

**Report on the entries to
the PRAG Summary
Reports Award 2007**

PRAG

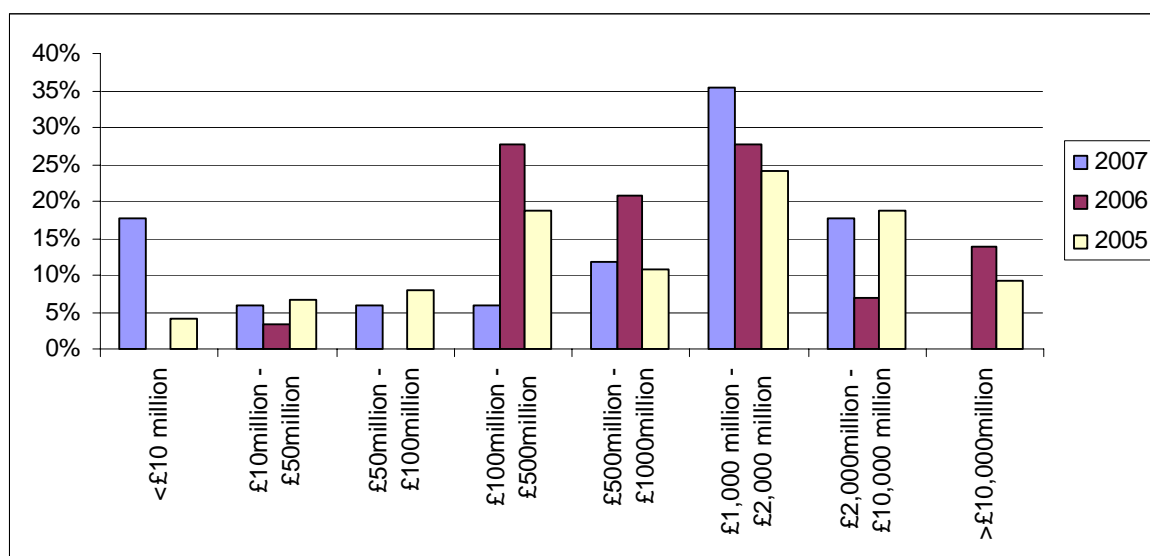
PENSIONS RESEARCH ACCOUNTANTS GROUP

1 Introduction

- 1.1 In 2004 PRAG published guidance for the preparation of summary reports on its website (“the Guidance”). PRAG has subsequently presented annual awards for summary reports since 2005.
- 1.2 The entries to the award provide the working party responsible for the Guidance with an understanding of best current practice. This understanding has been reflected in the update to the Guidance that is being published at the same time as the 2007 award results being announced.
- 1.3 PRAG continues to recognise 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.
- 1.4 The summary report can also be a part of the employer’s communication. A pension is a valuable employee benefit and employers may wish to explain the value to active members. This should not, however, dilute the trustees’ messages.
- 1.5 This report provides an overview of the entries to the 2007 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 The 16 reports submitted for the 2007 award was the lowest entry level in the three years since the Guidance was published. The judges believe that more schemes are now producing summary reports than in 2005 and they are keen to see a greater number of entries.
- 2.2 All of the reports entered were produced in hardcopy for the members. In many of the reports members are directed to web sites for further information, but the expected increase in electronic communication is not apparent from the entries.
- 2.3 The profile of the entries by asset value in 2007, 2006 and 2005 is:



2.4 The increase in entries with assets of less that £10m is due to reports being received for newly established defined contribution arrangements that run alongside more mature defined benefit arrangements. Of the entries with assets below £100m, 60% are defined contribution arrangements. The judges are considering the introduction of a separate category for the 2008 award.

2.5 The update to the Guidance recognises that the principles underlying summary reports for defined contribution schemes are fundamentally the same as those for defined benefit schemes. However, it also indicates that where members are offered a choice of investment funds, information should not be aggregated as it is the performance of individual funds which is meaningful. The defined contribution entries received are consistent with the Guidance.

