

**Report on the entries to
the PRAG Summary
Reports Award 2008**

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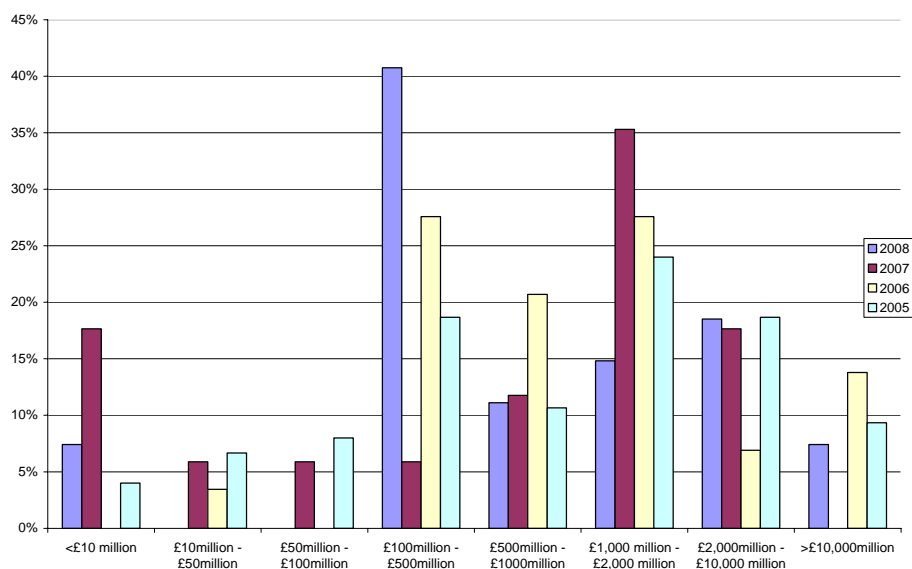
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1 Introduction

- 1.1 PRAG recognises the importance of summary reports for trustee communication strategies and the production of summary reports is actively encouraged. The award is one method for promoting their benefits and for sharing best practice.
- 1.2 Guidance for the preparation of summary reports was first published on PRAG's website in 2004 and was revised in 2007 ("the Guidance"). Since 2005 PRAG has invited schemes of all sizes to enter their summary reports for an annual award based on the Guidance. As well as rewarding good practice, the award gives the working party responsible for the Guidance access to reports that are not always available in the public domain.
- 1.3 This report provides an overview of the entries to the 2008 award, the judging criteria and an indication of current practices and the nature of information being disclosed. It also includes the judges' general comments on the entries.

2 Overview of the entries

- 2.1 There were 29 reports entered from 27 schemes. The profile of the entries by asset value since the inception of the award is:



- 2.2 The entries represent a range of scheme structures including mixed benefit and hybrid schemes and the active and pensioner members of these schemes total over 500,000 individuals. The entries do, therefore, provide an excellent view of the various approaches taken to summary reporting by trustees.

- 2.3 There is also a broad range in the industry sectors of the sponsoring employers. These include financial services, retail, manufacturing and transportation. The Guidance recognises the needs of the membership is a critical factor in the design of a summary report. It was evident from the entries that the nature of the membership has been considered. At the extremes, the entry from a scheme sponsored by a financial institution is a more “intense” document than that for a scheme where the members are not desk based. In the latter case, the judges saw more use of graphics to convey potentially difficult messages.
- 2.4 There must also be similar considerations for the media used for the publication of the report. In many industries the membership do not have regular access in working hours to workstations and electronic communication is, therefore, unlikely to be effective.
- 2.5 This is not to suggest that one approach is better than another or that generalities should be made. It is for trustees to assess the best approach for their membership.

3 **Judging criteria**

- 3.1 The judging categories for 2008 were:
- Schemes with assets in excess of £500m
 - Schemes with assets below £500m
 - Schemes with DC benefits
- 3.2 The criteria were:
- Engagement – so that members read it
 - Clarity – the information is understood
 - Coverage – all relevant matters are included
- 3.2 The full guidance issued to judges is included in the appendix to this report.
- 3.3 The judging process was in two stages. A sub-committee of the working party judged all of the reports to produce a shortlist of three or four entries in each category. These were then judged by the whole working party.
- 3.4 The members of the working party are pensions professionals representing relevant disciplines. These include accountancy, audit, legal, administration, communication and trusteeship.

4 **Feedback from the judges**

4.1 The judges have made observations on best practice.

4.2 **Summary funding statements**

These are a statutory requirement. Of the entries, 72% of those with defined benefit arrangements included the summary funding statement. This is a greater proportion than 2007.

In many of the reports the summary funding statement was presented using the format set out by the Pensions Regulator in code of practice 3. Others used a format consistent with the rest of the summary report and used graphics to illustrate the deficit in the scheme. In some cases there was clear explanation of the technical terms and a sensible use of language to avoid causing unnecessary concern.

The judges concluded that the more creative and imaginative approaches to the presentation of the statutory information worked better both in terms of providing the information and in the overall structure of the report.

