

**Report on the entries to
the PRAG Summary
Reports Award 2005**

PRAG

PENSIONS RESEARCH ACCOUNTANTS GROUP

1 **Introduction**

1.1 In September 2004 PRAG published guidance on the preparation of Summary Reports and at the AGM in November launched the Summary Reports Award for 2005. The intention of the award is twofold:

- To promote best practice in the production of summary reports
- To gain an understanding of current practice

1.2 Summary reports can be an important part of both the trustees' and the employers' communication with members and employees and it is PRAG's intention to encourage their production. The reports do not need to be professional glossy documents – it is the effectiveness of the communication that is important.

1.3 The number of entries to the Award is an encouraging 80. The majority are from larger schemes although reports have been received from schemes with less than £10m of assets.

1.4 In judging the award, there has been no distinction based on size, but the larger schemes clearly have more resources available to them. This may have discouraged smaller schemes from entering and in subsequent years a separate award for smaller schemes will, therefore, be made. It may also be appropriate to extend the awards to cover specific aspects of communication with the membership, although this could be outside the remit of PRAG.

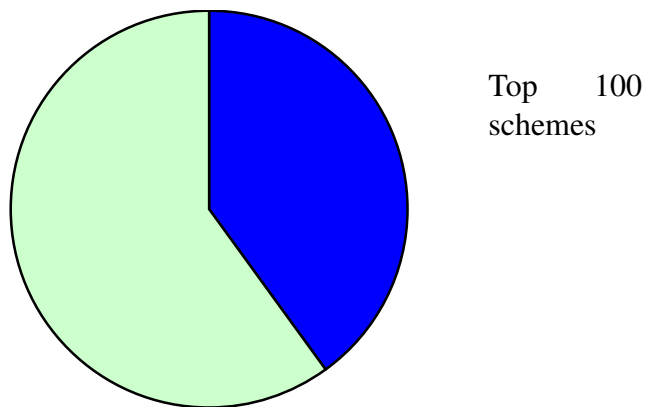
1.5 This report provides an overview of the entries to the award, the judging criteria and an indication of current practices and nature of information being disclosed. It also includes the judges' general comments on the entries.

-

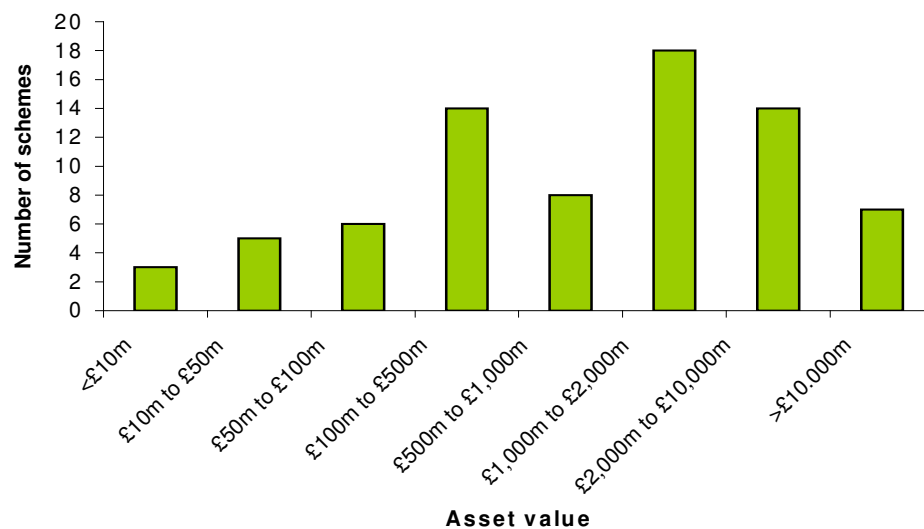
2 Overview of the entries

2.1 Following the announcement of the award in November 2004, all of the PRAG membership were asked to submit summary reports for the award. In addition, a number of the top 100 schemes as published by Professional Pensions were contacted. Those contacted were those for whom accurate contact details could be identified from information in the public domain.

2.2 It is, therefore, to be expected that a significant number of the reports received are from Top 100 schemes:



2.3 However, other schemes did submit entries and the profile of reports by scheme size is:



It is disappointing that more reports were not received from smaller schemes, although this could be indicative that the majority of reports are produced by larger

schemes. More research will be required and for future awards it is probably appropriate to have a separate judging category for smaller schemes. The exact cut off between smaller and larger schemes is to be determined once entries are received.

