. inform members in advance of potential changes to an investment arrangement
  - d. allow members the opportunity to actively choose to switch to a new DC investment arrangement where their existing arrangement is changed or replaced
  - e. if replacing or modifying an existing investment arrangement, manage the transition costs with consideration given to value for members (see **Value for members**)
  
11. The governing body of a scheme with a DB element should:
  - a. have governance policies that ensure the form and structure of liabilities, the strength of the employer covenant, the risk of sponsor default, life expectancy of members, and the need to access cash at particular times are taken into account in investment decision-making
  - b. clearly communicate the policies above to advisers, investment managers, and other relevant stakeholders

## Glossary

### Employer covenant

The extent of the employer's legal obligation and financial ability to support the scheme now and in the future.

### Sponsor default

When a sponsoring employer does not meet or is unable to meet its financial commitments to the pension scheme.

## Investment decision-making

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
2. An effective system of governance includes having processes in place to ensure prudent investment management.
3. Governing bodies of trust-based pension schemes with 100 or more members must:
  - a. invest in a way that ensures
    - security
    - quality
    - reasonable liquidity
    - profitabilityfor the scheme's portfolio as a whole<sup>3</sup>
  - b. make sure the principles above are followed where investment is carried out by a financial manager
  - c. invest mainly in regulated markets<sup>4,5</sup>
  - d. make sure scheme assets are properly diversified
4. Governing bodies of trust-based schemes with fewer than 100 members do not have the same obligations by law, but it is good practice for them to follow the principles set out above, and they must ensure their investments are appropriately diversified<sup>6</sup>.

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Regulation 4(3) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 4(3) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

4 Regulation 4(5) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 4(5) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

5 As defined in Regulation 4(11) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 4(11) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

6 Regulation 7(2) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 7(2) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

5. Governing bodies should:
  - a. have processes in place to make sure investment decisions can be made in an effective and timely manner
  - b. ensure all the involved parties are clear on where responsibility and accountability sit for providing oversight, advice, and decision-making
  - c. be able to critically evaluate the main points of the investment information received and understand the basis on which that information has been provided
  - d. ensure costs and charges for any advice sought and/or investment transactions that may result represent reasonable value
  - e. consider any likely personal biases and any conflicts of interest the person giving the input may have in the decisions to be made (see **Conflicts of interest**)
  - f. regularly assess the effectiveness of their investment decision making and governance processes (see **Own risk assessment**)
  - g. have clear terms of reference for any sub-committees
  - h. set objectives for investment holdings, considering the different requirements of the accumulation and decumulation phases
  - i. document objectives and strategies appropriately
  - j. ensure the investment structure and decisions made in relation to investments aim to deliver the objectives and outcomes in accordance with the principles set out in the SIP (see **Statement of investment principles**)
  - k. appropriately document any changes to investment strategy and/or material changes to investments, including the reasons they were needed, and the improvements expected
  - l. if using a bespoke arrangement to meet specific requirements, document a clear explanation of their strategy and objectives and how the specific requirements will be met
  - m. clearly identify any investments not traded on a regulated market, document why such investments are being used, and how they fit in with the agreed investment objectives
  - n. understand the types of protection available, such as indemnity insurance or the Financial Services Compensation Scheme, for their different investments in the event of fraud, wrongdoing, or other adverse events
  - o. review the investment managers' fund documentation, obtain investment advice and, where appropriate, legal advice, and put the right level of protection in place for members, having considered that advice
  - p. consider informing members and employers on the overall conclusions of the security of assets

## Glossary

### **Bespoke arrangement**

A defined contribution investment arrangement that has been tailored by an investment manager to meet specific requirements for a scheme's membership.

### **Decumulation**

The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

## Investment monitoring

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. Trustees' fiduciary duties include managing investments with due skill, care, and diligence. The law requires governing bodies who have responsibility for investment decision-making to exercise those powers in accordance with regulation 4 of the Occupational Pension Schemes (Investment) Regulations 2005<sup>1</sup> unless exempt<sup>2</sup>.
2. Under section 249A of the Pensions Act 2004<sup>3</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>4</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. An effective system of governance includes having systems in place to monitor and review the performance of their investments.
4. Governing bodies may do this by using manager or adviser reports; or having meetings with the managers or advisers. If they are relying solely on reports produced by their investment managers, they may wish to seek independent advice to help interpret the reports<sup>5</sup>.
5. The scheme managers of Local Government Pension Schemes do not have the same obligations in pensions legislation. However, it is good practice for them to approach investment governance in the same way.
6. Governing bodies must be confident that investment governance (see **Investment governance**) is carried out in accordance with legal obligations, with the best interests of scheme members and their beneficiaries in mind, and by people with the right expertise (particularly where any of these functions are outsourced).

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1 Regulation 4 Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005  
2 Regulation 7 of the Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 7 of the Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]  
3 Article 226A of The Pensions (Northern Ireland) Order 2005  
4 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]  
5 Regulation 2 Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2 Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

7. Governing bodies should:
  - a. have procedures to review and negotiate the terms of contractual arrangements and fund documents in place with investment managers and advisers as appropriate (see **Managing advisers and service providers**)
  - b. regularly monitor the performance of their scheme's investment managers and advisers (see **Managing advisers and service providers**)
  - c. have procedures in place to regularly monitor their scheme's investments and performance that should:
    - consider investment returns both before and after fees, and against any relevant benchmarks
    - compare investment performance against their stated short and long-term investment objectives
    - consider fees and costs and whether they are justified
    - where applicable, consider their value for members assessment (see **Value for members**)
  - d. consider whether and how to report to interested parties, for example members, participating employers, and sponsoring employers
  - e. ensure monitoring information is prepared at least quarterly, and at shorter intervals if appropriate for the size and complexity of the scheme
  - f. where applicable, ensure analysis of monitoring information includes a stress test, scenario test, or other risk assessment information, to assess the impact of changing circumstances on scheme assets and if relevant, funding level
  - g. monitor the level of investment risk run to deliver the performance and how this compares with the investment manager's risk targets
  - h. consider environmental, social, and governance (ESG) factors, including shareholder engagement, and have sufficient processes in place to ensure compliance (see **Stewardship** and **Climate change**)
  - i. seek to ensure that controls (including those related to the security, liquidity, and safe custody of the scheme assets) are in place to alert them to potential financial risks relating to their investment manager
  - j. regularly assess the effectiveness of their processes, ensuring proper review and monitoring of investments and making improvements as appropriate
8. To govern effectively and meet the expectations listed above, governing bodies should set clear expectations for their investment managers where relevant.



## Stewardship

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. Stewardship provides an effective tool for encouraging, developing, and supporting behaviours and practices throughout the investment chain to ensure long-term value for savers, which can also lead to sustainable benefits for the economy, the environment, and society.
2. Effective stewardship includes – but is not limited to – the consideration of environmental, social, and governance factors (ESG) in investment decision-making and how those factors might impact the balance of risks/returns over the longer term. See **Climate change**.

### ESG and other investment policies

3. Unless exempt<sup>1</sup>, governing bodies are required to include their policies in relation to financially material ESG considerations, and how they are taken into account in the selection, retention and realisation of investments<sup>2</sup>, in their statement of investment principles (SIP) and default arrangement SIP. They must also include their policies on the extent, if at all, to which they take into account non-financial matters (the views of members and beneficiaries, including their views on ESG matters)<sup>3</sup>. See **Statement of investment principles**.
4. Governing bodies are required to include in their SIP, and default arrangement SIP, their policy on the exercise of voting rights attaching to investments, unless exempt<sup>4,5</sup>. They must also include their policy on how they monitor and engage with relevant persons, such as the issuer of the investments, about relevant matters, such as the issuer’s social and environmental impact and corporate governance<sup>6</sup>.
5. These governing bodies must also set out their policy on arrangements with asset managers, covering matters such as how they incentivise the asset manager to align its strategy with the scheme’s own investment policies, and to make decisions based on assessments over the medium to long term<sup>7</sup>.

1 Section 35 of the Pensions Act 1995 [Article 35 of the Pensions (Northern Ireland) Order 1995] and Regulation 6 of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 6 of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

2 Regulation 2(3)(b)(vi) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3)(b)(vi) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

3 Regulation 2(3)(b)(vii) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3)(b)(vii) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

4 Section 35 of the Pensions Act 1995 [Article 35 of the Pensions (Northern Ireland) Order 1995] and Regulation 6 of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 6 of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

5 Regulation 2A(1)(b) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A(1)(b) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

6 Regulation 2(3)(c) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3)(c) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

7 1Regulation 2(3)(d) of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2(3)(d) of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

## Implementation statement (IS)

6. Governing bodies of schemes that are required to produce a SIP<sup>8</sup>, must produce an IS setting out how they acted on the stewardship policies set out in the SIP<sup>9</sup>. The IS must be included in the scheme's annual report<sup>10</sup> and made publicly available, free of charge, on a website<sup>11</sup>.
7. In their IS, governing bodies must<sup>12</sup>:
  - a. set out how, and the extent to which, in the opinion of the trustees, the scheme's stewardship policies have been followed during the scheme year
  - b. describe the voting behaviour by, or on behalf of, the trustees (including the most significant votes cast by the trustees or on their behalf) during the scheme year, stating any use of the services of a proxy voter
8. In addition, governing bodies of relevant schemes<sup>13</sup> must<sup>14</sup>:
  - a. set out how, and the extent to which, in the opinion of the trustees, the remainder of the SIP has been followed during the scheme year
  - b. describe any legally required review of the SIP carried out during the year, and any review of how the SIP has been met, and explain any changes made to the SIP during the year including the reason for those changes
  - c. where no legally required review was carried out during the scheme year, provide the date of the last such review

**Governing bodies must have regard to statutory guidance produced by the Department for Work and Pensions on reporting through the IS.**

- 8 Section 35 of the Pensions Act 1995 [Article 35 of the Pensions (Northern Ireland) Order 1995] and Regulation 6 of The Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 6 of The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]
- 9 Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]
- 10 Regulation 12 and Part 2 and Part 5 of schedule 3 of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 12 and Part 2 and Part 5 of schedule 3 of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]
- 11 Regulation 29A(1), (1A), (2A)(b) and (2B)(b) and Schedule 3, paragraph 30(1)(ca) and (f) of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 29A(1), (1A), (2A)(b) and (2B)(b) and Schedule 3, paragraph 30(1)(ca) and (f) of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]
- 12 Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Paragraph 30 (1)(ca) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]
- 13 Regulation 1(2) of the Occupational Pension Schemes (scheme Administration) Regulations 1996 [Regulation 1(2) of the Occupational Pension Schemes (scheme Administration) Regulations (Northern Ireland) 1997]
- 14 Paragraph 30 (1)(f) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Paragraph 30 (1)(f) of schedule 3 to The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

## Effective system of governance (ESOG)

9. Under section 249A of the Pensions Act 2004<sup>15</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>16</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
10. An effective system of governance should include consideration of ESG matters relating to scheme investments. These governing bodies should follow the expectations set out below.
11. Governing bodies of schemes with 100 or more members should incorporate these matters into the scheme's own risk assessment and document them appropriately. See **Own risk assessment**.
12. We recommend that governing bodies with investment responsibilities follow the expectations set out below, even if they are not legally required to have an ESOG.
13. Governing bodies should:
  - a. identify their rights (including voting rights) attached to investments and consider their approach to voting and engagement on relevant matters, including on ESG
  - b. ensure they are familiar with their investment managers' own stewardship policies
  - c. consider investment managers' stewardship policies as selection criteria and seek to influence them as appropriate
  - d. ensure they monitor and regularly review investment managers' stewardship practices
  - e. make sure they take into account the potential long-term positive and negative impacts of investment decisions on member outcomes
  - f. consider following, where appropriate, the principles set out in the Financial Reporting Council's UK Stewardship Code
  - g. seek to establish engagement approaches with investee companies and collaborative industry initiatives, whether directly or via investment managers, with a view to mitigating risks to long-term investment goals
  - h. consider co-operation with other institutional investors in engaging with investee companies, for example on ESG issues

## Glossary

### Stewardship

The responsible allocation, management, and oversight of scheme assets – which includes shareholder voting and engagement with issuers and asset managers.

<sup>15</sup> Article 226A of The Pensions (Northern Ireland) Order 2005

<sup>16</sup> Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

## Climate change

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. All pension schemes face some degree of material risk from climate change. These risks may include the physical effects of climate change such as:
  - a. rising temperatures
  - b. higher sea levels
  - c. droughts
  - d. floods
  - e. storms
2. They may also include the impact of changes associated with the transition to a low-carbon economy, such as:
  - a. impacts on the strength of any sponsoring employer
  - b. new climate policy
  - c. disruptive technology
  - d. shifting investor sentiment
  - e. deteriorating reputation

### Climate change and investments

3. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
4. An effective system of governance should ensure that consideration of environmental factors is part of the governing body's investment decision-making (see **Stewardship**).
5. Governing bodies should:
  - a. talk to their advisers and asset managers about how short and long-term climate change risks and opportunities are built into their recommendations
  - b. understand what measures are being taken to reflect climate change risk within investment portfolios

<sup>1</sup> Article 226A of The Pensions (Northern Ireland) Order 2005

<sup>2</sup> Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

Governing bodies of certain schemes<sup>3</sup> are required to include policies in their **statement of investment principles** relating to environmental, social and governance considerations (see **Stewardship**) that they consider financially material. This includes climate change.

6. Governing bodies are not currently required to align their investment and funding plans with the objectives of the Paris Agreement and other climate change goals, such as the UK's own target of net zero emissions by 2050. However, they may wish to examine how their governance practices and investment decision-making (where applicable) take into account global progress towards those goals.

