

**Report on the entries to
the PRAG Summary
Reports Award 2006**

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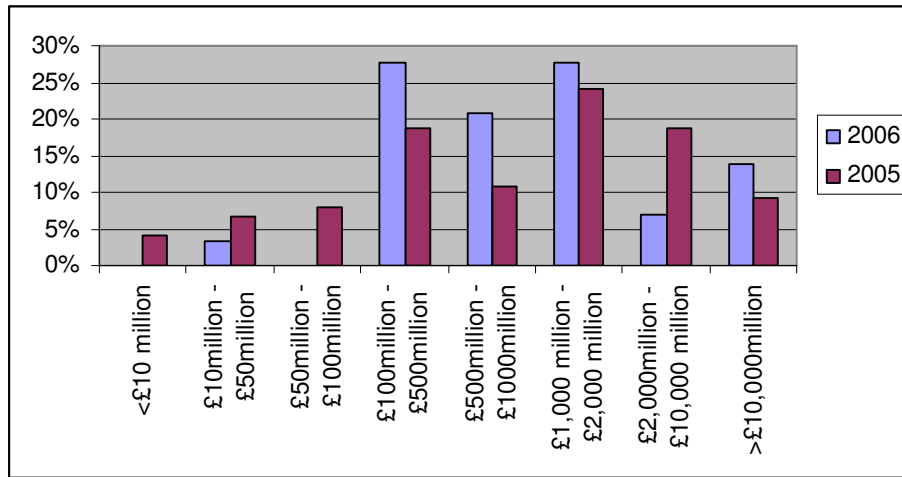
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1 Introduction

- 1.1 This is the second year of the award following PRAG issuing guidance on the production of summary reports. The intention of the award is, as in 2005, twofold:
- To promote best practice in the production of summary reports
 - To gain an understanding of current practice
- 1.2 The 2006 award was publicised by NAPF, PMI, The Pensions Regulator and at the ICAEW Annual Pensions Conference to encourage entries from schemes of all sizes. In 2005 there was only one award, but for the 2006 the entries have been divided into two different size categories to reflect the level of resources available to trustees. This is explained in section 3 on the judging criteria.
- 1.3 PRAG continues to recognise the importance of summary reports to both the trustees' and the employers' communication with members and employees. Since the guidance was issued by PRAG in 2004, there have been changes in the pensions environment and the Summary Reports Working Party will be meeting again in the Autumn of 2006 to update the guidance. The update will reflect the best practice seen by the working party in judging the 2005 and 2006 entries.
- 1.4 This report provides an overview of the entries to the award, the judging criteria and an indication of current practices and nature of information being disclosed. It also includes the judges' general comments on the entries.

2 Overview of the entries

- 2.1 The number of entries to the Award in 2006 was a disappointing 29 compared to 80 in 2005. The majority are again from larger schemes and are all produced primarily as a hard copy document, although many are available on member websites.
- 2.2 The schemes entered for the award have total assets of £91billion and a total membership of 1.7 million. However, of these totals, over 70% are represented by just 5 schemes. The profile of the entries by assets in 2006 and 2005 is:



- 2.3 The judges are keen to see more reports from smaller schemes and PRAG will continue to encourage these schemes to provide examples of their reports, even if they are not formally entered into the award. It is also disappointing that only 15 of the schemes that entered their reports in 2006 had also entered in 2005.
- 2.4 As in 2005, all of the reports received were produced as a “glossy” document. This is consistent with the size of schemes submitting entries, but the working party emphasises that summary reports do not need to be expensive. Simple newsletters can be just as effective for communicating the issues that matter to members.
- 2.5 Some schemes have produced reports where there appears to be a low emphasis on financial information. In general, these are either one edition of a regular member publication or have been produced to meet the requirements of the pensioner members. Although these reports may not meet the financial criteria for the judging of the Summary Report Award, such reports are commended for providing regular communication and being focussed on the needs of specific member groups.

