ASSOCIATION OF ACA CONSULTING ACTUARIES

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PRIVATE AND CONFIDENTIAL

Mr P Spay
Regulatory Policy and Programmes
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
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Dear Sirs

Consultation on Revised Guidance on Internal Controls

I am writing on behalf of the Association of Consulting Actuaries, in response to the above consultation.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

General

Whilst the guidance is more detailed and helps explain that which the Trustees need to consider and the possible procedures they may need to adopt, it is not structured in a way that trustees can readily access information on issues they may consider relevant to their circumstances from time to time.

We believe the length of the document (56 pages) is such that, whilst it may set out the Pensions Regulator's expectations, it is not in a 'user friendly form' that the trustees can easily digest. Greater success is likely to be achieved by including the material in a TKU module or other 'bite sized' forms

Response to Questions

1. The revised guidance has been developed primarily for smaller schemes - will trustees of these schemes find this document useful? If not, why not?

The guidance states that the Pensions Regulator recognises that there may be some limitation for smaller schemes due to resources and financial constraints. There is nothing in the guidance to identify specific areas of risk that are more applicable to smaller schemes rather than larger schemes. Perhaps all the risks are just as relevant irrespective of the size of the scheme, but the increasing amount of detail set out in the updated guidance may be such that the smaller scheme trustees will find it more onerous and not readily manageable. If the revised guidance has been developed primarily for smaller schemes, then it would be helpful to perhaps have a more condensed version highlighting the main issues or a more detailed executive summary, which can be used as a reference point. We believe the key issue for trustees of smaller schemes will be the establishing and managing of the scheme risk register.

2. In this guidance we set out the activities and controls we would expect trustees to undertake. Does the revised guidance clearly set out our expectations in terms of establishing and operating adequate internal controls and complying with good practice? Are they reasonable?

We believe the revised guidance does set out your expectations but see our comment above. The difficulty for the smaller scheme is managing and having the time and financial resources to continuously monitor and carry out the process. Larger schemes may have regular meetings to discuss and monitor their risks, but this is unlikely to be the case for smaller schemes. Many small scheme trustees will consider that they have appropriate internal controls in place but would not necessarily consider they have the time and resource to list these risks and controls. Many smaller schemes may consider that the control procedures are too time-consuming/costly to accommodate to the extent suggested.

3. Do you feel able to extract information relevant to your scheme, and will this guidance help you develop robust control procedures?

The smaller schemes will rely more on the advisers in this respect than larger schemes. Indeed there may be some smaller schemes where advice is not sought or taken as they believe they already have sufficient internal controls in place.

Each scheme's circumstances are unique and whilst the guidance will assist trustees to develop control procedures the approach/circumstances listed may not be relevant to all cases.

4. The guidance considers seven key risk areas. These are deemed to be both significant and common in most trust-based defined contribution schemes. Do you agree with this statement? Are there any other areas you would expect or wish the guidance to cover?

The guidance refers to the 7 key risks as

- lack of knowledge and understanding
- conflicts of interest
- ineffective relationship with advisers
- poor record keeping
- deterioration of employer(s) covenant
- investment risk

- ineffective retirement process

These risks apply to both DB and DC schemes but there will be differences and differing emphasis of importance of risk between DB and DC schemes. The guidance does not clearly identify or separate out the different aspects of risk relating to DC schemes as opposed to DB schemes and vice versa. For example, for the DB scheme, the Company's covenant is very important in relation to the determination of the technical provisions. Future accrual could typically cease if funding could only support the past service deficit. Under a DC arrangement the employer's covenant is not as relevant other than as a comfort that the employer may continue the DC arrangement.

Other areas that could be considered are communication and disclosure to members. This would be to ensure that appropriate information is sent in a timely manner when required and the need for accuracy, clarity and transparency.

5. We recognise that scheme resources are limited, especially for smaller schemes. The web-based guidance will therefore deliver a series of modules to help trustees address risks in manageable stages - do you agree that the format will help to meet this objective?

As mentioned, the trustees of smaller schemes are not as likely to have the time or financial resource as the larger schemes to study the guidance in the detail given. Whilst the guidance is sufficiently detailed, the format is such that the trustee of a smaller scheme cannot readily access guidance on the specific issues they wish to address from time to time. They may need to read through a complete section to find the appropriate reference for the guidance they seek.

We believe that a web based system is more helpful, but it is not clear how this has been achieved with this guidance. It may be helpful if trustees could more readily access the specific guidance they seek; until they go through the complete guidance a few times it is difficult to navigate to a specific issue under consideration.

6. In this revised guidance we include a number of case and illustrative examples. They have been included to help demonstrate practically the risks and advantages of both adequate and inadequate internal controls, as well as identifying processes trustees may follow. Do you think they fulfil this role? If not, please share with us other case examples which may add more value - we may wish to include these in our final guidance.

The case studies are very useful. In fact it may be helpful if the number of case studies was increased and the general text reduced. To some extent the approach considered is common sense and some satisfactory conclusion is usually obtained. However whilst trustees may experience similar problems, there are likely to be differences peculiar to the scheme or employer and a different approach may be required. Quite often the trustees do adopt the approach suggested and have a meeting with the employer to discuss scheme issues, but sometimes it may require the threat of the Regulator's intervention to obtain a change of attitude.

I hope these comments are helpful. Please do not hesitate to contact me (Charles.young@hymans.co.uk) or Mike Carson (Mike_Carson@JLTGroup.com) if you would like to discuss any of the points raised in this letter.

Yours sincerely

Charles Young
Chairman
ACA Pension Schemes Committee