## Managing scheme risks from climate change

7. Governing bodies that are required to establish and operate adequate internal controls<sup>4</sup> for their scheme should, as part of their risk assessment, assess the risks and opportunities associated with climate change. See **Identifying, evaluating, and recording risks**.
8. Our expectations for governing bodies required to operate an effective system of governance are set out in paragraph 9 below. Other governing bodies may wish to consider these as good practice.
9. Governing bodies should:
  - a. consider the possible short, medium, and long-term effects of climate change on the scheme's objectives and its operations
  - b. maintain and document processes for identifying and assessing climate-related risks and opportunities
  - c. integrate these processes into their risk management and governance arrangements
  - d. ensure they oversee, assess, and manage climate-related risks and opportunities relating to the scheme

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3 Regulation 2 of the Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2 of the Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

4 Sections 249A and 249B of the Pensions Act 2004 [Articles 226A and 226B of the Pensions (Northern Ireland) Order 2005]

## Climate-related governance and disclosures

10. Governing bodies of certain schemes must meet the governance and reporting requirements set out in regulations under the Pension Schemes Act 2021<sup>5</sup>, relating to climate-related risks and opportunities. For schemes in scope, governing bodies must take steps to identify, assess and manage climate-related risks and opportunities and report<sup>6</sup> on what they have done. These reporting requirements align with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

**Governing bodies subject to these requirements must have regard to statutory guidance issued by the Department for Work and Pensions (DWP).**

**We have also developed guidance, which sits alongside the statutory guidance produced by the DWP.**

## Glossary

### Paris Agreement

A legally binding international treaty on climate change, adopted in Paris on 12 December 2015.

### Taskforce on Climate-related Financial Disclosures (TCFD)

The TCFD is an international taskforce that seeks to develop recommendations for consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information.

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- 5 Regulations 3 to 6 and the Schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 [Regulations 3 to 6 and Part 1 of the schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (Northern Ireland) 2021]
  - 6 Regulation 6 and the Schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 [Regulation 6 and Part 2 of the Schedule to The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (Northern Ireland) 2021, and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations (Northern Ireland) 2021]

## Statement of investment principles

This module forms part of our expectations for trustees of those schemes required to operate an **effective system of governance**.

1. The purpose of a statement of investment principles (SIP) is to set out the governing body's investment strategy, including the investment objectives and investment policies they adopt.
2. Governing bodies of trust-based occupational pension schemes with 100 or more members, must prepare a SIP and review it at least every three years<sup>1</sup>. They must also review it as soon as possible after any significant change in investment policy. When preparing the SIP, governing bodies must obtain and consider professional advice<sup>2</sup>, and consult any sponsoring employer.
3. Governing bodies may have separate SIP documents for each individual arrangement within a scheme, but this is not a requirement. The law requires the governing bodies of relevant<sup>3</sup> schemes to make the most recent SIP for any default arrangement(s), which is subject to different content and review requirements<sup>4</sup>, available to members as part of the annual chair's statement and the scheme's annual report and accounts.
4. Governing bodies of all schemes that are required to prepare a SIP in accordance with section 35 of the Pensions Act 1995 must publish that SIP online, make it publicly available, and free of charge. When publishing a SIP online, governing bodies should follow our **General principles for member communications**.
5. In cases where preparing a SIP is not a legal requirement, in our view, it would be good practice for governing bodies to prepare a document that is similar in nature, and to publish it online as if the SIP was required.

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1 Regulation 2(1) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(1) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

2 Regulation 2(2) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(2) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

3 Within the meaning of Regulation 1(2) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [within the meaning of Regulation 1(2) of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1996]

4 Regulation 2A Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

6. The SIP must contain:
- a. the governing body's policy for securing compliance with the legislation on choosing investments<sup>5</sup>
  - b. the governing body's policies relating to:
    - the investments to be held by the scheme
    - the balance between different investments
    - risks - including how they are to be measured and managed
    - the expected return on investments
    - the realisation of investments
    - financially material considerations<sup>6</sup> over the appropriate time horizon of investments, and how they are taken into account in investment decisions
    - the extent to which non-financial matters are taken into account in investment decisions<sup>7</sup>
    - how the governing body exercises rights, including voting rights, attached to investments
    - undertaking engagement activities in respect of investments, including, but not limited to the methods set out in legislation<sup>8</sup>
    - any arrangement with the asset manager, setting out the matters described in legislation<sup>9</sup>

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5 Section 36 of the Pensions Act 1995 [Article 36 of the Pensions (Northern Ireland) Order 1995]

6 Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

7 Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(4) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

8 Regulation 2(3)(c) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(3)(c) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

9 Regulation 2(3)(b) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(3)(b) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]



7. A SIP<sup>10</sup> relating to a default arrangement must contain:
  - a. the aims and objectives of the trustees or managers in respect of the investments in the default arrangement
  - b. the matters set out in the Investment Regulations<sup>11</sup>
  - c. an explanation of the intention to ensure that assets of the default strategy are invested in the best interests of the members using it, and their beneficiaries
8. Under section 249A of the Pensions Act 2004<sup>12</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance** including internal controls (see **Internal controls**). However, there are certain exemptions<sup>13</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
9. There are various steps that a governing body needs to go through when preparing and maintaining their SIP. We expect that governing bodies required to operate an effective system of governance that also have investment responsibilities will have the measures set out in paragraphs 10 and 11 in place. Other schemes may wish to adopt these principles as good practice.

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10 Regulation 2A (1) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A (1) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

11 Regulations 2(3)(b), 2(3)(c) and 2(3)(d) Occupational Pensions Schemes (Investment) Regulations 2005 [Regulation 2(3)(b), 2(3)(c) and 2(3)(d) Occupational Pensions Schemes (Investment) Regulations (Northern Ireland) 2005]

12 Article 226A of The Pensions (Northern Ireland) Order 2005

13 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

10. When preparing and maintaining their SIP, the governing body should:
- a. ensure that relevant membership data is accurate
  - b. consider the interests of active and deferred members and any members who are in a decumulation phase within the scheme
  - c. consider any information they have obtained about when and how members may wish to take their benefits
  - d. regularly assess the performance of investments and any investment options, including any default arrangement, within the context of the relevant objectives
  - e. consider evaluating performance by referring to recognised and credible industry benchmarks for investment funds with similar risk/reward profiles
  - f. document the evaluation process for each fund and consider the total amount of costs and charges levied on each fund, including transaction costs wherever possible
  - g. consider the scheme's whole investment strategy (not just individual funds) taking into account the characteristics of different member segments
  - h. review the governance structure relating to how investment risks are assessed and investment decisions are made
  - i. consider the benefits of delegating some of the duties and the potential for establishing an investment sub-committee
  - j. assess the financial materiality of environmental, social and governance (ESG) factors and allow for them when developing and implementing the investment strategy. See also **Stewardship** and **Climate change**.
  - k. ask their investment manager(s) and investment adviser for help with assessing the financial materiality of ESG factors, if they do not have the necessary expertise in-house
  - l. carefully consider the demographics and diversity of scheme members and take into account the types of investments scheme members may want or need
  - m. carefully consider whether potential ESG issues may affect the risk-adjusted return members may receive
  - n. take account of risks affecting the long-term financial sustainability of the scheme investments
  - o. understand the ESG approach of the available funds and consider this in the selection criteria for new funds, including where a pooled fund is chosen
  - p. monitor how investment managers take into account ESG factors in practice, including where a pooled fund is chosen
  - q. consider the risks and opportunities of climate change. See **Climate change**.

11. In addition, when preparing their SIP, trustees of DB schemes should set out overall DB investment objective(s) for the fund, which allow for:
  - a. the scheme's liabilities
  - b. the strength of the employer covenant
  - c. the risk capacity and appetite of the sponsor and trustees

## Glossary

### Decumulation

The phase during which a member converts their pension savings into retirement income or makes a legitimate withdrawal from their pension pot.

### Pooled funds

Funds in which many different investors may invest, as distinct from segregated funds, in which the pension scheme would be the only investor.

### Relevant scheme

Schemes defined by Regulations 1(2) of the Occupational Pensions Schemes (Scheme Administration Regulations) 1996.

## Default arrangements and charge restrictions

The requirements of the law to which this module relates are very complex. We recommend governing bodies consider appropriate professional advice and all relevant guidance, including government guidance, to ensure their scheme complies.

### Default arrangements

1. The law sets out how governing bodies can identify a ‘default arrangement’ within their defined contribution (DC) pension scheme<sup>1</sup>. Governing bodies will need to assess whether any of their investment arrangements satisfy one or more of the default arrangement descriptions set out in the legislation. This assessment will need to allow for a default arrangement being formed from a single investment fund or collection of funds.
2. Governing bodies must ensure that they comply with the relevant default arrangement governance standards (see **Investment governance**), including those relating to a default arrangement statement of investment principles, and the periodic review of such arrangements<sup>2</sup> (see **Statement of investment principles**). They will also need to consider member-borne costs and charges for any default arrangements in their assessment of value for members (see **Value for members**).

### Charges and cost restrictions

3. There is a legal limit on the amount members can be charged<sup>3</sup> in default arrangements within DC schemes used for automatic enrolment<sup>4</sup>, known as the charge cap<sup>5</sup>. Some types of charge or cost are excluded and do not count against the charge cap, for example transaction costs.
4. There are only two types of charging structure allowed under the cap – a single percentage charge calculated by reference to the value of the member’s rights under the scheme within the default arrangement, or a specified combination charging structure<sup>6</sup>.

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1 Regulation 1(2) Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 1(2) Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

2 Regulation 2A Occupational Pension Schemes (Investment) Regulations 2005 [Regulation 2A Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005]

3 Part 2 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Part 2 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

4 Regulation 2(1) and 3 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 2(1) and 3 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

5 Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

6 Regulation 5(1) Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 5(1) Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

## Funding and investment: Investment

### Default arrangements and charge restrictions

5. It is against the law to charge more to non-contributing members than they would have had to pay had they been contributing members (also known as active member discounts)<sup>6</sup>. This ban applies to all investment arrangements within a relevant scheme, not just the default arrangement. Additionally, the law bans member-borne commission<sup>7</sup>, and governing bodies must report to us any service providers who have such a commission arrangement in place. The ban applies to all arrangements within a scheme used by employers to meet their duties under automatic enrolment legislation<sup>8</sup>.
6. Governing bodies should:
  - a. document how they identify whether default arrangements observe the charge controls, including the calculation process
  - b. have processes in place to identify and report any activities involving charging members commission<sup>9</sup>
  - c. where restrictions on costs and charges have been breached, consider whether this must be reported to us (see **Decision to report**)

## Glossary

### Relevant scheme

Schemes defined by Regulation 1(2) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

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- 6 Regulation 11 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 11 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
  - 7 Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
  - 8 Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 6 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]
  - 9 Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 11A(2) Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

# Administration: Scheme administration

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Planning and maintaining administration

page 95

## Planning and maintaining administration

1. The fundamental duty of a governing body is to administer its scheme in line with rules and the law. Good administration is central to the responsibilities of the governing body and is essential to complying with the law and this code. Any scheme depends on the timely and accurate processing of multiple strands of administration. These range from investing contributions in the scheme, to paying benefits when a member begins to access their retirement funds. A breakdown in any transaction can lead to member losses, and costs to the scheme and employer to put any errors right.
2. Regulations<sup>1</sup> set out the records that governing bodies of trust-based pension schemes must maintain. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014<sup>2</sup> sets out the records that governing bodies of public service pension schemes must maintain.
3. Every scheme must operate internal controls which should include administration.
4. Whether administered in-house or by a third party, every governing body should have the measures listed below in place. It should take steps to ensure that its scheme is being properly administered. The complexity and level of detail of these measures will vary depending on the nature of the scheme and the legal duties it is subject to.
5. With regard to planning and preparation, governing bodies should:
  - a. maintain sufficient knowledge and understanding of administration (see **Knowledge and understanding**)
  - b. understand the scope of administrator responsibilities and tasks, as well as the suitability of those performing them
  - c. where necessary, have access to appropriate advice and assistance to negotiate contractual terms
  - d. consider quality as well as value for members when selecting an administrator, see also **Managing advisers and service providers**
  - e. include administration as an agenda item at governing body meetings
  - f. ensure that administration and record keeping are important points on the risk register (see **Identifying, evaluating, and recording risks**)
  - g. develop a strategy for the long-term administrative objectives of the scheme and agree a process for delivering these with the administrator)
  - h. monitor administration processes to drive necessary improvements.

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1 See Chapter 3 of Part 3 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [See Chapter 3 of Part 3 of Occupational Pensions Schemes (Scheme Administration) Regulations (Northern Ireland) 1997

2 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

6. To maintain proper administration, governing bodies should:
  - a. receive appropriate information and reports from administrators, and be able to challenge them when needed
  - b. ensure that all tasks delegated to an administrator are being carried out properly, according to the law and scheme governing documents
  - c. regularly monitor the performance of administrators (see **Managing advisers and service providers**)
  - d. constructively manage issues with administrator performance and consider using any contractual terms to drive improvements
  - e. have procedures in place to enable a continuous and consistent service in the event of a change of administrator personnel, or administration provider
  - f. record the procedures to follow when administering the scheme, and how to maintain those procedures
  - g. ensure that administrators have an adequate business continuity plan that is reviewed at least annually and tested as appropriate (see **Scheme continuity planning**)



# Administration: Information handling

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## Financial transactions

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Financial transactions are activities that involve the processing of money. Every pension scheme will perform financial transactions. These will include receipt and investment of contributions, transfers and benefit payments. Governing bodies of all schemes should make sure financial transactions are managed as part of their internal controls<sup>1</sup>. Governing bodies of certain defined contribution (DC) schemes must ensure that core financial transactions as defined in legislation<sup>2</sup> are processed quickly and accurately.
2. Under section 249A of the Pensions Act 2004<sup>3</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**) however, there are certain exemptions<sup>4</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the scheme activities.
3. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014<sup>5</sup> sets out the records that governing bodies of public service pension schemes must maintain. Under section 249B of the Pensions Act 2004<sup>6</sup>, scheme managers of public service pension schemes<sup>7</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>8</sup>, and with the requirements of the law.

