Summary
- The number of sole trustee boards for DB schemes has grown rapidly in recent years.
- Typically small schemes, closed to future accrual, or with an overseas parent company, implement sole trusteeship.
- The difficulty in finding members to join the board can be a trigger to move from a full board to sole trusteeship.
- Moving to sole trusteeship can reduce the time taken by the sponsor's senior management on the scheme, speed up decision making and increase the efficiency and professionalism of the scheme.
- There are concerns that sole trusteeship may result in the trustee board appearing 'distant' to the members.
- When transitioning to sole trusteeship, it is recommended the old board retains an advisory capacity role for a period of time.
- Determining whether to move to a sole trustee board depends on the company's culture and scheme aims.

Going solo

Laura Blows explores whether the next generation of DB scheme trusteeship has arrived through the growing number of sole trustee appointments

Everything is getting smaller nowadays. Take technology for instance. Where once you practically needed an entire room to house a computer, now you can wear a computer as a watch. And where trustee boards once required a whole room filled with member-nominated trustees (MNTs), employer-nominated trustees (ENTs) and independent trustees, now a growing number of DB schemes are finding that one trustee is all that's required to do the job.

While a sole trustee can be one 'superman' (or 'superwoman' of course), attending to all that's required for the running of the DB scheme, sole trusteeship tends to involve handing the reins over to one professional, independent trustee company, who may have a number of people within the company working on the management of the scheme.

Growing sole trusteeship

The growth of this sole trusteeship model has been steadily increasing over recent years. For instance, BESTrustees trustee executive Zahir Fazal says the company's portfolio of sole trustee appointments has more than doubled from six or seven years ago, and that this trend has accelerated over the past 12-18 months. Others, such as PSIT and Independent Trustee Services (ITS) state a 15-20 per cent increase in sole trusteeship in recent years.

Typically the type of DB schemes implementing sole trusteeship is small in size. However, larger schemes are starting to get in on the act, with sole trusteeship being implemented for schemes with anywhere from £10 million-£500 million assets under management.

DB schemes using sole trusteeship may also have a parent company overseas, of which the UK is a subsidiary. Capital Cranfield Trustees MD Neil McPherson says the professional trustee firm is appointed to over 270 schemes, 70 of which it acts as sole trustee. "An interesting development is our group trusteeship offering," McPherson adds, "where we provide sole trusteeship to multiple schemes in the same sponsor group, often UK subsidiaries of an overseas parent."

Triggers

Schemes using sole trusteeship tend to be closed to future accrual. However as five out of six private sector schemes are closed to future accrual, that is a common factor, but not necessarily a driver, ITS director Peter Askins says.

"Obviously, schemes face a range of challenges in terms of the volume of regulation they need to comply with; funding and sustainability issues; the number of different external intermediaries involved with the pensions and investment process," Pensions and Lifetime Savings Association (PLSA) policy lead for stewardship and corporate governance Luke Hildyard says.

"This really does necessitate a high level of quite specialised understanding that a professional trustee should be able to provide. So you can see why some schemes would have more confidence taking this approach."

According to PSIT head of trusteeship James Double, a breakdown in the relationship between the trustee board and scheme sponsor can be a significant incentive for moving to sole trusteeship.

The driver for change can also be that the scheme is now in a very different situation relative to only a few years ago, Willis Towers Watson senior consultant Gareth Connolly says. "Closure to accrual, completion of GMP reconciliation and other data cleansing, a move to a fiduciary investment approach, implementation of a journey plan with pre-defined triggers – all these aspects can mean a lighter workload for

trustees once they have taken place, which supports the move to a sole trustee," he explains.

Another trigger to move from a typical 'full' board to the sole trusteeship model may be people problems, such as the difficulty in finding member-nominated trustees. With overseas parent companies, there may be senior finance people in the UK who could join the trustee board, but are conflicted, APPT council member Andrew Bradshaw says. The retirement of a key member of the trustee board can also be a factor.

Benefits

So, sole trusteeship removes the issue of finding board members, and with it the need to spend time and costs training lay trustees. It also reduces the amount of senior management time taken up with the scheme, and decreases the time taken to make decisions as there is no longer an entire board to debate choices. This creates faster response times, and "tactical agility for time-sensitive decisions", McPherson says.

The sponsoring employer only has the sole trustee company to work with, which can help make quicker decisions. And on the adviser/provider side, using the sole trusteeship model saves time as these companies know the trustee company 'speaks their language', as Askins says. As a consequence, relationships may become stronger and the sole trustee may feel more able or willing to challenge advisers.

The experiences of times the sole trustee has spent on other trustee boards can also be put to good use. Altogether, governance standards are expected to rise under sole trusteeship, bringing a higher level of professionalism to the board's management.

After all, sponsors need to be able to demonstrate that the pension scheme is being run properly, Bradshaw explains, and so they may be prepared to pay the costs of a professional company to ensure this. Recent pension schemes crises, such as NHS and Tata Steel, are likely to have increased this desire to be seen to be taking pension scheme management seriously.

Double says that using a professional trustee company means that issues are discussed by the team, with appropriate peer review processes in place, along with internal controls.

A professional running the show should also remove conflicts of interests from MNTs and ENTs, who may struggle to forget who their employer is when making scheme decisions.