3 Judging criteria

3.1 Following the 2005 Award, it was agreed that there would be more than one award in 2006, primarily to encourage entries from smaller schemes. The judges decided to base this on scheme size as measured by assets and that there would be three categories. However, the number of entries has meant that only two categories could be justified. Assets of above or under £1billion of assets is the determining factor that has been used as this divides the entries evenly.

3.2 Although the judging in both 2005 and 2006 has been based upon broad criteria, with an emphasis on the financial information, the final decision was also influenced by the judges' overall impression of the entries and not solely on a mechanistic assessment of individual scores. The criteria were:

	Suggested weighting
Governance and administration	15
Financial information	30
Investment and funding	25
General narrative and broader issues	10
Ownership by trustees	10
Overall presentation	10
Total	<u>100</u>

3.3 The areas considered for each of the above criteria were:

Governance and administration

Extent to which the running of the scheme was explained in the report, the clarity of information provided and the relevance to the membership.

Financial information

The clarity and relevance of the information provided and the extent to which the membership could gain a clear understanding of the inflows and outflows from the scheme in the period.

Investments and funding

The transparency of the disclosure of up to date information on funding was important, as well as on investment strategy and asset allocation.

General narrative and broader issues

The overall narrative and level of commentary on relevant matters not necessarily specific to the scheme come under this heading. The main issues expected to be covered in the 2004 reports were the Pensions Act 2004 and the Finance Act 2004.

Ownership by trustees

The prominence of the disclosure of the availability of the full annual report, reference to the audit report and evidence of the involvement of trustees were all important.

Overall presentation

This was consideration of the report's impact and the ability to hold the reader's attention.

4 Key features of summary reports

4.1 Governance and administration

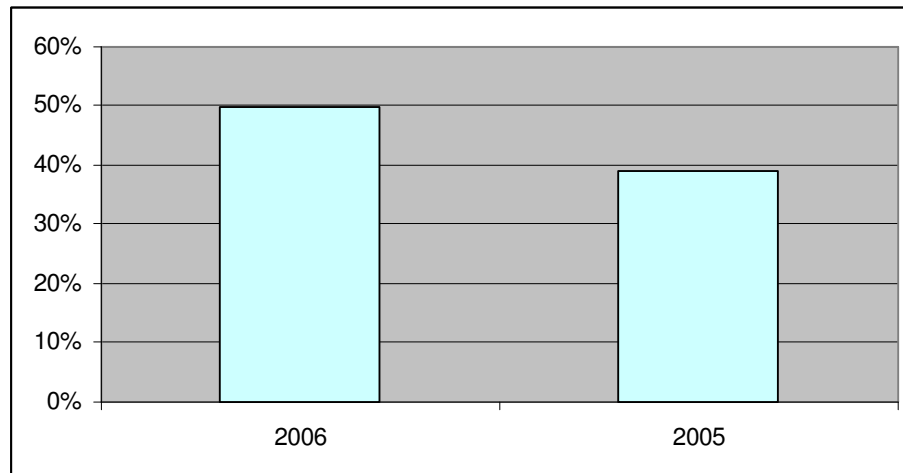
The Pensions Act 2004 has formalised a number of areas of trustee responsibility with a broad intent of strengthening trustee governance. The Pensions Regulator is issuing codes of practice to provide a framework for trustees and in considering the disclosure of governance a useful benchmark is reference to the codes of practice.

Of the entries, 29% make clear reference to the existence of the key codes of practice of Internal Control and Trustee Knowledge and Understanding even though these had not been finalised when the reports were issued. Although not a direct comparison, this compares with 30% of the 2005 entries referring to the Myners Principles (only 7% of the 2006 entries included a reference to Myners which indicates the change in focus to the codes of practice).

In view of the importance being placed on this aspect of scheme operation by the Pensions Regulator and the possibility of future disclosure requirements, this is an area where the expectation must be for more disclosure in the future.