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1 Section 249A Pensions Act 2004 [Article 226A Pensions (Northern Ireland) Order 2005] Section 249B Pensions Act 2004 [Article 226B Pensions (Northern Ireland) Order 2005]

2 Regulation 24 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

3 Articles 226A of The Pensions (Northern Ireland) Order 2005

4 Section 249A(3) of the Pensions Act 2004 (Article 226A (3) of The Pensions (Northern Ireland) Order 2005)

5 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

6 Articles 226B of The Pensions (Northern Ireland) Order 2005

7 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)

8 As defined in section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

4. The management of financial transactions should be proportionate to the nature, complexity, and activity of the scheme and governing bodies should:

## Governance processes and IT systems

- a. understand the procedures and controls the administrator operates to ensure that financial transactions are processed promptly and accurately (see **Receiving contributions**)
- b. annually review processes and systems for financial transactions, and identify opportunities to improve them (where the governing body can influence this)
- c. make sure that any authorisation processes for financial transactions do not cause undue delay
- d. seek to ensure that separate duties exist for administration processes to prevent financial transactions without the right authorisation
- e. use electronic means to process financial transactions wherever feasible, for example only accept payments by cheque in exceptional circumstances
- f. have service standards or service level agreements (SLAs) in place which are specific to the scheme and administrative tasks (see also **Managing advisers and service providers**)
- g. review performance against SLAs to maintain the processing of financial transactions, and be prepared to make a judgement as to whether this is satisfactory
- h. where appropriate, maintain a dialogue with participating employers to facilitate the flow of legally required and necessary information
- i. seek to improve processes for receiving and transmitting transaction information where needed
- j. make sure scheme data is complete and accurate, so that core financial transactions can be processed accurately (see **Record-keeping**).

## Investing contributions (if applicable)

- k. If the scheme operates a daily dealing cycle, contributions to the scheme, including sums transferred into the scheme, are invested within three working days following receipt and after completion of a reconciliation exercise.
- l. If the scheme operates a less than daily dealing cycle, contributions to the scheme should be invested at the next available dealing date, and within five working days and after completion of a reconciliation exercise.
- m. During reconciliations that identify discrepancies, only hold unreconciled contributions pending resolution and invest the remaining amount as usual.

## Glossary

### Dealing cycle

The frequency that the fund allows money to be added to or taken out of it.

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### Reconciliation

The process of checking that the money received in respect of contributions matches what was expected.

### Service level agreement

An agreement between a service provider and governing body setting contractually binding service levels that are to be met by the service provider in providing the service.

## Transfers out

1. Members have a statutory right to transfer if certain conditions are met<sup>1</sup>. When deciding to grant statutory transfers, governing bodies must carry out appropriate checks to decide if one of the conditions for transfer are met<sup>2</sup>. Governing bodies should also be aware of the risks of pension scams, see **Scams**. Governing bodies should ensure that they have the necessary administrative procedures to deal with transfer requests, without undue delay and in line with scheme rules and the law.
2. Governing bodies should also maintain accurate and complete records of all requests received and the transfers that have been made. See **Planning and maintaining administration**, **Financial transactions** and **Record-keeping** for more information about our expectations in these areas.
3. The transfer process under legislation will typically begin when the governing body receives a request from an eligible scheme member. For a defined benefit (DB) member the governing body will prepare a statement of entitlement which will include the cash equivalent transfer value (CETV). The governing body must provide the statement within approximately three months of receiving the request, unless this information has been provided in response to a request in the previous 12 months<sup>3</sup>.
4. For a member with DB benefits, the CETV represents the actuarial calculation of the member's benefits within the scheme. As part of the calculation<sup>4</sup>, the scheme actuary and governing body will be required to make assumptions about the course of future events affecting the scheme and the member's benefits.
5. For a member with defined contribution (DC) benefits, the transfer value will be the total of the accumulated contributions made by and on behalf of that member. This sum will include any investment gains or losses.

## Transferring member benefits

6. Before a governing body processes a request to transfer member benefits, there are certain checks it should perform. There are also specific requirements that must be met for members wishing to transfer from a DB scheme to a DC arrangement. The requirements and our expectations for transferring member benefits can be found below.

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1 Part 4ZA Pensions Schemes Act 1993 [Part 4ZA Pensions Schemes (Northern Ireland) Act 1993]  
2 Regulations 7 and 8 of the Occupational and Personal Pension Schemes (Conditions for Transfer) Regulations 2021.

3 Regulation 6 of The Occupational Pension Schemes (Transfer Values) Regulations 1996 [Regulation 6 of The Occupational Pension Schemes (Transfer Values) Regulations 1996 (Northern Ireland) 1996]

4 Part III of The Occupational Pension Schemes (Transfer Values) Regulations 1996 [Part III of The Occupational Pension Schemes (Transfer Values) Regulations (Northern Ireland) 1996]

7. Before transferring member benefits the governing body:
  - a. must check the receiving scheme to ensure it is<sup>5</sup>:
    - able to accept the transfer
    - willing to accept the transfer
    - a scheme to which a transfer can be made under the relevant legislation
  - b. Must check one of the conditions for transfer are met to grant a statutory right to transfer<sup>6</sup>, or consider whether to grant a transfer on a non-statutory basis, if the scheme rules allow.
  - c. Where neither condition is met, and they suspect the receiving scheme to be an illegitimate arrangement, they may refuse the transfer. See **Scams**.
  - d. If they suspect the receiving scheme is an illegitimate arrangement, they should report it to **Action Fraud**.
  - e. If they believe they will not meet the legislative deadlines, they should make an application to us before the deadline (see the extension section below).
8. Additional requirements for governing bodies of DC schemes:
  - a. When the member contacts the governing body to request a transfer to access their flexible pension benefits, the governing body should explain the nature and purpose of Pension Wise guidance and must offer to book them an appointment. If the member prefers to book one themselves, the governing body must give the member Pension Wise's contact details.
  - b. The member can opt out from receiving guidance from Pension Wise, however the governing body must not proceed with their transfer application until they have confirmation that the member has received guidance or opted out.
9. The governing body of a funded DB scheme (but not LGPS):
  - a. must notify us of transfers of more than £1.5m, or if lower, 5% of scheme assets<sup>7</sup>
  - b. should monitor transfer requests and the impact those transfers could have on scheme funding or liquidity
  - c. should consider the effect of a transfer on those members with a large transfer value relative to the scheme
  - d. should be aware of any direction which may provide an exemption from any requirement to report

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5 Section 95(2) Pension Schemes Act 1993 [Article 91(2) Pensions Schemes (Northern Ireland) Act 1993]

6 Regulations 7 and 8 of the Occupational and Personal Pension Schemes (Conditions for Transfer) Regulations 2021

7 Section 69 of the Pensions Act 2004 and Pensions Regulator (Notifiable Events) Regulations 2005 [Article 110(1)(a) and (b) Pensions (Northern Ireland) Order 2005 and Pensions Regulator (Notifiable Events) Regulations (Northern Ireland) 2005]

## Specific requirements for DB to DC transfers

10. Scheme members must take appropriate independent advice when transferring benefits valued at £30,000 or more from a DB to a DC arrangement. The governing bodies of DB schemes that receive a request to transfer or convert safeguarded benefits of £30,000 or more, must check the scheme member (or survivor) has received appropriate independent advice<sup>8</sup>.
11. Members will receive written confirmation from their adviser, which they will be able to give to the governing body<sup>9</sup>. Governing bodies must check the adviser has the correct permission to give the advice<sup>10</sup>, by verifying their details on the FCA's Financial Services Register. Governing bodies must not fulfil any request where the advice provided is not from an adviser whose firm is listed on the FCA's register.
12. When checking the written confirmation that the member received the required advice, governing bodies should:
  - a. Retain a copy of the written confirmation.
  - b. Ensure records are held of:
    - who conducted the check
    - when this was conducted
    - the evidence that the firm or company providing the advice has permission to advise on pension transfers and pension opt outs before the transfer was made
  - c. Retain these records for as long as may be relevant, in line with scheme policy, and subject to data protection principles.
  - d. Be alert to the risk of fraudulent communications submitted to the scheme.
  - e. Where suspicions arise, contact the advisory firm directly using the contact details as listed on the FCA register. Check that the firm has a record of providing the advice.
  - f. Contact the transferring member immediately, if there is a problem with verifying the adviser's permission. Inform them that the transfer will not proceed until the appropriate advice has been received.
  - g. Keep payment records of the transfer, including details of the receiving bank account, and any confirmation of receipt by the receiving scheme.

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8 Section 48 and 51 of the Pension Schemes Act 2015

9 Regulation 7 of the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015 [Regulation 7 of the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations (Northern Ireland) 2015]

10 Regulation 11 the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015 [Regulation 7 of the Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations (Northern Ireland) 2015]

## Timeframes to complete transfers and extension requests

13. Governing bodies are required to complete transfers within six months.
14. For DB benefits, this is measured from the guarantee date provided in the statement of entitlement<sup>11</sup>.
15. For DC benefits, this is measured from the date of the request for the transfer to be made<sup>12</sup>.
16. Where a governing body is unable to complete the transfer in the required time, there are limited circumstances where we may grant an extension to this period<sup>13</sup>. Any application must be received by us before the six-month period expires. See our **DB to DC transfers guidance** for further details.

### Glossary

#### Cash equivalent transfer value

The cash value of pension benefits, calculated in accordance with legislation. The value may change and is typically provided as at a certain date and (for DB benefits) can be guaranteed for a certain period.

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- 11 Section 99 2(a) Pension Schemes Act 1993 [Article 95 2(a) Pensions Schemes (Northern Ireland) Act 1993]
  - 12 Section 99 2(b) Pension Schemes Act 1993 [Article 95 2(b) Pensions Schemes (Northern Ireland) Act 1993]
  - 13 Regulation 13(a) Occupational Pension Schemes (Transfer Values) Regulations 1996 [Regulation 13(a) of The Occupational Pension Schemes (Transfer Values) Regulations (Northern Ireland) 1996]



## Record-keeping

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies are required to maintain complete and accurate records<sup>1,2</sup>. This is to ensure that governing bodies can pay the right member (or beneficiary) the right benefit at the right time.
2. Under section 249A of the Pensions Act 2004<sup>3</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>4</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014<sup>5</sup> set out the records that must be maintained by governing bodies of public service pension schemes. Under section 249B of the Pensions Act 2004<sup>6</sup>, scheme managers of public service pension schemes<sup>7</sup> are required to establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>8</sup>, and with the requirements of the law.

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1 Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]

2 Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

3 Article 226A of The Pensions (Northern Ireland) Order 2005

4 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

5 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

6 Articles 226B of The Pensions (Northern Ireland) Order 2005

7 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)

8 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

4. Governing bodies must in any event keep records of information relating to transactions<sup>9,10</sup> and meetings of the governing body and decisions<sup>11,12</sup>.
5. Governing bodies should have a series of measures in place to maintain scheme records. See also **Data monitoring and improvement**.

## Record-keeping

6. Governing bodies should:
  - a. be able to demonstrate to us, where required, that they operate processes to maintain accurate and up-to-date records, enough to run their pension scheme
  - b. keep records of meetings, member data, and transactions made to and from the scheme
  - c. retain records for as long as the information is relevant, and in line with data protection legislation
  - d. ensure that the data they or their administrator holds, enables financial transactions to be processed accurately. See **Financial transactions**.
  - e. rectify any errors identified in scheme records as soon as possible
  - f. review and amend processes as necessary to prevent further errors
  - g. comply with the data protection requirements, including the need to store data securely and for a legitimate purpose under administrative systems
7. Governing bodies may consider as good practice:
  - a. Holding member and benefit records electronically on a dedicated administration system.
  - b. Keeping records of scheme governing documentation, including details of any amendments and how they apply to members.
  - c. Making sure the administrator has basic member information known as common data.
  - d. Working with the administrator to identify, record, validate, and where necessary, correct the items of scheme specific data.
  - e. Taking into account developments in technology that may be available to the scheme to improve administration and record-keeping.

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9 Regulation 5 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 5 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]

10 Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

11 Regulation 6 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 6 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]

12 Regulation 13 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

## Administrative systems

8. Governing bodies should:
  - a. ensure that processes exist to record member benefits, identifiers, contributions, investments, member decisions, payments, and transfers
  - b. record accurate investments and disinvestments
  - c. accurately perform benefit calculations
  - d. provide members with accurate information regarding their pension benefits (both accrued and projected entitlements) as required and on a timely basis<sup>13</sup>
  - e. carry out reconciliations of data, transactions, and investments held
  - f. identify members approaching retirement and other scheme specific events
9. Governing bodies may consider as good practice:
  - a. Processing financial transactions, including core transactions automatically (where feasible) and securely. See **Financial transactions**.
  - b. Generating appropriate reporting on historic contributions, membership movements, and core and scheme specific data. See our **record-keeping guidance**.

## Data from other parties

10. Governing bodies should:
  - a. have processes in place enabling participating employers to provide timely and accurate data
  - b. ensure that appropriate procedures are in place to reconcile employer data and scheme data
  - c. have processes in place for situations where an employer fails to meet their legal duties to the scheme (see **Decision to report** for more information)
11. Governing bodies may consider as good practice:
  - a. Educating employers to understand the main events where member information must and should be shared by the employer to the scheme and/or another employer.

