MAY 2003
news
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Managing risk - some essential steps

For various reasons, including the current economic climate and greater scrutiny of occupational pensions, trustees and employers face more and more risks in running schemes. This is borne out, in part, by the Pensions Advisory Service's (OPAS) recent report that complaints about pensions have increased by 53% over the last year. In this newsletter, we identify some broad principles to help trustees (and ultimately employers) reduce these risks.

Risk management

What is it?
Why do it?

- "Risk management" simply refers to the process adopted by trustees to try to reduce the risk of something going wrong.
- Trustees who fail to manage risk in this way can face significant financial consequences.

Risk management

Some key areas of risk

There are many aspects of trustee responsibility which require risk management, but the most common problem areas are:

- member booklets or announcements being unclear, ambiguous or genuinely misleading;
- benefits being misquoted or paid at an incorrect level;
- clear procedures not being followed when considering applications for incapacity pensions;
- investment strategy not being adequately reviewed or properly implemented.

Step one

Collecting the right information

In exercising their powers, trustees need to be armed with the right information about:

- the scheme rules and their legal duties generally (for example, under pensions legislation);
- the facts relating to the individual member when dealing with benefits payable (for example, medical reports for incapacity benefits).

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Step two

Applying the information

- Trustees and their administrators should use clearly identified and consistent procedures for making decisions or exercising discretions.
- Checklists can help to ensure that these have been followed and that only relevant factors have been taken into account.
- Decisions should be made by the correct people - this may be all of the trustees or one or more individuals to whom they have properly delegated their powers (or even the employer).
- Ensure appropriate training and advice are available as needed.

Step three

Effective communication

Many Pensions Ombudsman complaints stem from poor communication with members. Trustees should therefore:

- keep members informed of changes affecting their benefits;
- consider whether or not beneficiaries should be given reasons for decisions affecting their benefits.

NB: although the Pensions Ombudsman has said that he will presume maladministration if trustees fail to give members reasons, it may be appropriate in certain cases to limit the information given.

Step four

Checking what has been done

- Trustees should check that administrators are doing their jobs properly - regular audits of different types of benefit can be helpful.
- Many contracts with external administrators also require the administrator to give quarterly error reports to trustees.
- Trustees should therefore be aware of the type and frequency of the errors that occur, which may indicate that a procedure needs adjusting, more training is required, or that the rules need clarifying.

Conclusion

The four steps in practice

- Risk management should not be regarded as a one-off "tick box" exercise.
- If the broad principles are understood and applied on an ongoing basis it will help to ensure that risks are managed appropriately.
- Applying the "information, application, communication and checking" steps across all areas of managing your pension scheme will help you to avoid the more common risks.

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