



Sole trusteeship vs group trusteeship

▶ **Jack Gray investigates which pension schemes suit which board structure**

The structure of a trustee board can have a profound effect on the way it is run and determine the success of the pension scheme they are supporting. But how do you know whether your scheme suits sole or group trusteeship?



“The group trustee board works better for the medium and large pension schemes,” begins Pensions Management Institute (PMI) president Lesley Carline.

“They have the resources and the budget to spend on the scheme and the governance that is required to maintain the scheme.”

Carline highlights the fact that a scheme with a larger number of members, and often larger finances, may require higher numbers of trustees on the board as the number of decisions and the consequences of them are likely to be greater than that of a small scheme.

This helps the larger schemes ensure that they are effectively and transparently representing its members, as BESTrustees chairman, Alan Pickering explains: “The employer needs to make sure that whatever trustee model is put in place, provides a check and balance and ensures that the employer’s responsibility and brand isn’t damaged in any way by less than optimal performance of trustees.”

Pickering believes that both styles “have a role to play” in the pensions landscape: “A lot depends on the preference of the sponsor and the

makeup of the sponsor’s work force. Whether the sponsor goes for group or sole trusteeship, the employer needs to retain an engagement because delegating the function doesn’t necessarily mean delegating the responsibility.”

Sole trusteeship board structure models are less common but increasingly relevant in the UK pensions as they can be an effective way of reducing expenses, used in schemes with restricted resources and deployed when a specific project is planned, such as a buy-in or buyout.

Carline continues: “Where sole trustees come into being is the smaller end of the scale, where they don’t have a pensions manager, or human resources manager, there’s no pensions knowledge, and budgets are tight. Where organisations have difficulty getting people to volunteer to be member-nominated trustees as well.”

Using a sole trustee does require them to have a depth of pensions knowledge, while having experienced and capable support staff to fill in the more specialised gaps they may have, such as in actuarial or investment. However, they should have a “wide

market knowledge” of pensions legal, administration, management and covenant issues.

Pensions and Lifetime Savings Association policy lead investment and stewardship, Caroline Escott commented on the type of trustees that could be hired in the role of sole trustee of a pensions scheme: “The PLSA has been

talking about the benefits of consolidation and one could say that sole trusteeship is an example of pooling resources. Professional trustees have a role to play on a board.

“I know that some people have spoken about the challenges of having a sole trustee; you don’t have the cognitive diversity when it comes to thinking. But at the

same time sole trustees will be sitting on different boards, so they will bring together some of the experience on being on the board of other schemes.”

Although there are some positives to having a sole trustee, they are usually only beneficial to a specific type of smaller scheme or when a scheme is doing through changes. A group trustee board allows an organisation to appoint trustees with a greater variety of expertise that, in theory, could be more effective at running a scheme.

A group board also allows for greater diversity and can therefore provide better representation of its members. They can be appointed in a variety of ways, such as employer-appointed or member-nominated, they can have a variety of experience and skills, and they can provide a larger social spectrum, such as race, age and gender.

Whichever way a scheme decides to format its trustee board, it seems clear that it should be carefully considered, as trustee board structures do not appear to be one size fits all.

▶ **Written by Jack Gray**

Diverse people with diverse skills

► **How important is it to have greater diversity on a trustee board, and what does having a diverse board mean? Jack Gray investigates**

Greater diversity on trustee boards is something that everyone should be striving for. Better representation for women, ethnic minorities, different socio-economic backgrounds, those with disabilities and young people is a key factor in improving engagement and ensuring that everyone's needs are represented in relation to their pension schemes.

The Pensions Management Institute (PMI) president Lesley Carline paints a picture of what a modern pensions trustee board looks like: "The PMI has over 1,000 trustee members. The youngest member is 27, the oldest is 84 and the average age is 50. The really unfortunate statistic is that the trustee membership is made up of 77 per cent men and 23 per cent women."

In 2017, Pensions and Lifetime Savings Association (PLSA) launched a campaign, 'Breaking the Mirror Image', which offers a range of activities and programmes that are designed to encourage "wider, more diverse participation on trustee boards and across the industry". This includes offering a short course entitled 'Becoming a Trustee', which is open to anyone and hopes to attract a more diverse group of individuals to participate on their trustee boards.

However, it is not just greater diversity in gender, race and age that needs addressing, but a diverse set of specialist skills across a trustee board



is vital to its success and therefore the success of the pension scheme. PLSA policy lead: investment and stewardship, Caroline Escott agrees: "It's not just thinking about people who have a financial or actuarial legal background, but also trying to identify people who have softer skills.

"So for instance, how good are they in a board situation, are they good at negotiating, do they have an interest and aptitude for thinking about how you communicate information to scheme members. All the stuff that is just as important when it come to a strong trustee board that is able to make the right decisions."