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13 Section 14 of the Public Service Pensions Act 2013 [Section 14 of the Public Service Pensions Act (Northern Ireland) 2014], and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

## Glossary

### Common data

This data is needed so that a member can be uniquely identified. See our [guidance on what records to keep](#).

### Identifiers

Personal information that could be used to identify a member, such as their national insurance number.

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### Scheme-specific data

Other data specific to a scheme relating to its members and their participation in the scheme. See our [guidance on what records to keep](#).

## Data monitoring and improvement

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies should retain records for as long as they are needed. It is likely that fiduciary obligations will require data to be held for long periods of time. Governing bodies will need to retain some records for members even after they have retired. This is to ensure that pension benefits can be properly administered over the lifetimes of members and their beneficiaries.
2. There are requirements for governing bodies to maintain complete and accurate records<sup>1,2</sup> these relate to both common and scheme specific data.
3. The Occupational Pension Schemes (Scheme Administration) Regulations 1996<sup>3</sup> and section 49 of the Pensions Act 1995 set out the records that governing bodies of trust-based pension schemes must maintain. Under section 249A of the Pensions Act 2004<sup>4</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>5</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
4. The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014<sup>6</sup> set out the records that must be maintained by governing bodies of public service pension schemes. Under section 249B of the Pensions Act 2004<sup>7</sup>, scheme managers of public service pension schemes<sup>8</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>9</sup>, and with the requirements of the law.

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1 Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 [Regulation 4 of The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014]

2 Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 12 of The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

3 Occupational Pensions Schemes (Scheme Administration) Regulations (Northern Ireland) 1997

4 Article 226A of The Pensions (Northern Ireland) Order 2005

5 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

6 Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

7 Articles 226B of The Pensions (Northern Ireland) Order 2005

8 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)

9 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

5. Governing bodies should have the following processes for monitoring scheme data:
  - a. Monitor data on an ongoing basis to ensure it is as accurate and complete as possible for all pension scheme members.
  - b. Ensure the governing body receives information about material errors and gaps in their scheme data, once identified.
  - c. Ensure any service providers operate their own procedures for identifying, rectifying, and reporting errors to the governing body.
  - d. Ensure data improvement is prioritised for members close to the point where they start drawing on their benefits.
  - e. Ensure any plan for improving data can be monitored and has an achievable deadline.
  - f. Where applicable, ensure member records are reconciled with information held by the employer(s).
  - g. Ensure regular reconciliation of scheme membership, especially those reaching retirement.
  - h. Carry out scheduled tracing and existence exercises to validate member data.
6. Governing bodies should have the following processes for reviewing scheme data:
  - a. Assess the need for a data review exercise at least annually.
  - b. Decide the frequency and nature of any additional data review, where errors and gaps are identified, or in response to significant scheme events, for example winding up the scheme or changing the administrator.
  - c. Ensure data reviews include an assessment of the accuracy and completeness of common and scheme specific data.
  - d. Keep a record of data reviews carried out and the findings.
  - e. Where errors and gaps are identified, put a data improvement plan in place to address the issues.
  - f. Ensure the plan includes the actions necessary by the governing body or administrator to correct member data.
  - g. Maintain agreed, consistent, and fair policies for situations where data cannot be corrected, for example due to age or loss.

7. Governing bodies should have the following processes for protecting scheme data:
  - a. Ensure processes are in place to manage scheme member data to comply with the data protection legislation<sup>10</sup> and the data protection principles.
  - b. Ensure processes are in place to address any breaches of the data protection legislation or principles.
  - c. Understand their obligations under data protection law.

## Glossary

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

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<sup>10</sup> The law includes the Data Protection Act 2018 and the Retained Regulation (EU) 2016/679 (UK General Data Protection Regulation)

# Administration: IT

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Maintenance of IT systems

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Cyber controls

page 115



## Maintenance of IT systems

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies need to have processes to ensure information transmission. Having put the appropriate IT systems in place, (see **Financial transactions** and **Record-keeping**) it is important that they are reviewed and maintained regularly.
2. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup>, and with the requirements of the law.
4. Internal control processes should ensure that IT systems are able to meet the scheme's current needs and legal requirements. Governing bodies should take steps to make sure their service providers can prove they meet our expectations for maintaining IT systems as listed below. Governing bodies should challenge providers and push for improvements where expectations are not being satisfactorily met. If considering expert advice or assurance reporting, governing bodies can read **Assurance reports on internal controls** for further information.

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Articles 226B of The Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

5. Standards for maintaining IT systems:
  - a. Cyber security measures and procedures should be in place and functioning. See **Cyber controls**.
  - b. Record evidence of how changes are planned and executed within the system.
  - c. Scheme and member data should be backed up regularly.
  - d. Disaster recovery processes are in place and tested over appropriate periods.
  - e. Written policies should be in place for maintaining, upgrading, and replacing hardware and software.
  - f. Request evidence to show there is a schedule for the system to be replaced or updated, to cope with events such as changes to tax thresholds.
  - g. Be satisfied that adequate and sufficient hardware and personnel resources, with appropriate functionality and/or skills, exist to carry out the work.
  - h. Secure evidence that the IT system can meet current and anticipated system requirements.
  - i. Manage planned and potential future upgrades within the administration system.

## Glossary

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### IT

Information technology. The systems (especially computers and telecommunications) used for storing, retrieving and sending information.

## Cyber controls

1. 'Cyber risk' refers to the risk of loss, disruption, or damage to a scheme or its members, because of the failure of its information technology systems and processes (see **Identifying, evaluating and recording risks**). Governing bodies should take steps to reduce the risk of incidents occurring, and appropriately manage any incidents that arise. Properly functioning cyber controls will assist governing bodies in complying with data protection legislation<sup>1</sup>, and may reduce liabilities in the event of a data breach.
2. Under section 249A of the Pensions Act 2004<sup>2</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>3</sup>. These controls need to include measures to manage cyber risk. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
3. Under section 249B of the Pensions Act 2004<sup>4</sup>, scheme managers of public service pension schemes<sup>5</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>6</sup>, and with the requirements of the law.
4. The legal obligation to establish measures to manage cyber risk is different for public service pension schemes<sup>7</sup>. As far as cyber controls is a matter set out in the scheme rules<sup>8</sup> or in the requirements of the law<sup>9</sup>, scheme managers of public service pension scheme must establish and operate adequate internal controls in relation to them. In such cases, internal controls need to include measures to manage cyber risk.
5. To the extent that there is no legal obligation on scheme managers of public service pension schemes to adopt these cyber risks measures, we consider it good practice to do so.
6. Governing bodies should also consider how topics in this module interact with those in **Maintenance of IT systems**, **Scheme continuity planning**, and **Systems of governance**.

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1 For example, Data Protection Act 2018 and the Retained Regulation (EU) 2016/679) (UK General Data Protection Regulation)

2 Articles 226A of The Pensions (Northern Ireland) Order 2005

3 Section 249A(3) Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

4 Articles 226B of The Pensions (Northern Ireland) Order 2005

5 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

6 As defined in Section 318(2) Pensions Act 2004 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

7 As defined in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

8 As defined in Section 318(2) Pensions Act 2004 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

9 The law includes the Data Protection Act 2018 and the Retained Regulation (EU) 2016/679) (UK General Data Protection Regulation)

7. Our expectations on processes and procedures for governing bodies are set out in paragraphs 8 and 9 below. Where using service providers, governing bodies should consider how well those providers are meeting these expectations. See **Managing advisers and service providers**. Governing bodies should also be aware of their responsibilities under Data Protection Act 2018.
8. When assessing cyber risk governing bodies should:
  - a. Ensure the governing body has knowledge and understanding of cyber risk.
  - b. Understand the need for confidentiality, integrity, and availability of the systems and services for processing personal data, and the personal data processed within them.
  - c. Have clearly defined roles and responsibilities to identify cyber risks and breaches, and to respond to cyber incidents.
  - d. Ensure cyber risk is on the risk register and regularly reviewed.  
See **Internal controls**.
  - e. Assess at appropriate intervals, the vulnerability of the scheme's key functions, systems, assets (including data assets) to a cyber incident, and the vulnerability of service providers involved in the running of the scheme.
  - f. Consider accessing specialist skills and expertise to understand and manage the risk.
  - g. Ensure appropriate system controls are in place and are up to date (eg firewalls, anti-virus, and anti-malware products).
9. When managing cyber risk governing bodies should:
  - a. Ensure critical systems and data are regularly backed up.
  - b. Have policies for the use of devices, and for home and mobile working.
  - c. Have policies and controls on data in line with data protection legislation (including access, protection, use, and transmission).
  - d. Take action so that policies and controls remain effective.
  - e. Have policies to assess whether breaches need to be reported to the Information Commissioner (<https://www.ico.org.uk>).
  - f. Maintain a cyber incident response plan in order to safely and swiftly resume operations. See **Scheme continuity planning**.
  - g. Satisfy themselves with service providers' controls. See **Managing advisers and service providers**.
  - h. Receive regular reports from staff and service providers on cyber risks and incidents.

## Glossary

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### Public service pension scheme

Schemes as defined in s318(1) of the Pensions Act 2004, established under section 1 of the Public Service Pensions Act 2013, new public body pension schemes and other statutory pension schemes which are connected to those schemes.

# Administration: Contributions

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## Receiving contributions

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Employee contributions are deducted from scheme members' pay. Unless the scheme rules or regulations set out a shorter period, those contributions must be paid to the scheme by day 19 of the following month, or day 22 if paid electronically<sup>1</sup>. There are special rules for the first deduction of contributions<sup>2</sup>. Employer contribution payments must be paid by the date specified in the scheme rules, regulations, or documentation.
2. Governing bodies are responsible for preparing and understanding the payment schedule, schedule of contributions, or direct payment arrangement<sup>3</sup>, which details the contributions due to be paid. They must also put in place processes to monitor contributions and the transmission of payment information between the employer, member, and scheme administrator.
3. Unless exempt<sup>4</sup>, a governing body should ensure it has in place the measures set out in paragraphs 5 and 6.
4. Governing bodies of public service pension schemes that are exempt should develop a record to monitor contribution payments to the scheme (a contributions monitoring record). This should comply with scheme regulations where relevant. Governing bodies should prepare the record for monitoring contributions in consultation with scheme employers.

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1 Section 49(8) of the Pensions Act 1995 and regulations 16(2) and 21 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. [Article 49(8) Pensions (Northern Ireland) Order 1995 and regulations 16(2) and 21 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

2 Regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

3 Section 87 of the Pensions Act 1995 [Article 87 of the Pensions (Northern Ireland) Order 1995]

4 The exemption from the requirement to secure a schedule of contributions in respect of DB schemes under section 227 of the Pensions Act 2004 is in regulation 17 of the Occupational Pension Schemes (Scheme Funding) Regulations 2005. [The exemption from the requirement to secure a schedule of contributions in respect of DB schemes under Article 206 of the Pensions (Northern Ireland) 2005 is in regulation 17 of the Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005]

The exemption from the requirement to secure a payment schedule in respect of DC schemes under section 87 of the Pensions Act 1995 is in regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. [The exemption from the requirement to secure a payment schedule in respect of DC schemes under Article 87 of the Pensions (Northern Ireland) Order 1995 is in regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997].

## Administration: Contributions

### Receiving contributions

5. In relation to maintaining and recording contributions, governing bodies should:
  - a. Manage the scheme documentation relating to contributions, including the payment schedule for defined contribution (DC) schemes, the schedule of contributions for defined benefit (DB) schemes, and any direct payment arrangements for personal pensions.
  - b. Ensure contributions comply with the scheme rules and any overriding legislation.
  - c. Prepare any schedule in consultation with the employer(s).
  - d. Be aware of the information employers must provide<sup>5</sup>.
  - e. Maintain records of missed contributions and related recovery activities.
6. In relation to operational and risk management relating to contributions governing bodies should:
  - a. Have processes and systems in place to ensure the scheme can accept contributions from existing and, if necessary, new or former employers.
  - b. Be confident that other parties, including employers, third party payroll, administration systems, investment managers, and investment platform providers, have the capacity to transfer data and monies efficiently.
  - c. Be able to monitor, quickly identify, and pursue missing contributions (see monitoring contributions ).
  - d. Apply a risk-based and proportionate approach to identify employers and situations that present a higher risk of materially significant payment failures.
  - e. Safeguard all contributions once they are in the scheme.
  - f. Have processes to enable members, whose benefits are held in the scheme, to show they've complied with HMRC tax requirements, for example annual allowance and money purchase annual allowance.

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5 Regulation 6 The Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 6 The Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]



## Glossary

### Contributions

Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions or from employers as regular or deficit-related contributions.

### Direct payment arrangements

- Are arrangements between the member and the employer under which contributions fall to be paid by or on behalf of the employer towards the scheme:
  - on the employer's own account (but in respect of the member), or
  - on behalf of the member (if the member is making any contributions) out of deductions from the member's pay.
- Direct payment arrangements exist where: the employer arranges to make employer contributions to a personal pension scheme (under the arrangements), and/or the employer arranges to deduct the member's contributions from pay and to pay them across to the pension scheme for the member.

### Payment schedule

A schedule showing: (a) the contribution rates payable towards the scheme, by or on behalf of the employer and the active members of the scheme (b) such other amounts payable towards the scheme as may be prescribed, and (c) the dates on or before the payments of such contributions or other amounts are to be made.

### Personal pension

A UK tax-efficient individual investment arrangement, with the primary purpose of building a capital sum to provide retirement benefits.

### Schedule of contributions

A statement showing: (a) the contribution rates payable towards the scheme by or on behalf of the employer and the active members of the scheme, and (b) the dates on or before the contributions are to be paid.