4.3 **Statistical information**

Many of the reports include graphs to give statistical information. There does need to be care to ensure that the information presented is not misleading. Common pitfalls are:

- Inappropriate use of scales
- Single tables using different data sets that are not strictly correlated

Graphs and images are a good way of presenting relevant information, but if they can be misinterpreted, then they should not be used.

4.4 **Engaging the member**

Summary reports that include information about the employer or about pensioner groups provide an element of interest to the reader. This does need to be balanced with the other information included, but it can be very effective.

The judges were particularly impressed with reports that included interviews or case studies based around members. In a DC scheme, this can be a very effective way of explaining the issues that members need to be aware of.

As in previous years, the judges like the inclusion of glossaries as this assists the members' understanding of an area that they are not familiar with. The judges were also pleased to see the use of plain English to explain difficult issues.

Statements from the chairman of the trustees were also used effectively as these gave a personal feel to the reports.

4.5 **Extracting information from the full report**

The judges are aware of a risk that the presentation of the financial information in a summary report could change an individual's interpretation of that information. There are two areas that the judges wish to highlight:

- In combining captions, the underlying nature of material transactions should not be lost. For example, the combination of payments to leavers and benefit payments could be misleading.
- The tendency is for investments in pooled investment vehicles to be disclosed as if there was direct investment in the underlying asset. This does provide relevant information, but the fact that there is a pooled arrangement should be disclosed. The disclosure of just the underlying investments may suggest a diverse investment strategy, but the reality of a single fund is a potential risk that members may need to be aware of.

4.6 **Questionnaires**

Several of the entries included member questionnaires to ascertain their views on communication and wider issues such as the level of service from the administration team. As it is arguably the member that is the most important stakeholder in the scheme, it is important to ascertain if they are satisfied with the service they are receiving.

The judges considered a questionnaire as an excellent way to achieve this and also to get members interested and involved in the scheme and the approach to communication going forward.

5 **Information included in summary reports**

5.1 **Governance and risk**

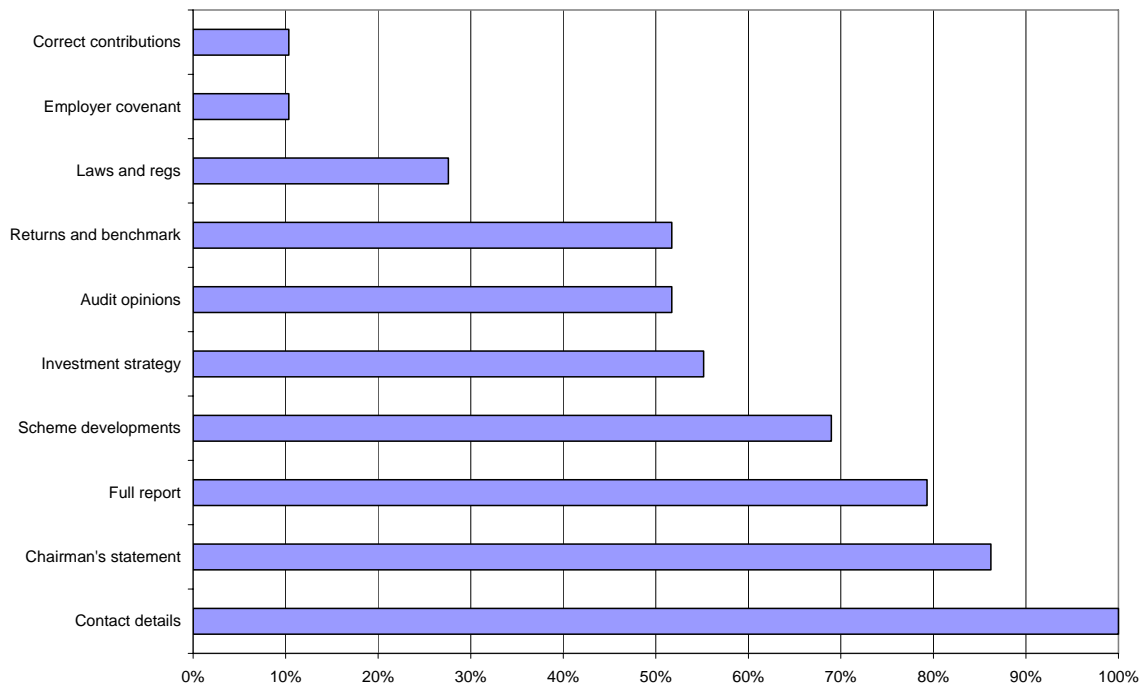
The working party has always encouraged the preparers of summary reports to include information about the governance of the scheme. As the Pensions Regulator continues to promote good governance, the judges expect to see more disclosure about governance in the entries and commentary on compliance with code of practice 9 "internal control".

This does remain a disappointing area as although all of entries disclose the trustee board, only just over 10% go further and explain about internal control and other procedures adopted by the trustee board.