3 Judging criteria

3.1 The judging criteria in 2007 are the same as for the previous two years. Details of the criteria is included in the appendix. As in 2006, the entries were judged in two categories, those with assets of above £1billion of assets and those below.

4 Key issues for the preparers of summary reports

4.1 In requesting entries for the 2007 awards, the judges also sought the views of preparers on how the summary report interacts with the statutory summary funding statement.

4.2 The comments that were received indicate that there are differing views.

- 4.3 A single report including the summary funding statement can result in a more comprehensive document at a reduced cost. Trustees also felt that this provided an opportunity to provide context and background to the detailed information that is included in the summary funding statement.
- 4.4 Other trustees regard the purposes of the communication to be different and for separation to be appropriate. The opportunity seen in this approach was the reinforcement of key pension issues at different times.
- 4.5 The entries for defined benefit schemes that were received indicate that preference is for separation as two thirds did not include the summary funding statement. However, as all of the reports were issued in 2006, the reporting deadline of 22 September 2006 for the first summary funding statements may have driven this decision. In 2007, the judges expect to see more combined reports given more flexibility in the timing of the funding statements.
- 4.6 Although the formal summary funding statements may not have been included, in all but two of the entries from defined benefit schemes appropriate information about the funding of the scheme was included in the summary report.
- 4.7 The judges also asked the extent to which feedback is sought from members on the summary report and, if such input is received, how it impacts on subsequent reports.
- 4.8 There has been a limited response to this request and the comments that have been made suggest that summary reports are well received, although there is little evidence of the membership being proactive in providing feedback. However, in more than half of the entries to the award, feed back is requested.
- 4.9 Some respondents have stated that a key issue to consider when preparing summary reports is how to engage the membership. One suggestion to achieve this is the use of a website with games and quizzes to encourage members to make return visits and be involved in the information that is available. The judges fully support such an approach and the Guidance emphasises that good summary reports are based on the needs of the membership and designed to give practical value.

5 Information included in summary reports

5.1 Governance and risk

In 2005 and 2006 less than a third of the entries provided information about governance and risk management.

In prior years, the judges have indicated that they expected an increase in the level of disclosure in this respect and they are pleased to report that in 2007 more than half of the entries include relevant information and explanation.

5.2 Financial information

As in previous years, financial information is presented in different ways. This is consistent with the Guidance which recognises that the preparers of summary reports should consider how the information can be presented in a meaningful way.

The judges have been particularly impressed this year with the clarity that can be gained by annotating each fund account caption with appropriate explanation.

A recurring theme is that graphics are used with mixed success. Simple graphics often convey information better than more complex diagrams. Care is also required to ensure that the relative size of items shown as a graphic representation do not result in the significance of that item in financial terms being misrepresented.

5.3 General narrative and broader issues

There are certain disclosures that the judges would expect to see. These include:

TPAS/Ombudsman – details of who to contact outside of the scheme in the event of either information being required or a complaint can help members resolve their issues and concerns and also demonstrates transparency by the trustees.

The Pensions Regulator (TPR) – similarly, members may find it useful to know where to find information on the regulation of occupational schemes and of the obligations imposed on trustees.