## Monitoring contributions

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies should have processes in place to check contributions due to the scheme and to reconcile them with what is actually paid to identify payment failures. Where a scheme has multiple employers, this can be a risk-based process.
2. Procedures also need to include measures to identify any payment failures which are likely to be of material significance to us when exercising our functions (See **Reporting payment failures**).
3. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
4. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup>, and with the requirements of the law.
5. Payment schedules or direct payment arrangements must be administered, monitored, and managed according to any scheme rules, regulations, and legal requirements<sup>6</sup>.

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1 Article 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

3 Articles 226B of The Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)

5 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

6 Section 111A of Pension Schemes Act 1993 [Article 107A of Pension Schemes (Northern Ireland) Act 1993]

## Creating a contributions monitoring record

6. Governing bodies should develop and maintain records for monitoring contribution payments to their schemes. A contributions monitoring record enables governing bodies to check whether these have been made on time and in full. It also provides a trigger to investigate any payment failures that arise. See **Resolving overdue contributions**. It will also enable governing bodies to consider whether they must report a payment failure to us and, where relevant, members<sup>7,8</sup>.
7. A contributions monitoring record should include the following information:
  - a. Contribution rates.
  - b. The date(s) on or before the employer contributions are due to be paid to the scheme.
  - c. The date when employee contributions are to be paid to the scheme.
  - d. Any rate or amount of interest payable where the contributions payment is late.
8. This monitoring record also helps employers to develop and implement new contribution payment processes. The contributions monitoring record should provide schemes with information to maintain records of money received and assist in keeping their member records up to date.
9. Where necessary, governing bodies must also keep records of any employer contributions due to the scheme that have been written off<sup>9</sup>.

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7 'Section 88(1) of Pensions Act 1995 and section 228(2) of the Pensions Act 2004 [Article 86(1) of Pensions (Northern Ireland) Order 1995 and Article 207(2) of the Pensions (Northern Ireland) Order 2005]

8 Section 111A of Pension Schemes Act 1993 [Article 107A of Pension Schemes (Northern Ireland) Act 1993]

9 Regulation 5 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 and section 49 Pensions Act 1995 [Regulation 5 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014 and Article 49 Pensions (Northern Ireland) Order 1995]

## Recording employee and employer transactions

10. Governing bodies must record and retain information on transactions (see also **Record-keeping**). This will support them in their administration and monitoring responsibilities, including:
  - a. amounts received in respect of an active member of the scheme
  - b. payments of pensions and benefits<sup>10</sup>
11. As part of their general administration, employers should give the required information to governing bodies so that contributions can be monitored at the same time as they're sent to the scheme. Payment information may include:
  - a. the contributions due to be paid by the employer and on behalf of the employee, as specified in the scheme regulations and/or other scheme documentation
  - b. the pensionable pay that contributions are based upon (where required)
  - c. payment due date(s) for contributions and other amounts, although contributions can be paid earlier
12. If the necessary payment information is not supplied, and the governing body needs it to carry out effective risk-based monitoring, they should request the information they need from the employer<sup>11</sup>.
13. If the employer fails to comply with the request within seven days, the governing body will be unable to meet its monitoring obligation and must report it to us. This should be done within 28 days of the date of the initial request.

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10 Regulation 12 of the Occupational Pension Scheme (Scheme Administration) Regulations 1996 [Regulation 12 of the Occupational Pension Scheme (Scheme Administration) Regulations (Northern Ireland 1997)]

11 Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations 1996 [Regulation 6 of the Occupational Pension Scheme (Scheme Administration) Regulations (Northern Ireland 1997)]

## Glossary

### Contributions

Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

### Days

References to 'days' mean all days. References to 'working days' do not include Saturdays, Sundays or bank holidays.

### Direct payment arrangements

- Are arrangements between the member and the employer under which contributions fall to be paid by or on behalf of the employer towards the scheme:
  - on the employer's own account (but for the member), or
  - on behalf of the member (if the member is making any contributions) out of deductions from the member's pay.
- Direct payment arrangements exist where: the employer arranges to make employer contributions to a personal pension scheme (under the arrangements), and/or the employer arranges to deduct the member's contributions from pay and to pay them across to the pension scheme for the member.

### Internal controls

- Arrangements and procedures to be followed in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

### Payment failure

Is where contribution payments are not paid to the scheme by the due date(s), or within the prescribed period.

### Payment schedule

A schedule showing: (a) the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme (b) such other amounts payable towards the scheme as may be prescribed, and (c) the dates on or before the payments of such contributions or other amounts are to be made.

**Glossary continued...**

**Pensionable pay**

Refers to any element of an employee's pay from which pension contributions may be deducted, for example basic pay, bonuses or commission.

**Personal pension**

A UK tax-efficient individual investment arrangement, with the primary purpose of building a capital sum to provide retirement benefits.

**Schedule of contributions**

A statement showing: (a) the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme, and (b) the dates on or before the contributions are to be paid.

## Resolving overdue contributions

1. When a payment failure is identified (see **Monitoring contributions**), the governing body should contact the employer quickly to resolve the overdue payment.
2. Under section 249A of the Pensions Act 2004<sup>1</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>2</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the scheme activities.
3. Under section 249B of the Pensions Act 2004<sup>3</sup>, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup>, and with the requirements of the law.
4. Governing bodies should obtain overdue payments and rectify administrative errors in the most efficient way for their scheme. A typical process should cover the following steps:
  - a. Investigate any employer failure to pay contributions.
  - b. Contact the employer promptly to resolve the overdue payment.
  - c. Attempt to find out and record the cause and circumstances of the payment failure.
  - d. Investigate any action the employer has taken as a result of the payment failure.
  - e. Consider the wider implications or impact of the payment failure.
  - f. Consider whether the failure is part of a pattern of a systemic failure.
  - g. Seek to ensure that the employer resolves the payment failure.
  - h. Where appropriate provide members with sufficient information to enable them to raise any issues with the employer.
  - i. Take steps to make sure that a recurrence in the future is avoided.
5. Governing bodies should maintain a record of their investigation and the communications between themselves and the employer. This will help them decide whether a payment failure must be reported to us and members<sup>6</sup> (See **Reporting payment failures**).

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1 Articles 226A of The Pensions (Northern Ireland) Order 2005

2 Section 249A(3) of the Pensions Act 2004 (Article 226A (3) of The Pensions (Northern Ireland) Order 2005)

3 Articles 226B of the Pensions (Northern Ireland) Order 2005

4 As defined in section 318(1) of the Pensions Act 2004 (Article 2(2) of The Pensions (Northern Ireland) Order 2005)

5 As defined in Section 318(2) of the Pensions Act 2004 (Article 2(3) of The Pensions (Northern Ireland) Order 2005)

6 Section 88(1) of Pensions Act 1995 [Article 86(1) of Pensions (Northern Ireland) Order 1995] Section 111A the Pension Schemes Act 1993 [Article 107A of the Pensions (Northern Ireland) Schemes Act 1993] and Section 49(9) of the Pensions Act 1995 [Article 49(9) of Pensions (Northern Ireland) Order 1995] section 228 of the Pensions Act 2004 [and Article 207 of the Pensions (Northern Ireland) Order 2005]

## Administration: Contributions

### Resolving overdue contributions

6. A monitoring process based on the information provided by employers may not be able to confirm deliberate underpayment or non-payment, or fraudulent behaviour by an employer. Governing bodies should review current processes to detect situations where fraud may be more likely to occur and where additional checks may be needed.

## Glossary

### Contributions

Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

### Days

References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or bank holidays.

### Material significance

Determines whether a breach of law should be reported to us, as determined by a number of factors, see **Reporting payment failures**.

### Payment failure

A contribution which has not been paid in accordance with the payment schedule in full on or before its due date.



# Communications and disclosure: Information to members

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## General principles for member communications

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. This module covers the main principles governing bodies should apply when meeting their legal obligations to communicate with members.
2. The law details when governing bodies must communicate with their members, the information they must provide and the timescales for providing the information. These requirements range from information provided when a member joins the scheme, ongoing communications, taking benefits, and beyond<sup>1</sup>. The law also sets out information that governing bodies must provide on request.
3. When preparing communications to members, governing bodies should:
  - a. ensure that all communications sent to members are accurate, clear, concise, relevant and in plain English (see our **Communicating and reporting guide**)
  - b. regularly review member communications, taking account of member feedback, any changes to scheme design and developments in law and this code of practice
  - c. when deciding on the format of communications and information to be published, consider any technology that may be available to them and appropriate for their members
  - d. consider using various communication methods, including accessible online content, audio, Braille, large font, and languages other than English
  - e. consider what additional information or explanation members may need to help them make informed decisions about their benefits. For DC and hybrid schemes, regularly inform members of the impact their contributions will have on their overall benefits.

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1 The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013] set out many, but not all, of the required communications for governing bodies

## Annual pension benefit statements (DC)

1. Governing bodies of certain schemes providing defined contribution (DC) benefits must provide their DC members with annual pension benefit statements<sup>12</sup>.
2. When drafting annual pension benefit statements, the governing body should follow the principles set out in general principles for member communications.
3. The governing body must:
  - a. issue the annual pension benefit statement to members within 12 months from:
    - for occupational pension schemes, the end of the scheme year
    - for personal pension schemes, the anniversary of the date the person first joined the scheme (or contributions were credited to them, if later)
  - b. detail the contributions credited (before deductions) to the member in the year to which the benefit statement relates
  - c. include the value of the member's benefits under the scheme (as at a date specified by the governing body)
  - d. provide the cash equivalent transfer value<sup>3</sup>, if different from the value above
  - e. where required by legislation<sup>4</sup>, include a statutory money purchase illustration, which is an illustration of how much the member's pension may be worth at requirement
  - f. where required by legislation<sup>5</sup>, provide details of how the member may obtain information about pooled funds
  - g. include the website address where the governing body has published the required information<sup>6</sup>

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1 Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

2 Regulation 4 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 4 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

3 Calculated in accordance with Chapter 1 of Part 4ZA of the Pension Schemes Act 1993. [Calculated in accordance with Part 4ZA of the Pension Schemes (Northern Ireland) Act 1993].

4 There are certain exceptions to the requirements to provide this information, see Regulation 17(6) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [There are certain exceptions to the requirements to provide this information see Paragraph 6 of Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014].

5 Paragraph 5A of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Paragraph 5A of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014].

6 Paragraph 5B of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Paragraph 5B of Schedule 6 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014].

4. Governing bodies of automatic enrolment schemes that only provide DC benefits must ensure the statement is no longer than one double-sided sheet of A4 paper, or the digital equivalent, if the statement is provided electronically (exceptions may apply for statements requested in alternative formats)<sup>6</sup>. **Consider the relevant statutory guidance in the design of their statements.**
5. The governing body should present contributions information to members in an accessible, transparent form, so members are able to check that they are receiving the contributions due. This may include information on:
  - a. the contributions received by the scheme after tax relief
  - b. the percentage of pensionable pay due for employer and member contributions
  - c. pensionable pay information, where held
  - d. the dates contributions were due and paid
  - e. charges or commission taken before or after payment to the scheme

## Glossary

### Automatic enrolment scheme

As defined for the purposes of the Pensions Act 2008.

### Contributions

Money paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers.

<sup>6</sup> Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

## Summary funding and pension benefit statements (DB)

1. Governing bodies of defined benefit (DB) pension schemes must, unless they are exempt from doing so<sup>1</sup>, provide their members and beneficiaries with summary funding statements within a reasonable period from the date by when the governing body must receive each actuarial valuation or actuarial report<sup>2</sup>. In most cases, a period of three months will be reasonable.
2. Governing bodies of DB pension schemes must also issue benefit statements to members on request<sup>3</sup>.
3. When drafting these statements, governing bodies should follow the principles set out in **General principles for member communications**.
4. The requirements set out in this module relate to information about DB benefits in the scheme. The governing body of any scheme providing defined contribution (DC) benefits, for example through additional voluntary contributions, must also meet the requirements in the **Annual pension benefit statements (DC)**.

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1 Regulation 15 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 15 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

2 See Regulation 15 of, and Schedule 4 to, the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [See Regulation 15 of, and Schedule 4 to, the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

3 Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

## Summary funding statements

5. The governing body must include within any summary funding statement<sup>4</sup>:
- a. a summary as to whether the scheme assets are enough to cover the technical provisions based on the latest available actuarial valuation and any actuarial report since that valuation
  - b. an explanation of any changes in the funding position from the previous statement
  - c. the actuary's solvency estimate as set out in the latest actuarial valuation
  - d. a summary of any recovery plan in force
  - e. a statement explaining the following, including a summary of any applicable circumstances. Whether the scheme:
    - has been modified under section 231(2)(a) of the Pensions Act 2004 (the 2004 Act)
    - is subject to directions under section 231(2)(b) of the 2004 Act
    - is bound by a schedule of contributions by us under section 231(2)(c) of the 2004 Act
  - f. a statement explaining whether any surplus payment has been made to the employer, and the payment amount
  - g. the website address for any published report on climate change<sup>5</sup> and information as to how a hardcopy of the report can be requested'

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4 Schedule 4 to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Schedule 4 to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

5 Regulation 6 of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 [Regulation 6 of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (Northern Ireland) 2021]

## Benefit statements

6. The governing body must:
- a. issue a benefit statement to members as soon as possible following a request for one, and within two months
  - b. include the information required by legislation<sup>5</sup>, which is summarised in c to f below.
  - c. for active members the required information includes:
    - the amount of benefit payable, if the member of the scheme was to die in service on a specified date, including how the benefit is calculated
    - the amount of member's and survivors' benefits, not accounting for potential increase to the member's salary, that would be payable from the payment date, if pensionable service were to end on one of (option chosen by the governing body):
      - the date the member will attain normal pension age
      - a date that has been specified by the governing body, or
      - a date agreed with the member
    - the member's earnings that are used to determine the benefits in the scheme, as at a date specified by the governing body.
  - d. For active and deferred members the required information includes:
    - The date pensionable service began
    - An overview of how the member's and any survivors' benefits are calculated
    - Whether any deductions apply and how these are calculated
    - Where the governing body is required to publish a report in relation to climate change<sup>6</sup> on a website, information about how to access that document online, including the address for the website and also how to request a hard copy of the report if available.