As well as having a diverse set of skills, Carline believes that "there is a balance you need to get between knowledge and experience, because you do need experience on the board but those with experience don't necessarily have knowledge."

A diverse corporate board helps encourage a diverse trustee board as the board structure is likely to "filter down"

from corporate level. However there are some differences between the way board members are appointed in corporate and trustee boards, as BESTrustees chairman Alan Pickering explains: "One thing that corporate boards have that we don't have, is there is someone usually there who is able to put together coherently a corporate board that has a mix of backgrounds. In the trustee world, people often arrive in office through happenstance, by accident, particularly in trustee boards where member-nominated trustees arrive in office by election rather than selections. I think that employers and trustee chairman should lay a much more collaborative role in trying to put together a team."

However, some people argue that trustee boards should not be made diverse for diversity's sake. It is important that the right people are hired to ensure that the trustees support the scheme's members as best they can.

"I am a big believer in diversity, but it's diversity by structured intellectual creation rather than inanimate tick-boxing, because a trustee board needs to be five, six or seven people maximum and there's about 12 boxes that need to be ticked," Pickering says, "so you can't tick all the boxes without ending up with an unwieldy board."

Whichever way diversity is achieved, it is clear that a diverse group of people is vital to a successful trustee board. It provides a highly effective method of identifying viewpoints and issues that represent its scheme's members. However, those people also should have adequate knowledge and understanding to make it work and some argue that they should not be diverse for the sake of it. Although things have gotten better, more needs to be done before the image of 'male, stale and pale' trustee boards is eradicated.

► **Written by Jack Gray**

Timely training

Jack Gray looks at how TPR and the PMI have evolved their trustee education in recent years

As the pensions industry becomes more and more complex, trustees need better education to run successful schemes. The Pensions Regulator (TPR) has taken steps to improve trustee training and provides free services to ensure that members are protected by a well-educated trustee board.

In 2016, TPR published a paper on 21st century trusteeship and governance, which outlines some guidelines that trustees should follow in an effort to raise standards and improve the way that pension schemes are managed.

The paper specifies what TPR's expectations are for those responsible for managing a pension scheme, including: "clear roles and responsibilities and clear strategic objectives, a skilled, engaged and diverse board led by an effective chair, close relationships with employers, advisers and others involved in running the scheme, sound structures and processes focused on outcomes and a robust risk management framework focused on key risks".

Furthermore, there is a free online service from TPR called The Trustee Toolkit, which TPR expect trustees to complete unless equivalent learning is arranged. It is aimed at new trustees and 96 per cent of those that have used it say that they feel "more confident in their duties as a result". It also provides training known as the 'Trustee Knowledge and Understanding', and individuals are expected to have undertaken it within six months of becoming a trustee.



However, TPR is not the only organisation that provides education and training to trustees, as the Pensions Management Institute (PMI) president, Lesley Carline explains: "Our members get to come to a couple of seminars per year for free and we do run seminars dedicated to trustees covering the full gambit of the role of a trustee. The PMI also has the Award in Pension Trusteeship, which compliments the Trustee Knowledge and Understanding that TPR does. At the moment, we run it twice a year."

However, the education of trustees is not just about providing knowledge and training. It is important to provide education on a number of different skills that are required to run a successful pension scheme, such as investment strategy and pensions technical. Carline continues: "A good trustee board will have a mixture of skills. The trustee seminar covers the range of skills and topics that people need to be up to speed with. You have the fundamentals, then you have the topical things."

Carline also highlights the

importance of timing the education correctly: "If you're going to an actuarial valuation, it's better to have your training on actuarial valuations and the implications and negotiations. There is no point having it two years before it."

BESTrustees chairman, Alan Pickering agrees: "I'm a great believer of just-in-time training, so whenever trustees are going to be called upon to make an important decision, we provide them with up-to-date training to what the current landscape is. For instance, it's one thing to have learnt the balance between equity and bonds six years ago but they really need to know the juxtaposition between asset classes now."

Recently, trustee boards have also been taking more responsibility for educating themselves. Instead of just relying on organisations such as TPR and the PMI, many boards have other organisations coming in and providing training on a regular basis, highlighting how seriously trustees are taking their responsibilities to their members.

It also shows the transition to more transparent and formal trusteeships in relation to how they operate and, as they are increasingly willing to shoulder some of the responsibilities, how the boards are aware and supportive of this transition.

Carline concludes: "There's been a gradual change to monitoring and maintaining the records of the trustee training. It all comes down to TPR promoting better governance of schemes and this whole 21st century trusteeship. In the past few years, trustees have been expected to have undertaken the trustee knowledge and understanding within six months of becoming a trustee. So this started this more formal training pattern amongst trustees."

Written by Jack Gray