The working party and the judges do believe that this is an area that should be included in communication with members as it is a vital element in giving them confidence in the security of their pension.

5.2 Other information included

Below is a chart showing the proportion of entries that included key items of other information:



The entries to the award were published prior to the recent developments in the financial markets and the communication in October from the Pensions Regulator to trustees. In view of these events, the judges would expect to see in 2009 far more disclosure of the trustees approach to monitoring the employer covenant than was seen in the entries to the 2008 award.

The judges also expect to see more disclosure of the regulatory environment in which pensions operate as the Pensions Bill becomes legislation and personal accounts become a reality. Media coverage does mean that pensions are higher on individuals' agendas and trustees should be ensuring that relevant information is provided to members.

As in previous years, the judges are disappointed that there are still nearly half the entries that do not disclose the audit opinion that has been given on the full financial statements.

6 The judges' decision on the awards

6.1 Defined Contribution

Bacardi-Martini UK Pension Scheme Defined Contribution Section - the judges considered this to be a report that, because of strong colours, it was likely to be opened and read. The overall format is appealing and the content informative. The judges were particularly impressed with the "It's all about you" section which brought a human touch to the issue of pensions and provided guidance to members on DC issues.

The inclusion of a member survey was a good feature. It is also noted that the report is only for the DC section of a scheme which has several sections.

6.2 Schemes with assets of more than £500 million

TI Group Pension Scheme – the judges considered this to be an easy to read report with a strong section on investments and helpful explanations to assist in the interpretation of the strategy. The fund account was presented imaginatively and was easy to understand.

It was, however, commented that the inclusion of the summary funding statement made the document heavier than it otherwise could have been and that an abbreviated approach to this may have been more appropriate.

6.3 Schemes with assets of less than £500 million

Arla Foods Pension Scheme – the judges considered this to be an easy-to-read document due to its straight-forward presentation and being concise, yet comprehensive. They were impressed by the jargon buster.

The trustees were particularly impressed by the imaginative approach to the presentation of the summary funding statement.

6.4 Highly Commended

The Hess Limited Pension Plan was highly commended. This was considered to be an attractive and colourful report with clear messages and a good use of sound bites. It was also considered to be concise and compact.

7 Conclusion

The judges would like to thank all trustees and scheme sponsors that entered their summary reports to the award.

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The quality of the entries remains impressive and the judges are pleased to see that there are different approaches being adopted to provide information to members. It is clearly an area that trustees invest in and members benefit from clear and concise communication.

As many individuals are concerned about their pensions in the current economic and financial environment, the importance of good communication can only increase. The judges do expect to see open and transparent communication in the entries for the 2009 award.

Any comments on reporting to members are welcomed by the working party and these can be sent to the chairman:

Bob Hymas
Baker Tilly
12 Gleneagles Court, Brighton Road
Crawley
West Sussex RH10 6AD

bob.hymas@bakertilly.co.uk

There will be a further wards in 2009. The number of entries in 2008 was good, but the judges are keen to see more reports in 2009. Please send your reports to the PRAG secretariat:

Margi Slade
187 Rednal Road
Kings Norton
BIRMINGHAM
B38 8EA

margislade@blueyonder.co.uk

PRAG Summary Reports Award

2008 judging

Approach to judging

The reports have been divided into three categories:

- Schemes with assets in excess of £500m
- Schemes with assets below £500m
- Schemes with DC benefits

For each category the judges should rank the reports.

The ranking should be based on the success of the report in achieving:

- Engagement – so that members read it
- Clarity – the information is understood
- Coverage – all relevant matters are included

Set out below are potential aspects of each criteria, but each judge should determine their own basis for ranking the entries.

Engagement

Is the report likely to be opened by members?

Once opened, will members read all of the report?

Is any other information included in the report likely to be of interest to the membership?

Does the use of pictures and graphics make the document attractive to the reader?

Clarity

Is the financial, funding and investment information presented so that members can easily understand it?

Are graphics used to help understanding? Do they achieve their objective?

Will members be clear on any choices they have or any actions required?

Is there a feeling of openness and transparency?

Coverage

Does the report cover all of the areas included in the guidance issued by PRAG in 2007?

The guidance refers to:

- Financial information with associated disclosure of the audit opinions and the availability of the full annual report
- Non-financial information, which in brief is:
 - Receipt of confirmations in accordance with the schedule;
 - Funding position and the recovery plan;
 - Issues relating to the employer covenant;
 - Investment strategy;
 - Disclosure of investment performance compared to benchmarks;
 - Executive summary or chairman's statement;
 - Update on important scheme specific developments;
 - General information that members should be aware of including changes in laws or regulations;
 - Brief explanation of the trustee role, the key elements of their governance arrangements and approach to risk management;
 - Scheme contact details;
 - Availability and role of The Pensions Advisory Service, the Pensions Ombudsman, the Pensions Regulator and the Pension Protection Fund;
 - Membership data;

The guidance also recognised specific requirements for DC members. These include providing information on individual investment funds and encouraging members to consider their overall retirement planning.