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5 Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

6 Regulation 6(1)(b) of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (climate change reporting and publication requirements)

6. Benefit statements continued...

- e. For deferred members the required information includes:
  - The date the member's pensionable service ended.
  - The amount of the member's and survivors' benefits and the date these are payable.
  - The member's earning figure, used to determine benefits in the scheme, on the date service ended.
- f. For pension credit members the required information includes:
  - The value of the member's and survivors' benefits from the date benefits are payable.
  - An overview of how the member's and any survivors' benefits are calculated.
  - Whether any deductions apply and how these are calculated.

## Glossary

### Actuarial report

A written report, prepared and signed by the actuary, on developments affecting the scheme's technical provisions since the last actuarial valuation was prepared, as required by section 224 of the Pensions Act 2004.

### Actuarial valuation

A written report, prepared and signed by the actuary, valuing the scheme's assets and calculating its technical provisions, as required by section 224 of the 2004 Act.

### Additional voluntary contributions

Known as AVCs, an additional employee contribution paid into the scheme in return for additional benefits.

### Recovery plan

A payment plan for the scheme employer or employers, put in place to enable a defined benefit scheme to meet the statutory funding objective.



## Benefit information statements (PSPS)

1. Scheme managers of public service pension schemes must provide all active members with an annual benefit information statement<sup>1</sup>. They may also be required to provide a benefit information statement to certain types of members on request<sup>2</sup>.
2. They must also provide annual benefit information statements to deferred members and pension credit members of the scheme, where this is required by scheme regulations.
3. When drafting benefit information statements, scheme managers should follow the principles set out in **General principles for member communications**.
4. For active members of defined benefit (DB) schemes, scheme managers must:
  - a. include a description of the benefits earned by members during their pensionable service<sup>3</sup>
  - b. issue the annual statement by no later than 31 August of the year following the period to which the statement relates
  - c. comply with any HM Treasury directions, in terms of any other information that must be included and the way it must be provided to members
5. For active, deferred, or pension credit members of any DB scheme, scheme managers must:
  - a. provide a benefit information statement following a request for one, if the information has not been provided to that member in the previous 12 months
  - b. issue a benefit information statement as soon as possible following a valid request for one, and within two months
  - c. include the information required by law<sup>4</sup> in any benefit information statement

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1 Section 14(1) of the Public Service Pensions Act 2013. [Article 14(1) of the Public Service Pensions Act 2014]

2 Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

3 Section 14(2)(a) of the Public Service Pensions Act 2013. [Section 14(2)(a) of the Public Service Pensions Act 2014]

4 Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

6. For members with defined contribution (DC) benefits, scheme managers must:
  - a. provide a benefit information statement regarding their DC benefits to every member within 12 months of the end of the scheme year (irrespective of whether they also have DB benefits)
  - b. include the information required by law<sup>5</sup> in any benefit information statement. See **Annual pension benefit statements (DC)**.
7. Where the applicable public service scheme regulations require additional benefit information to be provided to members, or for statements to be given at shorter intervals than set out above, those scheme regulations will also apply.

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5 Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 17 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]

## Retirement risk warnings and guidance

1. Members with a defined contribution (DC) or cash balance pension pot have a variety of options for taking retirement benefits. There are no restrictions on the amount they can withdraw as cash, though there may be significant tax implications.
2. Depending on the scheme's rules, a member may not be able to access their chosen flexible benefits directly from the scheme. They may need to transfer to another arrangement to gain access to the full range of options.

### Retirement guidance

3. When giving members information about retirement options for their flexible benefits, by law the governing body must provide information on the **government guidance service**.
4. The governing body must:
  - a. in certain circumstances<sup>1,2,3</sup>, provide a statement informing members about the government guidance service (the guidance statement)
  - b. Ensure the guidance statement recommends the member accesses the government's guidance service and that they consider taking independent advice
  - c. where contact is made by a relevant beneficiary<sup>4</sup> wishing to access or to transfer for the purposes of accessing their flexible pension benefits, offer to book them an appointment with the government guidance service and take reasonable steps to book the appointment at a time and date suitable for them unless exempt<sup>5</sup>
  - d. not proceed with an application to access or transfer flexible benefits, until the member has received guidance, or they opt out<sup>6</sup>. See **Transfers out**.
  - e. provide the guidance statement (and any additional statement where required) where contact is made by the governing body, or by the member where the requirement to book an appointment as set out above does not apply, about what the member may do with their DC or cash balance benefits

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1 Regulations 18A to 21 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulations 18A to 21 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

2 Part 1, Schedule 10 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Part 1, Schedule 10 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

3 Regulation 18B Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18B Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

4 Regulation 18C (2) and (4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013

5 Regulation 18C(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18C(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

6 Regulation 18C (4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18C (4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

4. Retirement guidance continued...

- f. the guidance statement(s) may be given verbally unless requested in writing<sup>7</sup>
- g. identify any circumstances where there is a requirement to provide the information to individuals other than the member (for example, beneficiaries)

5. The governing body should:

- a. make members aware of their right to transfer their benefit to another scheme at any age, to access their benefits in a variety of different ways
- b. ensure all communications issued to members about their retirement options clearly set out what they need to consider, to make an informed decision about their benefits (see **General principles for member communications**)

## Retirement risk warnings

6. Where scheme members with DC or cash balance benefits are approaching retirement, the governing body must by law provide certain information and risk warnings:

- a. issue retirement information to members setting out the options available on accessing their retirement savings within the scheme. The information must include either<sup>8</sup>:
  - a guide available from MoneyHelper ‘**Your pension: your choices**’ (or any replacement that is prepared or approved by us)
  - a statement that gives materially the same information
- b. provide certain ‘risk warnings’ to members when providing the member with an application form or another way to access their benefits (some exceptions apply<sup>9</sup>). The risk warning statement must:
  - contain information about the options available to members about their benefits and the risks associated with each<sup>10</sup>, or
  - provide personalised risk warnings tailored to the member’s circumstances
- c. highlight in the risk warning statement, the importance of reading the warnings and accessing pensions guidance or independent advice<sup>11</sup>

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7 Regulation 18B(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 18b(3) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

8 Paragraph 14, Part 3, Schedule 7 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Paragraph 14, Part 3, Schedule 7 Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

9 Regulation 19A Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 19A Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

10 Regulation 19A(6) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 19A(6) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

11 Regulation 19A(4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. [Regulation 19A(4) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2013]

## Glossary

### **Annuity**

A specific type of insurance policy, which can be purchased to secure an income for life at retirement.

### **Flexible benefits**

Pensions benefits that may be drawn from a scheme and used for purposes other than purchasing an annuity (see section 74 of the Pension Schemes Act 2015).

### **Relevant beneficiary**

A member of the scheme or a survivor of a member who has a right or entitlement to flexible benefits under the scheme.

## Notification of right to cash transfer sum or contribution refund

1. The scheme rules and legislation will determine how and if a cash transfer sum or contribution refund is payable to a member who has left active service.
2. Where a member has a right to a cash transfer sum or a contribution refund in accordance with section 101AB of The Pension Schemes Act 1993<sup>1</sup>, the governing body must provide them with a written notice under 101AC of that Act<sup>2</sup>.
3. The governing body should provide this information within three months of the date the member left service. Governing bodies should advise members where it is likely to take more than three months to provide the information.
4. The governing body should give members three months to reply and can extend this deadline at their discretion or if a member asks. If the member does not respond, the governing body may arrange to pay a contribution refund after a further month.
5. A member must inform the governing body of their choice in writing<sup>3</sup>.
6. The governing body should carry out the member's wishes within three months of receiving them<sup>4</sup>. The governing body can extend this period in exceptional circumstances.
7. The governing body must pay any refund requested at the direction of the member.

### Leaving schemes that are being wound up

8. Where a member is deemed to have requested a contribution refund following the commencement of wind-up under regulation 5 of the Occupational Pension Schemes (Winding up, etc.) Regulations 2005<sup>5</sup>, the governing body should take steps to pay the refund within one month.

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1 Section 97AB Pensions Schemes (Northern Ireland) Act 1993

2 [Section 97AC Pensions Schemes (Northern Ireland) Act 1993]

3 Section 101AD(2) Pension Schemes Act 1993 [Section 97AD(2) Pensions Schemes (Northern Ireland) Act 1993]

4 Section 101AG Pension Schemes Act 1993 [Section 97AG Pensions Schemes (Northern Ireland) Act 1993]

5 Regulation 5 Occupational Pensions Schemes (Winding up, etc.) Regulations (Northern Ireland) 2005

## Chair's statement

### Basic principles of the chair's statement

1. The law requires governing bodies of certain occupational pension schemes that provide DC benefits to prepare a chair's statement within seven months of the end of each scheme year.
2. Compliance with this requirement must be declared on the scheme return submitted to us each year.
3. In the chair's statement, governing bodies must set out a variety of information, including describing and explaining how they have met certain legislative governance and charge standards<sup>1</sup>. See our **Communicating and reporting guide**.
4. Governing bodies should ensure the statement is written using the principles set out in **General principles for member communications**.
5. The law requires the chair to sign the statement on behalf of the governing body.
6. Failure to produce a statement signed by the chair that meets the requirements set out in the legislation will result in an automatic penalty of between £500 and £2,000<sup>2</sup>, which the governing body will be personally liable to pay.
7. As a matter of good practice, governing bodies may wish to document actions as they occur and to hold evidence of any actions described within the statement.

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1 Regulation 23 Occupational Pension Schemes (Scheme Administration) Regulations 1996 [Regulation 23 Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997]

2 Regulation 28 Occupational Pension Schemes (Charges and Governance) Regulations 2015 [Regulation 28 Occupational Pension Schemes (Charges and Governance) Regulations (Northern Ireland) 2015]

## Making the chair's statement available

8. Governing bodies must make the statement available upon request and as part of the scheme report and accounts.
9. Certain parts of the statement must be publicly available, free of charge, on a website.
10. We have set out in paragraph 11 the areas that must be published online. However, in many cases it will be appropriate for governing bodies to publish the statement online in its entirety. Governing bodies may wish to take steps to conceal sensitive information that is immaterial to the statement, such as the chair's signature.
11. Parts of the statement that must be published online<sup>3</sup>:
  - a. The statement of investment principles for the default arrangement, and the information set out in the chair's statement around the review of those arrangements.
  - b. The level(s) of charges and transaction costs paid by members for each default arrangement and fund that members are able to select.
  - c. The 'illustrative examples' included in the statement that show the effects of charges and transaction costs on members' accrued rights.
  - d. Details of any unavailable transaction costs and steps being taken to obtain that information in future.
  - e. The explanation of the assessment of whether the scheme represents good value for members.

Further detail of the information that must be published online and how to present this can be found in the DWP's **statutory guidance**.

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<sup>3</sup> Regulation 29A(2) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 29A(2) Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]



## Scams

1. Pension scams can occur when members seek to transfer their benefits to a different arrangement, take early retirement or take their benefits.
2. When processing a transfer, governing bodies must check that at least one of the conditions for the transfer to proceed is met (see **Transfers out**)<sup>1</sup>.
3. Under section 249A of the Pensions Act 2004<sup>2</sup>, governing bodies of certain schemes must establish and operate an effective system of governance (see **Systems of governance**) including internal controls (see **Internal controls**). However, there are certain exemptions<sup>3</sup>. The system of governance must be proportionate to the size, nature, scale, and complexity of the activities of the scheme.
4. Under section 249B of the Pensions Act 2004, scheme managers of public service pension schemes<sup>4</sup> are required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules<sup>5</sup>, and with the requirements of the law.
5. As part of their internal controls, governing bodies should ensure that they take appropriate steps to mitigate the risk of scams.
6. Governing bodies should be aware of the warning signs of a scam and consider whether any are present when dealing with member requests to transfer or take their benefits.
7. When members ask to transfer out of a scheme, the governing body should carry out due diligence on the scheme to which the member wishes to transfer, to check whether the transfer can legally be paid.
8. Governing bodies should take steps to ensure their members are aware of the risks of pension scams.
9. They may do this by providing clear information on how to spot a scam in all relevant communications to members, including within standard communication materials such as the retirement wake-up pack and in annual benefit statements. Scams warning messages may also be placed on the scheme's website.

Governing bodies can also pledge to do more to combat scams and follow the principles of The Pension Scams Industry Group (PSIG) '**Combating Pensions Scams - A Code of Good Practice**'. Further information can be found on our **website**.