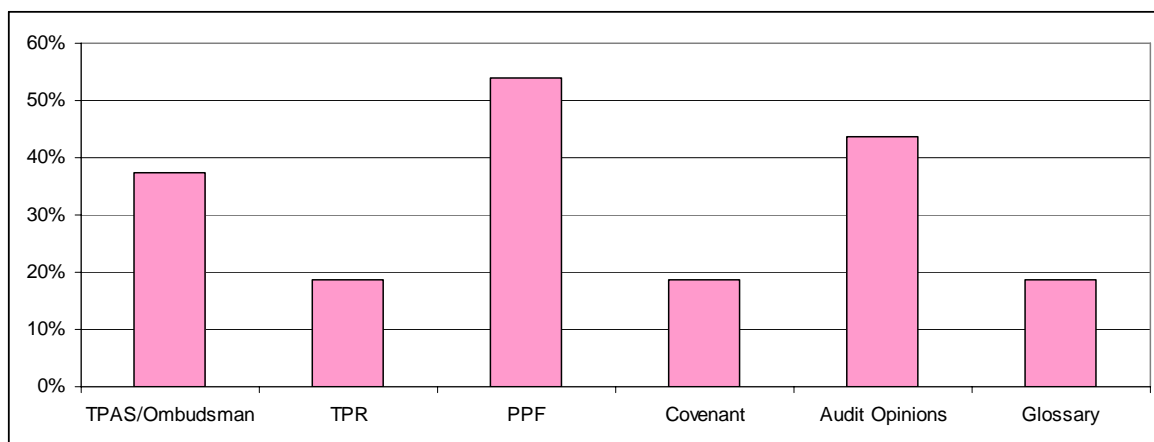
PPF – for defined benefit schemes an explanation of the Pension Protection Fund can provide members of defined benefit schemes with some security.

Covenant – in defined benefit schemes one of the key issues is the strength of the employer covenant. Members will be interested to know how the trustees are monitoring the ability of the employer to pay contributions.

Audit opinions – if complying with the SORP, the nature of the opinions should be disclosed.

Glossary – pensions are a complex subject that often involves jargon. A glossary of terms can make it easier for members to understand the information being presented to them.

The extent to which these disclosures were made in the 2007 entries is shown below:



The judge's have commented on these disclosures:

- TPR is probably disclosed less frequently than TPAS or the Ombudsman as interaction is more likely to be between TPR and trustees as opposed to members. The level of disclosure of the availability of TPAS and the Ombudsman is, however, disappointing.
- For both the PPF and covenant data above the percentage is based only on defined benefit scheme reports. Although more than 50% of the entries include details of the PPF, this is lower than the judges expected. The rationale could be that trustees do not consider disclosure to be necessary as the funding is at a suitable level and a recovery plan has been agreed. This is consistent with two of the three schemes that explained the strength of the employer covenant not referring to the PPF. However, the existence of the PPF is a significant matter for defined benefit schemes.
- The judges are disappointed that less than 50% of the entries disclose the nature of the audit opinions. Although 75% of the entries do disclose that the financial statements have been audited and 70% explain where the full report can be obtained from, this is one area where the judges expect improved disclosure in the future.
- Glossaries are liked by the judges and the greater use of them is encouraged.

6 The judges' decision on the awards

6.1 Schemes with assets below £1bn

Xerox Fundextra – Presented the award

The information provided in respect of this DC arrangement was considered to be excellent. The report provided detail of the individual funds that were available,

including the performance. The information on how members should approach making a decision on which fund to invest in was also liked. The judges agreed that the other information included was relevant, well presented and, overall, the report was a good promotion of a DC arrangement. The glossary of terms was also considered to be a useful section.

DRESS - Commended

The judges liked the approach to the presentation of information and found that the inclusion of narrative against each fund account caption was particularly useful for the non-specialist. The report also included a good explanation of the trustees' work and there was comprehensive coverage of the investments.

6.2 Schemes with assets over £1bn

Smiths TI Group Pension Scheme – presented the award

The judges' view was that the report was comprehensive, user friendly and the financial information well presented. The report was an appropriate length and also included general information that was pertinent to the members.

During the year there had been a minor issue in respect of contributions, but suitable explanation was included. The judges liked the transparent and honest approach to reporting to members.

7 Conclusion

The overall quality of the reports being entered for the award remains high and the judges are pleased to see more reports being prepared specifically for the members of defined contribution schemes. There are areas in all of the entries where further disclosure would provide more transparency to members and additional information to help them understand a complex area.

This year the judges have received direct input from the preparers of summary reports. Further input from both preparers and users is welcome as this will help the Guidance to continue to develop and improve. Please send any comments or requests for more information to the chairman of the judges and the summary reports working party:

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

bob.hymas@bakertilly.co.uk

Judging criteria

Although the judging 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	100

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.