4.2 Financial information

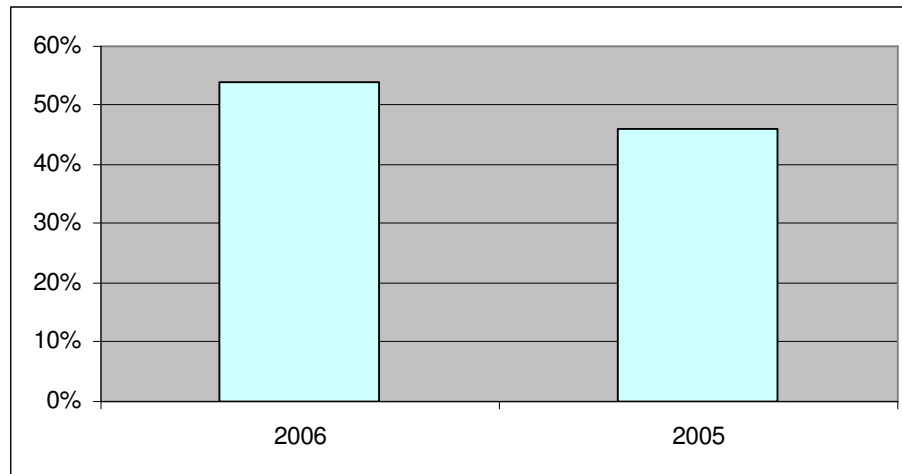
PRAG is primarily concerned with the financial information and, in summary reports, the detail should be presented in a simplified manner rather than as a reproduction of the financial statements. It is encouraging to see more reports including financial information in such a manner:



4.3 Funding

Scheme specific funding will be the basis of future actuarial valuations and 18% of the entries notified members of the advent of the new regime. Trustees will be

obliged to provide funding statements to members and, as expected, in the spirit of proactive disclosure, there is more transparency on the funding position of defined benefit schemes. The proportion of entries which included transparent disclosure are:



PRAG will monitor the trend and ascertain if, in time, the summary report becomes the means of trustees fulfilling their obligation to communicate the funding position to the membership.

4.4 **General narrative and broader issues**

Trustees should see the summary report as a part of a broader communication strategy. Financial information may be included as a small part of member magazines, but documents primarily intended to convey financial information may be more extensive in the topics that are covered. The 2006 entries include commentary on:

FA2004 – the key changes and actions required from simplification

Website – the availability of on-line information

PPF – explanation of the PPF and the security it provides members

AVCs – reasons for making them and how to find out about them

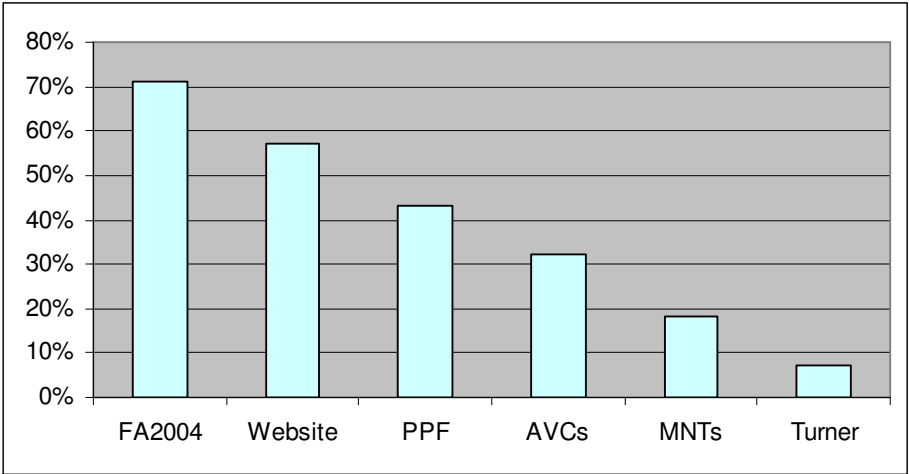
MNTS – the forthcoming changes to the rules and procedures