1 Regulations 7 and 8 of the Occupational and Personal Pension Schemes (Conditions for Transfer) Regulations 2021

2 Article 226A of The Pensions (Northern Ireland) Order 2005

3 Section 249A(3) of the Pensions Act 2004 [Article 226A (3) of The Pensions (Northern Ireland) Order 2005]

4 As defined in in section 318(1) of the Pensions Act 2004 [Article 2(2) of The Pensions (Northern Ireland) Order 2005]

5 As defined in Section 318(2) of the Pensions Act 2004 [Article 2(3) of The Pensions (Northern Ireland) Order 2005]

## Audit requirements

1. The law requires certain<sup>1</sup> governing bodies of occupational pension schemes to obtain the following within seven months of the end of each scheme year, from an independent auditor of the scheme:
  - a. audited accounts, prepared in line with regulation 3 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996<sup>2</sup>
  - b. the auditor's statement, prepared in line with regulation 4<sup>3</sup> of those regulations, about payment of contributions under the scheme
2. Accounts do not need to be sent to us as a matter of course.
3. The auditor's statement must:
  - a. include their opinion on whether contributions have in all material respects been paid at least in line with any of:
    - the schedule of contributions
    - payment schedule
    - scheme rules or contracts under which they were payable
  - b. where contributions have not been paid in line with the above, include a statement explaining why
  - c. even where no contributions were payable in the audited period, still prepare an auditor's statement

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1 Regulation 2 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 [Regulation 2 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

2 [The Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

3 The Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 [The Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

4. The governing body:
  - a. must provide a copy of the scheme's audited accounts, as part of the annual report<sup>4</sup>, to relevant persons<sup>5</sup> on request, and within two months of the governing body receiving the request
  - b. may wish to consider publishing the accounts on a website that is free to access for scheme members
  - c. should retain documentation on preparing the scheme's annual audited accounts, recording that process and its outcome, for at least seven years
  - d. must make sure the normal auditing period<sup>6</sup> of 12 months is applied. However, the audit period may be between six and 18 months when the start date changes, or the scheme is in the final stages of being wound up

## Glossary

### Contributions

Money paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

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- 4 Regulation 12 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [Regulation 12 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]
  - 5 As defined in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [As defined in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014]
  - 6 Definition of "Scheme year" in Regulation 1 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 [Definition of "Scheme year" in Regulation 1 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997]

# Communications and disclosure: Public information

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Publishing scheme information (PSPS)

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## Publishing scheme information (PSPS)

1. Scheme managers of public service pension schemes must publish certain information about the pension board and keep that information up to date.
2. This will ensure that scheme members can easily access information about who the pension board members are, the representation of scheme members on the pension board, and the responsibilities of the board.
3. Scheme managers may also consider publishing information about pension board business, for example, board papers, agendas, and minutes of meetings. These may be redacted to the extent that they contain confidential information and/or data protected by law. Scheme managers should consider requests for additional information to be published, to encourage scheme member engagement and promote a culture of transparency.
4. Scheme managers may consider how best to publish information, making use of the principles outlined in **General principles for member communications**.
5. The scheme manager must publish and maintain:
  - a. the names of pension board members
  - b. details about the representation of scheme members on the pension board
  - c. details of the matters for which the pension board is responsible<sup>1</sup>
6. Scheme managers may also publish:
  - a. the employment and job title (where relevant) and any other relevant position each board members holds
  - b. details of the pension board recruitment process
  - c. who each pension board member represents
  - d. the full terms of reference for the pension board, including details of how it will operate
  - e. any specific roles and responsibilities of individual pension board members
7. Scheme managers should:
  - a. have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete
  - b. ensure any out-of-date or incorrect information identified is updated as soon as possible and in any event, within one month

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1 Section 6(1) of the Public Service Pensions Act 2013. [Section 14(1) of the Public Service Pensions Act 2014.]

## Glossary

### Pension board

A board created to advise the relevant scheme manager in accordance with section 5 of the Public Service Pensions Act 2013.

## Dispute resolution procedures

This module forms part of our expectations for trustees of those schemes required to operate an effective system of governance, see **Systems of governance**.

1. Governing bodies must put formal procedures and processes in place<sup>1</sup> to investigate and decide upon pension scheme disputes quickly and effectively. This applies to governing bodies of all occupational pension schemes, subject to certain exemptions<sup>2</sup>.
2. Dispute procedures play a key role in effective scheme governance and administration and need to follow the legislative requirements<sup>3</sup>. The documents setting out the operation of the scheme may refer to internal dispute resolution arrangements.
3. Governing bodies must follow the dispute procedure to resolve various matters<sup>4</sup>.
4. Where a person with an interest in the scheme is not satisfied with any matter relating to the scheme (for example a decision that affects them), they have the right to ask for a review of the matter.
5. Where a person no longer has an interest in the scheme<sup>5</sup> or claims to be such a person, governing bodies must ensure their scheme's procedures allow a reasonable period for that person or their representatives<sup>6</sup> to make their applications. The reasonable period in these circumstances is six months beginning on the date their interest in the scheme stopped.
6. Governing bodies can accept an application outside of this timeframe if they believe it is appropriate.

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1 Section 50(1) of the Pensions Act 1995 and regulation 3 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Article 50(1) of the Pensions (Northern Ireland) Order 1995 and regulation 3 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]

2 Section 50 (8) of the Pensions Act 1995 [Article 50(8) of the Pensions (Northern Ireland) Order 1995]

3 Section 50 of the Pensions Act 1995 [Article 50 of the Pensions (Northern Ireland) Order 1995]

4 Section 50 of the Pensions Act 1995 and regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Article 50 of the Pensions (Northern Ireland) Order 1995 and regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]

5 Section 50A(1) of the Pensions Act 1995 [Article 50A(1) of the Pensions (Northern Ireland) Order 1995]

6 Section 50B(2) and (3) of the Pensions Act 1995 [Article 50B(2) and (3) of the Pensions (Northern Ireland) Order 1995]

## Dispute resolution processes

7. In relation to dispute resolution processes, governing bodies must:
  - a. provide their internal dispute resolution procedure to<sup>7</sup>:
    - prospective members if it is practicable to do so
    - any scheme members who have not been given the information
    - certain people who request the information and who have not been given that information in the previous 12 months
    - members or prospective members when schemes receive jobholder information, or when a jobholder becomes an active member, in connection with automatic enrolment
  - b. provide information about the Money and Pensions Service and the Pensions Ombudsman to the complainant at certain stages of the dispute<sup>8</sup>
8. Governing bodies should:
  - a. agree on any details of their dispute resolution process that are not set out in law
  - b. provide contact details for matters relating to disputes
  - c. regularly assess the effectiveness of the dispute procedure
  - d. be satisfied that those following the process are complying with the requirements set, which includes effective decision making
  - e. consider the circumstances under which advice may be required to reach a decision on a dispute
  - f. ensure they make the following information available to applicants:
    - the process to apply for a dispute to be resolved
    - the information that an applicant must include
    - the process by which any decisions are reached

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7 Regulation 6(2) of, and paragraph 18 of Schedule 2 to, the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013

8 Regulation 2(1) and (4) of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Regulation 2(1) and (4) of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]



## Reasonable periods

9. In relation to reasonable time periods<sup>9</sup> governing bodies should:
  - a. decide the matter in dispute within four months of receiving the application
  - b. in the case of a two-stage dispute resolution procedure, reach a first stage decision within four months of receiving the application
  - c. in the case of a two-stage dispute resolution procedure, reach a second stage decision within four months of the point when the governing body receives the referral
  - d. notify applicants of the decision no later than 21 days from when it is made
  - e. not delay a decision where it is possible to process an application sooner than four months
  - f. allow more than four months to reach a decision if it is appropriate to do so
10. For public sector schemes, where the governing regulations provide for shorter periods to consider grievances than set out above, those regulations will apply.

## Decision-making

11. When reviewing an application, decision-makers should:
  - a. ensure they have all the appropriate information to make an informed decision
  - b. request further information if required
  - c. be satisfied that the time and action taken to reach a decision and notify the applicant are appropriate to the situation, and be able to demonstrate this

## Informing members

12. It is good practice for governing bodies to keep members informed about dispute resolution, this may include:
  - a. publishing and making readily available details of the time limits within which someone with an interest in the scheme must make an application
  - b. making their procedure accessible to members and potential applicants by publishing it on a scheme website
  - c. keeping applicants advised of the progress of their dispute and let them know when they are likely to receive an outcome

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9 Section 50(5) of the Pensions Act 1995 [Article 50(5) of the Pensions (Northern Ireland) Order 1995]

## Glossary

### Disputes

As defined in section 50(3) of the Pensions Act 1995<sup>10</sup> a pension dispute is a dispute which: is about matters relating to the scheme; is not an exempted dispute and is between the trustees or managers of a scheme and one or more persons with an interest in the scheme.

### Exempted disputes

As defined in section 50(9) of The Pensions Act 1995<sup>11</sup> a dispute is an exempted dispute if: proceedings in respect of it have been commenced in any court or tribunal; the Pensions Ombudsman has commenced an investigation in respect of it as a result of a complaint made or a dispute referred to him, or it is of a prescribed description<sup>12</sup>.

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10 Article 50(3) of the Pensions (Northern Ireland) Order 1995

11 Article 50(9) of the Pensions (Northern Ireland) Order 1995

12 Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 [Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008]

# Reporting to TPR: Regular reports

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Registrable information and scheme returns

page 156

## Registrable information and scheme returns

### Registrable information

1. Governing bodies of registrable schemes<sup>1</sup> must provide us with all registrable information<sup>2</sup> when registering their schemes.

The registrable information will vary, depending on the type of scheme. To learn more about registrable information, see our guidance [Update information on the scheme register](#).

2. The governing body must tell us about changes to the registrable information as soon as reasonably practicable<sup>3</sup>, at the very latest within five working days of the governing body becoming aware of the change.

### Scheme returns

3. The law also requires governing bodies to complete a scheme return<sup>4</sup>.
4. The scheme return includes registrable information, plus any other information that we may require to exercise our functions for a registered scheme. It is important that the information provided on the scheme return is accurate.
5. Governing bodies are accountable for the information they provide on the scheme return, regardless of whether it has been prepared by them, a scheme administrator, or an adviser.
6. Governing bodies should have measures in place to review and ensure the accuracy of the information in their scheme return before they send it to us. Governing bodies must also submit the scheme return by the date specified in the scheme return notice. If they do not provide it by the specified date, they may have to pay a fine<sup>5</sup>.
7. It is a criminal offence for any person to knowingly, or recklessly, provide us with false or misleading information in the scheme return<sup>6</sup>.

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1 As defined in section 59 of the Pensions Act 2004 and Regulation 2 of The Register of Occupational and Personal Pension Schemes Regulations 2005 [as defined in Article 54 of the Pensions (Northern Ireland) Order 2005 and Regulation 2 of The Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005]

2 Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005] 2 As defined in section 60 of the Pensions Act 2004, Regulation 3 of The Register of Occupational and Personal Pension Schemes Regulations 2005 and Regulation 14 of The Occupational Pension Schemes (Regulatory Own Funds) Regulations 2005 [As defined in Article 55 of the Pensions (Northern Ireland) Order 2005, Regulation 3 of The Register of Occupational and Personal Pension Schemes Regulations (Northern Ireland) 2005 and Regulation 14 of The Occupational Pension Schemes (Regulatory Own Funds) Regulations (Northern Ireland) 2005]

3 Section 62 Pensions Act 2004 [Article 57 Pensions (Northern Ireland) Order 2005]

4 Section 64 Pensions Act 2004 [Article 59 Pensions (Northern Ireland) Order 2005]

5 Section 64(2) Pensions Act 2004 [Article 59(2) Pensions (Northern Ireland) Order 2005]

6 Section 80 of the Pensions Act 2004 [Article 75 Pensions (Northern Ireland) Order 2005]

# Reporting to TPR: Whistleblowing – reporting breaches of the law

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## Who must report

1. Certain people (reporters) are required to report breaches of the law to us when they have a reasonable cause to believe that<sup>1</sup>:
  - a legal duty which is relevant to the administration of a scheme, has not been, or is not being, complied with, and
  - the failure to comply is likely to be of material significance to us in exercising any of our functions
2. We interpret ‘administration’ widely over duties to report breaches of law, as part of our role regulating these schemes. Our interpretation is broader than day-to-day administrative tasks, such as record-keeping, dealing with membership movements, calculating benefits, and preparing accounts. It also includes considering investment policy, investment management, the custody of invested assets in all schemes, and scheme funding in defined benefit schemes. Broadly, our interpretation covers anything that could affect members’ benefits, or members and others ability to access the information they are entitled to.

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1 Section 70 Pensions Act 2004 [Article 65 Pensions Order (Northern Ireland) 2005]

## Who has the duty to report?

3. Those with a duty to report are listed below. This list is not exhaustive, and if it is unclear whether the duty to report applies, the potential reporter may wish to seek legal advice:
- a. **Trustees**  
Each trustee. If the trustee is a corporate body, the requirement to report falls on the trustee company.
  - b. **Public service scheme pension boards**  
Each member of the pension board of a public service pension scheme.
  - c. **Scheme managers**  
This includes managers of public service pension schemes and personal pension schemes where a direct payment arrangement exists.
  - d. **Service providers**  
Those who provide administrative services to occupational and personal pension schemes, including:
    - insurance companies and third-party administrators, who carry out administrative tasks relating to a scheme
    - participating employers, who provide staff to carry out administration tasks in-house (this includes performing payroll and similar functions, as well as carrying out or helping with direct administration of the pension scheme)
    - financial advisers and consultants, who provide services to trustees such as record-keeping or acting as intermediaries receiving and forwarding scheme documents.
  - e. **Employers**  
All employers. In a multi-employer scheme, this includes any employer who becomes aware of a breach, regardless of whether the breach relates to or affects, members who are its employees or those of other employers.
  - f. **Professional advisers**  
This includes advisors appointed by the governing body, such as scheme actuaries, scheme auditors, reporting accountants, legal advisers<sup>2</sup>, investment managers, and custodians of scheme assets. Where an individual is appointed to provide the relevant service, the duty to report applies to that individual. Where a firm is appointed to provide services, the duty to report applies to the firm.
  - g. **A scheme strategist or scheme funder of master trust scheme**  
This is defined in Part 1 of the Pension Schemes Act 2017 (see section 39 of that Act).

