A study of pension scheme trustees

While mostly fairly obvious, research into the governance structure of schemes has revealed some interesting (and at times concerning) statistics, writes **Jennie Kreser**

Jennie Kreser is a partner at Silverman Sherliker
@pensionlawyeruk
www.silvermansherliker.co.uk

In an 'Is the Pope Catholic?' piece of research recently conducted by the Pension Regulator (tPR), it has concluded that larger pension schemes are more likely to have better governance structures in place than smaller schemes, and that the trustees of those schemes are better trained, have access to better quality advice, and spend more time 'on the job'.

The research involved a survey of 800 trustees of various kinds of schemes – the classic defined benefit (DB), the ever more popular defined contribution (DC), and the slightly more esoteric hybrid variety. The purpose of the research, according to tPR, is to 'stimulate constructive debate about how it, the government, and regulatory bodies, and the pensions industry at large, can raise standards sufficiently to increase confidence among consumers that their retirement savings are in high-quality, well-run schemes'.

Main findings

To be honest, much money could have been saved if only tPR had listened to the industry years ago. But I get ahead of myself – let's look at some of the main findings of the research before I go searching for ursines and what they do in the woods:

- Schemes that had only professional (paid) experienced trustees were far more likely to be well run. They tended to be the larger schemes. They were able to more properly assess their advisers for good value for money, in particular where investment advice was concerned. Most were more willing to challenge the advice, which is something that smaller schemes with 'lay' or member-nominated trustees were simply not able to do;
- Despite its being a requirement under the trustees knowledge and understanding regime for lay trustees to be properly trained so that they understood the onerous responsibilities they held, only 50 per cent of schemes reported that their trustees had undertaken any formal training over the past 12 months; and
- Auto-enrolment schemes tended to be more engaged and provided more and better training for trustees than 'traditional' schemes. The regulator is in fact trying hard to push employers to use larger, better-managed arrangements, such as a large non-associated employer master trust or a group personal pension scheme.

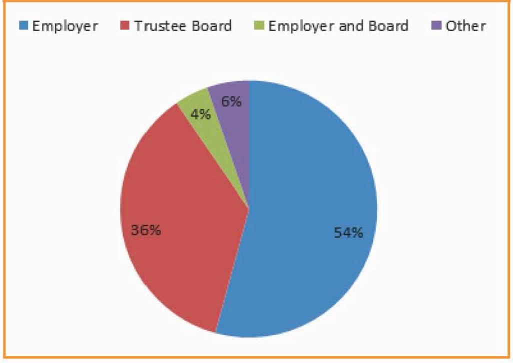
Digging down a little bit more into the headlines, it would seem that, on average, the amount of time spent by a lay trustee is nine days for most small schemes, 12 days for medium-sized schemes, and 16 days for large schemes. But, in fact, for about 50 per cent of small schemes, trustees are spending less than five days on looking after their schemes. It may be an understatement to say that this is probably inadequate.

The knowledge gap displayed by trustees is also worrying. The disparity between what trustees felt they needed and what they actually knew concerned the vital issue of scheme investment. The topic they knew least about overall was pension law – so my job is safe for a while at least. Actually, this last point is hardly surprising given the unnecessary complexity of the law in this area.

Board makeup

The research uncovered some interesting data on the makeup of trustee boards. The majority of schemes had non-professional trustees (72 per cent) and half of the schemes had either professional or corporate trustees (34 per cent and 24 per cent respectively). The boards

Figure 1: Who selected the chair



themselves showed 27 per cent had only professional or corporate trustees, a quarter had a combination of both lay and professional, and 46 per cent had only lay. Entirely unsurprisingly, large schemes and those with just one trustee were the most likely to have professional or corporate trustees, and it was the small schemes and DC-only arrangements that were least likely to have a professional on the board.

Qualifications

There was also some interesting data when it came to the qualifications that various trustees held. Again, entirely unsurprisingly, the professional trustees were far more likely to hold relevant qualifications – to be honest, I'd be rather worried if they didn't. But a large number of lay trustees also held an accounting or finance qualification. This is likely to be largely due to the fact that finance directors often find themselves on the trustee board.

Effective committees

The key to good governance is how often the trustees meet to monitor the scheme. About 50 per cent said they met every three months, but a significant 20 per cent said they met only annually or less often, with a very worrying 4 per cent saying they had never had a meeting. Goodness only knows what those schemes are up to.

Again, it should come as no surprise that 89 per cent of large schemes said they met quarterly, with about half of medium-sized schemes doing so, and only 25 per cent of small schemes. Naturally enough, it was the small schemes which said they never had formal meetings, a quick chat in the local caff presumably being sufficient (it isn't).

Any effective committee usually needs someone to chair and guide meetings, so the statistics here make interesting reading, too. Some 83 per cent declared they had someone in that role, although 13 per cent said they did not and had no plans to have one in the next 12 months.

Schemes that did have a chair were then asked who selected their chair. Some 54 per cent said the employer alone (see Figure 1).

This is not unexpected, but it does reinforce the point that it is vital to ensure the chair (and in particular a professional chair) is fully independent and has a good knowledge of pensions in general – something borne out by respondents to the survey who agreed.

Trustee training

No trustee is born fully formed from Zeus's head, and training is a fundamental tool to ensure that schemes are effective and well run. For professional trustees, this should be a given, but for the lay trustee, the task can be more onerous and time consuming. With only 50 per cent saying that they had had training in the last 12 months, the question then arises as to who provides what training they do get.

More than 70 per cent of training was provided by tPR trustee toolkit. It's nice to see that the lawyers still get a look in (40 per cent), albeit that perhaps we could do more in this area. The topics covered are equally important of course, and these included pension investment, the role of trustees, funding issues (in DB arrangements), and DB pension regulations and admin. Despite the fact that more and more schemes are now based on a DC form of benefit, less than half of the trustees had undertaken any form of training on the new DC pension regulations. Whether this will cause problems going forward will be a question for another time.

> **"The knowledge gap displayed by trustees is also worrying**

External advisers

The final point I want to cover is the relationship trustees have with their external advisers, in particular how often boards agreed or disagreed with their advisers, as shown in Figure 2 (below). The chart doesn't cover all advisers but I have picked out the legal adviser (of course), the actuary, the investment adviser, and the fund manager.

While the actuary is clearly a significant influence on the trustees, I think on balance the legal advisers can pat themselves on the back for the quality of their input overall.

So, what does all this data tell us? Frankly, not very much that we didn't already know, certainly in our hearts if not in our heads. To do the job properly and well for their members, trustees must be well trained and well advised. That will lead to good, well-run schemes and provide scheme members with the confidence to save for their retirement, which has got to be in everyone's interest. **SJ**

Figure 2: Relationship with advisers