- 2.4 The majority of summary reports entered are for either defined benefit schemes, or schemes that have a defined benefit section. Given the need to provide annual statements to DC members this is understood. However, it has been suggested that there is an award for defined contribution schemes and member statements and the entry of such reports is encouraged in 2006 and, if there is sufficient interest, a separate award may be made.
- 2.5 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.
- 2.6 Three schemes entered different reports for different categories of member. This recognised the different information needs of pensioners in particular and the focus was more on providing company and general information rather than the financial position of the scheme. As such, these reports were more akin to membership magazines and could not be judged against reports for active members.

3 Judging criteria

3.1 Judging was based upon broad criteria with an emphasis on the financial information. It was not so structured as to lack a subjective assessment of the reports submitted and marks have not been given to each report. 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	<hr/> 100 <hr/>

3.2 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 understand the inflows and outflows from the scheme in the period.

Investments and funding

The transparency of the disclosure of current information was important, including the relevance and the approach to presentation of the information. In addition, investment strategy and asset allocation disclosures were relevant.

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 both important.

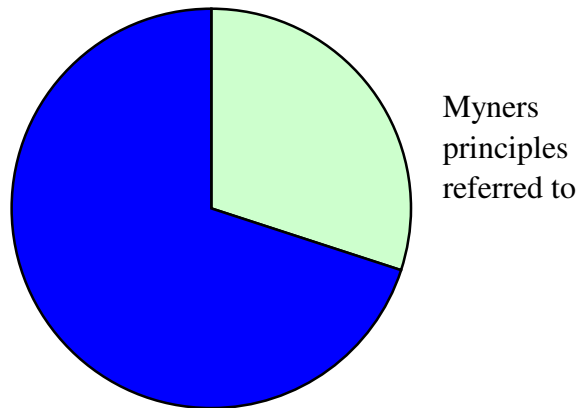
Overall presentation

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 Myners report encourages reference to the Principles it sets out, although compliance is voluntary. Reference to them in the summary report may indicate strong governance, but the reports submitted were disappointing in this respect. However inclusion could be regarded as too much detail for a summary report by some trustees.

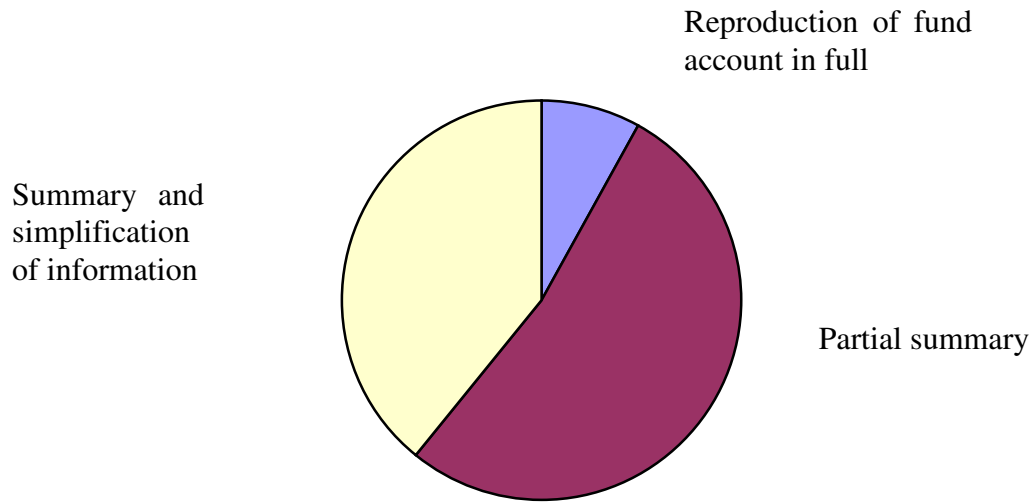


4.2 Financial information

PRAG is concerned with the financial information and in summary reports such information should be presented in a simplified manner rather than as a reproduction of the fund account. Three approaches may be identified from the reports submitted:

- A full reproduction of the fund account as presented in the full annual report
- Some combination of headings and inclusion of detail from the notes, but essentially the SORP fund account format – this is referred to as a “partial summary”
- Simplified presentation of the information highlighting selected key information whilst providing information on the total inflows and outflows to the scheme.