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2 Subject to the exceptions set out in Section 311 Pensions Act 2004 [Article 283 Pensions Order (Northern Ireland) 2005]

4. Governing bodies should be satisfied that those responsible for reporting breaches are aware of the legal requirements and this code. Training should be provided for the governing body and any in-house administrators.
5. A person's responsibility to report breaches is not limited to those that relate to their specific role in a scheme. Regardless of the activities being undertaken, material breaches should be reported as they are identified.

## Whistleblowing protection and confidentiality

6. The Pensions Act 2004<sup>3</sup> makes it clear that the duty to report overrides certain other duties a reporter may have (such as confidentiality), and that any such duty is not breached by making a report. We understand the potential impact of a report on the relationship between a reporter and their client, or, in the case of an employee, their employer.
7. The duty to report does not override legal privilege<sup>4</sup>. Communications (oral and written) between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed.
8. The Employment Rights Act 1996<sup>5</sup> (ERA) provides protection for employees making a whistleblowing report to us. If individuals that are employed by firms with a duty to report, disagree with a decision not to report, they may have protection under the ERA if they make an individual report in good faith.
9. We will take all reasonable steps to protect a reporter's identity and maintain confidentiality, when a report is made in confidence. We will not disclose any information except where lawfully allowed to do so.
10. In all cases, reporters should act conscientiously and honestly, and to take account of expert or professional advice where appropriate.

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3 The Pensions (Northern Ireland) Order 2005

4 Section 311 Pensions Act 2004 [Article 283 Pensions Order (Northern Ireland) 2005

5 The Employment Rights (Northern Ireland) Order 1996



## Decision to report

1. There are two key judgements required when deciding to report a breach of the law<sup>1</sup>:
  - a. Is there reasonable cause to believe there has been a breach of the law?
  - b. Is the breach likely to be of material significance to us?

Where the potential breach relates to a failure to pay contributions, please see **Reporting payment failures** for more information of failures we consider to be materially significant.

### ‘Reasonable cause to believe’

2. Having a reasonable cause to believe that a breach has occurred means more than merely having a suspicion that cannot be proved.
3. Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to check with members of the governing body or with others who are able to confirm what happened. However, it would not be appropriate to alert those implicated in potential serious offences involving dishonesty, such as theft or fraud. In such cases, due to the immediate risk to scheme assets, reporters should bypass the usual checks, making only those they deem necessary and not cause undue delay to the report being made to us.

### Likely to be of ‘material significance’

4. By law, any breaches must be reported to us if they are likely to be of ‘material significance’ to us in carrying out any of our functions. Whether a breach is of ‘material significance’ depends on several factors.

### The cause of the breach

5. A breach is likely to be of material significance to us when it was caused by:
  - a. dishonesty, negligence, or reckless behaviour
  - b. poor governance, ineffective controls resulting in deficient administration, or slow or inappropriate decision-making practices
  - c. incomplete or inaccurate advice
  - d. a deliberate act or failure to act

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1 Section 70 of the Pensions Act 2004 and Article 65 of the Pensions (Northern Ireland) Order 2005

## The effect of the breach

6. We consider a breach to be materially significant where the effects include any of the following:
  - a. A significant proportion of members, or a significant proportion of members of a particular category of membership, are affected by the breach.
  - b. The breach has a significant effect on the benefits being paid, to be paid, or being notified to members.
  - c. The breach, or series of unrelated breaches, have a pattern of recurrence in relation to participating employers, certain members, or groups of members.
  - d. Governing bodies that do not have the appropriate degree of knowledge and understanding, preventing them from fulfilling their roles and resulting in the scheme not being properly governed and administered and/or breaching other legal requirements.
  - e. Unmanaged conflicts of interest within the governing body, making it prejudiced in the way it carries out the role, ineffective governance and scheme administration, and/or breaches of legal requirements.
  - f. Systems of governance (where applicable) and/or internal controls are not established or operated. This leads to schemes not being run in line with their governing documents and other legal requirements.
  - g. Risks are not properly identified and managed and/or the right money is not being paid to or by the scheme at the right time.
  - h. Accurate information about benefits and scheme administration is not being provided to scheme members and others meaning members are unable to effectively plan or make decisions about their retirement.
  - i. Records are not being maintained. This results in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
  - j. Governing bodies or anyone associated with the scheme misappropriate scheme assets or are likely to do so.
  - k. Trustees of defined benefit schemes not complying with requirements of the Pension Protection Fund during an assessment period.

## Reaction to the breach

7. We will not normally consider a breach to be materially significant if prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, all affected scheme members have been notified.
8. A breach is likely to be of concern and material significance to us if a breach has been identified that:
  - a. does not receive prompt and effective action to remedy the breach and identify and tackle its cause to minimise risk of recurrence
  - b. is not being given the right priority by the governing body or relevant service providers
  - c. has not been communicated to affected scheme members where it would have been appropriate to do so
  - d. forms part of a series of breaches indicating poor governance
  - e. it was caused by dishonesty, even when action has been taken to resolve the matter quickly and effectively

## The wider implications of the breach

9. These should be considered when assessing whether it is likely to be materially significant to us. For example, a breach is likely to be of material significance where:
  - a. the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future (the reason could be that the governing body lacks the appropriate knowledge and understanding to fulfil their responsibilities)
  - b. other schemes may be affected, for example schemes administered by the same organisation where a system failure has caused the breach
10. Those reporting a breach should consider general risk factors, such as the level of funding (in a defined benefit scheme) or how well-run the scheme appears to be. Some breaches that occur in a poorly funded and/or poorly administered scheme will be more significant to us than if they occurred in a well-funded, well-administered scheme.
11. Reporters should consider other reported and unreported breaches that they are aware of. However, reporters should use historical information with care, particularly where changes have been made to address breaches already identified.
12. We will not usually regard a breach arising from an isolated incident as materially significant. For example, breaches resulting from teething problems with a new system, or from an unpredictable combination of circumstances. However, in such circumstances reporters should consider other aspects of the breach, such as the severity of the effect it has had that may make it materially significant.

## Glossary

### Internal controls

- Arrangements and procedures to follow in the administration and management of the scheme,
- Systems and arrangements for monitoring that administration and management, and
- Arrangements and procedures to follow for the safe custody and security of the assets of the scheme. (Section 249A of the Pensions Act 2004).

### Reporter

Any person who has a duty to report a breach of the law.

## How to report

1. Those responsible for reporting breaches (see **Who must report**), including the governing body, should establish and operate procedures to ensure they are able to meet their legal duties. Reporters should not rely on waiting for others to report.
2. The governing body should have:
  - a. a process for clarifying the law around the suspected breach where needed
  - b. a process for clarifying the facts around the suspected breach where they are unknown
  - c. a process to consider the material significance of the breach, taking into account its cause, effect, the reaction to it, and its wider implications, including dialogue within the governing body where appropriate
  - d. a clear referral process at the right level of seniority, so decisions can be made about whether to report to us
  - e. an established procedure for dealing with difficult cases
  - f. a timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable
  - g. a system to record breaches, even if they are not reported to us (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal an ongoing issue)
  - h. a process for reviewing reporting procedures following any important changes to the scheme's governance arrangements

## Making a report

3. Reporters should make a report using our online web form, email, or by post. We do not usually accept reports by telephone. If a reporter discovers an urgent breach which is likely to have an immediate and damaging effect for scheme members, they should notify us by telephone before submitting their report in writing.
4. Reporters should also mark urgent reports as such and highlight any matters they believe are particularly serious.
5. Those looking to report a payment failure for a defined contribution scheme may wish to consider doing so via our maintaining contributions portal (see our **Essential guide to reporting the late payment of contributions**).
6. Breach of law reports must be made to us in writing as soon as reasonably practicable<sup>1</sup>. In most cases, this should be within 10 working days of the breach being identified. However, reporters may use their judgement and apply ‘reasonably practicable’ to their own circumstances. Consider such factors as the seriousness of the potential breach and its consequences. Where reporters decide a longer reporting time is reasonable, they should record the reasons for this and any evidence in case they need to show this in future.
7. The report should include the:
  - a. full name of the scheme
  - b. description of the breach or breaches, including any relevant dates
  - c. name of the employer (in the case of an occupational scheme) or scheme manager (in the case of public service and personal pension schemes)
  - d. name, position, and contact details of the reporter
  - e. role of the reporter in the scheme
  - f. reason the reporter believes the breach is of material significance to us
  - g. address of the scheme
  - h. type of scheme – whether occupational (defined benefit, defined contribution, or hybrid), personal or public service
  - i. name and contact details of the governing body (if different to the scheme address)
  - j. pension scheme registration (PSR) number if known
  - k. address of the employer

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1 Section 70 of the Pensions Act 2004 [Article 65 of the Pensions (Northern Ireland) Order 2005]

Making a report continued...

8. There are other requirements placed on those running pension schemes to report to other bodies. Where the duty to report to another body coincides with the duty to report to us, the report to us should include details of the other bodies the matter has been reported to.
9. We will acknowledge all reports within five working days of receipt. If reporters have not received an acknowledgement from us within five days, they should contact us.
10. Due to legal restrictions<sup>2</sup> on the information we can disclose, we will not keep reporters informed of the steps we are taking to deal with the report, but we may contact a reporter to ask for more information.
11. If a scheme or an individual is at risk, for example where there has been dishonesty, the reporter should not take any actions that may alert those implicated that a report has been made. Similarly, reporters should not delay their report to us, to check whether any proposed solutions will be effective.

### Multiple reporters

12. More than one person may be responsible for reporting the same breach. Those who have a duty to report should be aware this is not automatically discharged by another party reporting the breach.
13. Reporters should avoid making duplicate reports where possible. Once we become aware of a breach, we do not typically regard that breach as materially significant for the purpose of making a further report. However, an exception to this is when another reporter has additional information or different information about that breach or the circumstances related to it.
14. Where multiple reporters wish to submit a collective report, the reporting procedure should allow for the evaluation of breaches as described in this code of practice. The report should be made as soon as reasonably practicable.

## Glossary

### Reporter

Any person who has a duty to report a breach of the law.

<sup>2</sup> Section 82 Pensions Act 2004 [article 77 Pensions (Northern Ireland Order 2005] and Data Protection Act 2018 and the Retained Regulation (EU) 2016/679) (UK General Data Protection Regulation)

## Reporting payment failures

### Duty to report

1. Where contributions are not paid on time, and the governing body<sup>1</sup> or another party with a duty to report<sup>2</sup> has reasonable cause to believe that the payment failure is likely to be of material significance to us, they should send a written report of the matter to us.
2. The legal requirement to report late payments of employee and employer contributions into certain occupational and personal pensions is imposed on the ‘trustees and managers’ of the scheme. In addition, the legal requirement to report late payments of employer contributions into public service pension schemes is imposed on a ‘scheme manager’<sup>3</sup>.
3. Reports should be made to us within 14 days of the trustees having reasonable cause to believe that a material payment failure exists. Members should be notified within 30 days of the report to us<sup>3</sup>. When reporting to members, governing bodies should provide payment information that will enable them to understand what has been paid to the scheme and by whom.
4. Governing bodies should also identify where contributions due to be paid under the payment schedule have been received by the scheme. Members can then take steps to resolve any payment problems with their employer at the earliest opportunity (see **General principles for member communications**).

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1 Section 111A of the Pension Schemes Act 1993 [Article 107A of the Pensions (Northern Ireland) Schemes Act 1993] sections 49(9) and 88(1) of the Pensions Act 1995 [Articles 49(9) and 86(1) of the Pensions (Northern Ireland) Order 1995] sections 70A and 228(2) of the Pensions Act 2004 [Article 65A and 207(2) of the Pensions (Northern Ireland) Order 2005]

2 Section 70 of the Pensions Act 2004 [Article 65 of the Pensions (Northern Ireland) Order 2005]

3 Public Service Pensions Act 2013 [Public Service Pensions Act (Northern Ireland) 2014]

4 Section 228(2) of the Pensions Act 2004. [Article 207(2) of the Pensions (Northern Ireland) Order 2005] Section 111A(7A) of the Pension Schemes Act 1993. [Article 107A(7A) of the Pensions (Northern Ireland) Schemes Act 1993] Sections 49(9) and 88(1) of The Pensions Act 1995 [Articles 49(9) and 86(1) of the Pensions (Northern Ireland) Order 1995]



## Materially significant payment failures

5. Payment failures that are likely to be of material significance include:
  - a. where governing bodies have reasonable cause to believe that the employer is neither willing nor able to pay contributions
  - b. where there is a payment failure involving possible dishonesty or a misuse of assets or contributions
  - c. where the information available to the governing body indicates that the employer is knowingly concerned with fraudulently evading their obligation to pay employee contributions
  - d. where the governing body becomes aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due and the employer does not appear to be taking adequate steps to remedy the situation
  - e. any event where contributions have been outstanding for 90 days from the due date

Materially significant payment failures continued...

6. Payment failures which are not likely to be of material significance include:
  - a. where a payment arrangement is being met by an employer for the recovery of outstanding contributions
  - b. where a claim has been submitted to the Redundancy Payments Office National Insurance Fund or the Northern Ireland Redundancy Payments Service
  - c. where there are infrequent one-off payment failures or administrative errors such as where employees leave or join the scheme and those occasional failures or errors have been corrected within 90 days of the due date
  - d. where payments are made in excess of the contributions due under the payment schedule
  - e. where contributions are paid late but in full and within 90 days of the due date

## Glossary

### Contributions

Money due to be paid into the scheme. This may come from members in the form of regular or additional contributions, or from employers as regular or deficit-related contributions.

### Days

References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or Bank Holidays.

### Payment failure

A contribution which has not been paid in accordance with the payment schedule in full on or before its due date.

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### **General code of practice**

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