Turner – potential changes in the Government’s approach to pensions

The extent to which these issues were covered by the 2006 entries is as follows:

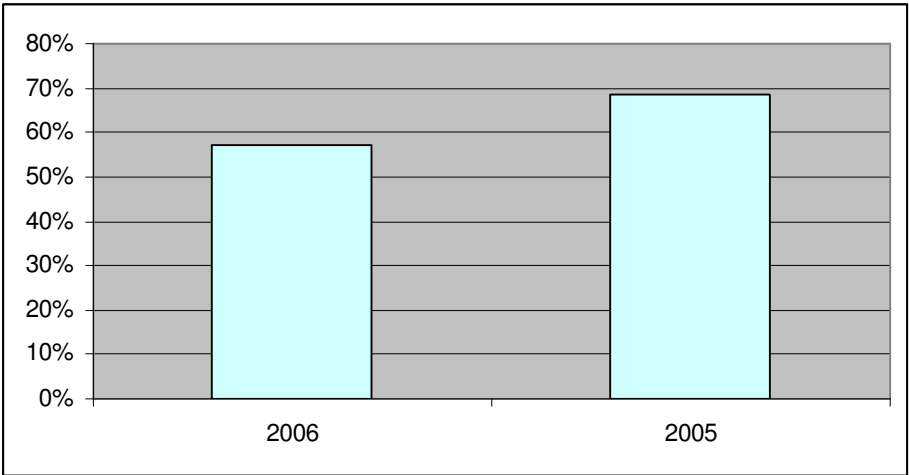
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It is important to include within the summary report details of where the full annual report can be obtained and to provide an indication of the auditors' report on the full financial statements. In 2005, the judges commented that it was disappointing that not all summary reports contained this disclosure.

In 2006, there has been a reduction in the number of reports that make this important disclosure:



5 The judges' comments

The quality of the entries has again be high, although four or five stood out to the judges and were short-listed for discussion.

The judges praised the following features of the short-listed reports:

- Clear explanation of changes, year on year, in fund account items, including administration costs;
- Commentary on risk and governance and explanation of what a trustee does;
- Inclusion of other information about pensions issues and the employer;
- Broadening out the content by the inclusion of comments and quotes from advisers;
- Transparency of the explanation of the funding position;
- Photographs of main contacts for members;
- Inclusion of commentary on the management of cash-flows; and
- Disclosure of audit opinions.

Certain elements of reports could, in the view of the judges, be improved.

Graphics are used with varying degrees of success. They should be clear, not include too much detail and, together with photographs, be relevant to the membership and not make the report unnecessarily long. This does, however, need to be balanced against making reports too “dense” with little free space.

Reports must also capture the attention of the members. Some reports had introductions that the judges found too detailed on the operation of the scheme itself. Whilst such information is relevant, the inclusion of it in the opening paragraphs may be inappropriate.

The short-listed schemes in each category are:

Above £1billion

Royal London Group Pension Scheme

Xerox Pension Scheme

Under £1billion

Dixons Retirement and Employee Security Scheme

Smiths Industries Pension Scheme

Westland Pension Scheme

The awards are presented to Royal London Group Pension Scheme and the Dixons Retirement and Employee Security Scheme.

Both these reports provided clearly presented and relevant commentary on the items in the fund account. The Royal London report was noted particularly for the inclusion of an explanation of the administration costs and the information about the trustee role. Dixons' summary report stood out for the detail provided on the approach to risk and governance.

6 Conclusion

The entries were of a good standard, but there are areas where additional information could have been included and presentation improved. The judges continue to encourage trustees to consider the needs of the membership as the priority in deciding the overall scope and content of summary reports.

Further information can be obtained from the chairman of the working party:

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