The occurrence of these is:

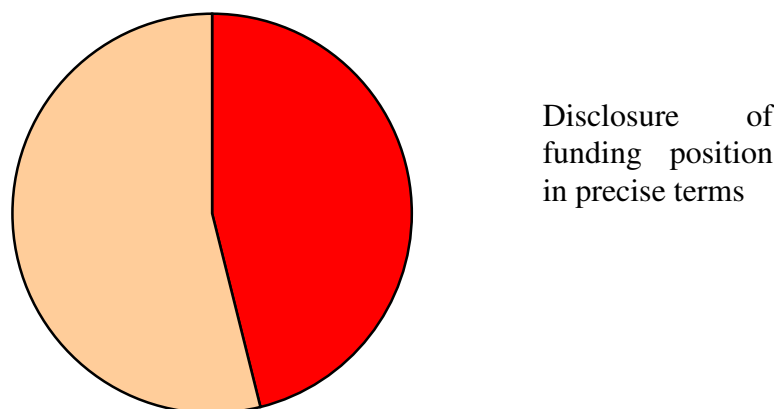


4.3 Investments

All of the reports provided some information about the investments, although the disclosure of investment strategy was less common. The amount of information included in a summary report for this area does need to be carefully considered as too much detail on asset allocations and geographical distributions can be confusing and ultimately may only be of interest to a small number of members. It may, however, be appropriate to focus on the key split between bonds and equities.

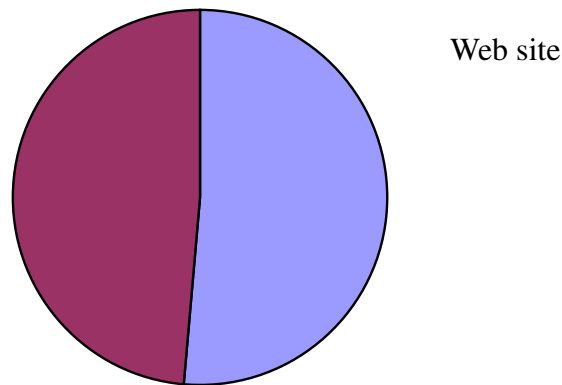
4.4 Funding

Members are, however, likely to be aware of the funding difficulties that defined benefit schemes face and a clear disclosure of the position should be made. Many reports skimmed over the issue and deferred comment to the following year's report when a final valuation was expected to have been completed. Those which did tackle the issue head on were:

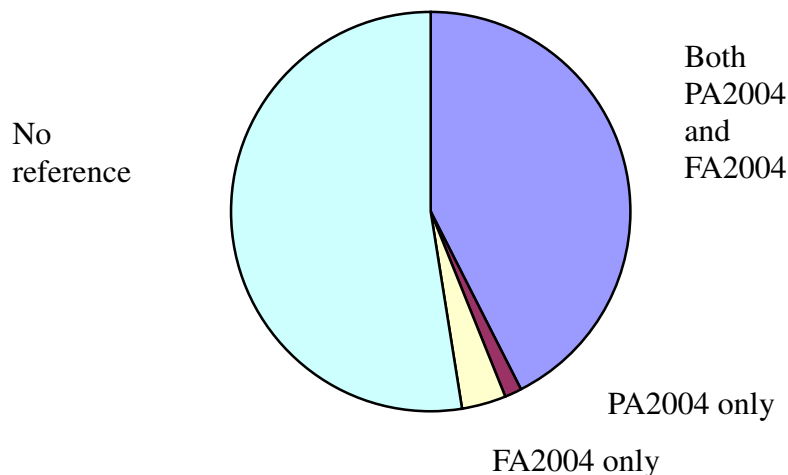


4.5 General narrative and broader issues

4.5.1 The summary report is an opportunity to convey information to the membership and to update them on developments both within the scheme itself and external factors affecting the scheme. It must, however, be recognised that there are other means of communicating and it is encouraging to see many reports referring the membership to a web site:

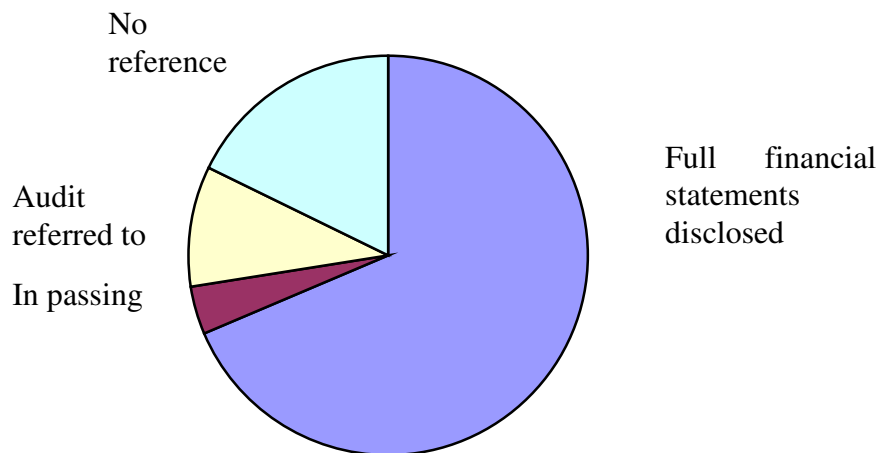


4.5.2 All of the reports received were produced in 2004. There were two significant events affecting pensions in 2004, the Finance Act 2004 and the Pensions Act 2004. The Pensions Act did not receive royal assent until November, but the key measures being introduced were known much earlier in the year. Similarly with the Finance Act, the key changes were known at the start of the year. Both pieces of legislation contain matters of relevance to at least some of the membership and so it is reasonable to expect some reference to them.



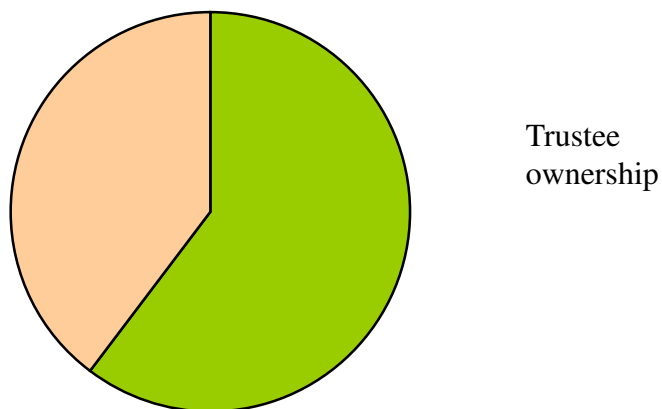
4.5.3 It is important to include within the summary report details of where the full annual report can be obtained and to provide an indication of the auditors report on the full financial statements.

4.5.4 It was disappointing that not all summary reports contained this information and that in some there was not clear disclosure:



4.6 Ownership by the trustees

Summary reports are, ultimately, the responsibility of trustees, although they may have delegated the responsibility for the report to another party. However, whoever produces the report, it should be ensured that the members see some involvement of the trustees. This is commonly by a formal introduction or narrative signed off by the trustees:



5 **The judges' comments**

The quality of the entries has been high and it was difficult to select firstly a short list of seven for the working party and then a shortlist of three for the Executive to consider. The judging has not been a quantitative exercise, although the allocation of marks by individual judges was ranked to assist the judging process.

The judges liked the following in the shortlist of seven reports:

- Description of the funding position and action being taken to either protect a surplus or rectify a deficit. However, when referring to detailed actuarial information care must be taken to maintain the quality of information and not produce excessively long sections;
- Commentary on the investment strategy;
- Performance measures;
- Use of appropriate scaling when using graphics;
- The inclusion of other information in a balanced manner; and
- An appropriate level of information on AVCs.

The judges were less enthusiastic about reports that contained too much non-pension information such that they became member magazines. This is dependant upon individual scheme's and their own membership, but care needs to be exercised to avoid devaluing the financial information. The judges also commented that, in using graphics, the relative size of the graphic should reflect the relative size of the information being presented.

Overall it is a subjective decision and the final measure is the impact. This will always be easier to achieve with a glossy report and a design team. It must again be emphasised that this should not deter smaller schemes from producing reports and future awards will be split into sections.

Three reports were submitted to the Executive:

P&O Pension Scheme 31 March 2004 published August 2004

Rexam Pension Plan 5 April 2004 published November 2004

Shell Contributory Pension Fund 31December 2003 published July 2004

The award goes to a report that all of those involved in the judging felt caught the reader's attention, provided a high level of information, was sophisticated and had a theme providing snippets of non-pension related information without over powering the scheme information.

The recipient of the award is the Rexam Pension Plan 5 April 2004 published November 2004



The report can be found at www.rexampensionplan.co.uk.

The judges have also commended the Compagnie Nationale Air France in Great Britain Pension and Life Assurance Plan. It was concluded that it was a good example of what a smaller scheme can achieve.

6 **Conclusion**

The quality of the reports has been tremendous and a considerable amount has been learnt about current practice. The award will develop for 2006 and it is hoped that the enthusiasm will continue.

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

Bob Hymas
BDO Stoy Hayward LLP
Baker Street
London
W1U 3LL

bob.hymas@bdo.co.uk