"There's an argument that it *[sole trusteeship]* liberates the scheme from conflicts of interest," Hildyard says, "although also a counter-argument that the corporate trustee is incentivised to do what is in the interest of the contracting sponsor, rather than the scheme member."

Limitations

TUC policy officer Tim Sharp is firmly of the view that sole trusteeship is negative for members. He says: "We believe that the growth of sole trusteeship is not good for schemes. The appointment of lay trustees from the employer and employee side ensures that conflicts of interest and differences in outlook are brought out into the open.

"The employer effectively pays the fees of the sole trustee. There is therefore little motivation for the trustee to negotiate robustly to secure a good deal for members. Sole trustees are typically industry insiders imbued and therefore less likely to challenge the assessments of scheme advisers from a common sense perspective."

Whether sole trusteeship does manage conflicts of interest is debatable, but one agreed downside of sole trusteeship is the distance it creates with members.

The loss of any personal connection with the membership can make decisions on discretionary cases more difficult than in situations where the trustees have close connections with the members involved, Connolly says.

MNTs are often good at noticing if something is going wrong within the admin side of the scheme's management, as well as providing the perspective of how a member will interpret scheme communications, Bradshaw adds.

It is not just the member perspective sole trusteeship can lose, but also a lack of differing views generally. "I do think diversity of perspective is important in order to create a challenging, self-critical environment and having a single corporate trustee makes this harder to achieve," Hildyard says.

"While decision making can become quicker, it doesn't always mean that the best choice is made. Alternative points of view and opinions from a diverse group of individuals clearly do not happen in a sole trustee scenario," Connolly agrees.

There is even the admittedly-slim risk of fraud, with one body in charge. And while improved governance is expected, mistakes can still happen – the recent fine The Pensions Regulator subjected a professional trustee firm to last year is evidence of that.

The sponsors may also not receive

What about DC?

Is there any scope for sole trusteeship within the world of DC?

It does already occur, but generally only when a company has a trust-based DC element and has implemented DB sole trusteeship, meaning the DC scheme gets swept up into that sole trusteeship.

PSIT head of trusteeship James Double suggests that sole trusteeship does have a role to play within DC scheme management as "the level of understanding needed is even greater than in a DB scheme because members are more dependent in the oversight trustees bring to help them manage the risk they face".

However Pinsent Masons head of pensions and long term savings Carolyn Saunders states that DC master trusts are an ever-increasing part of the DC market, which has no scope for sole trusteeship. "This is because the charges and governance regime requires a minimum of three trustees," she explains.

as much freedom as expected. Fazal highlights that sole trusteeship means employers are delegating, not abdicating responsibility. Therefore ongoing engagement at a senior level between the sponsor and sole trustee is vital to make the arrangement work effectively.

Moving process

When weighing up the pros and cons of sole trusteeship, a key consideration needs to be the culture of the company. For instance, a company may have a strong employee representative presence, making moving to sole trusteeship inappropriate.

In some instances, it may not even be possible to convert to a sole trusteeship model. For instance, law firm Sackers states on its website that, in certain circumstances, there has to be more than one trustee on the board, for instance if the trust owns property or land. A pension scheme also has to fulfil MNT requirements under the 1995 Pensions Act, unless it fits within the many exceptions allowed.

Assuming all is fine, it will be the sponsor that decides whether to move to sole trusteeship. If so, MNTs will be required to resign, they generally cannot be removed. A tender process for the professional trustee company is also likely to take place.

Once the trustee company is selected, a straight handover of responsibilities may occur. However, it is recommended that a transitional period occurs, whereby for a period of time the new trustee sits on the original board, as co-chair for example, or that the sole trustee keeps the previous trustees on in an advisory capacity for a couple of years.

According to Royal London's online information, if the scheme's sole trustee is a company rather than an individual, scheme members have the right to nominate directors of that company – member-nominated directors (MNDs) instead of the usually-nominated MNTs.

Members should be communicated with during the transition, particularly as they are likely to no longer know the people running their scheme, which may cause them concern.

Bradshaw recommends creating a member representative committee that works in an advisory capacity, as it can provide all the benefits of members' knowledge without any of the obligations, such as training requirements, of an MNT, he says.

However, data protection and confidentiality issues need to be documented fully if representative boards are created, as "those representatives won't be bound by the deed and rules in the same way that trustees are", PTL director David Archer advises.

The future

The end result of moving to sole trusteeship, Askins says, is usually positive. "My personal experience of acting as a sole trustee on a number of schemes is that the benefits have resulted in better outcomes for all concerned – members, sponsors and providers – than existed under the traditional board arrangement."

But does this mean the growth in sole trusteeship is likely to continue – will sole trusteeship become the norm for DB schemes? Probably not any time soon.

Despite extolling the virtues of sole trusteeship, independent trustee companies generally recommend the traditional full board where possible. For instance, Fazal notes that many of the benefits of sole trusteeship can also be achieved through a traditional board structure.

The choice rests entirely on the specific circumstances of the scheme, McPherson says. "These include the availability, appetite and aptitude of lay trustees; the demographics of membership; the complexity of the issues surrounding the scheme; the relationship between the sponsor and the trustee board; the strategic direction of the scheme. In some instances a sole trustee approach will be the best fit, in others the full board model."

Looking ahead, Pinsent Masons head of pensions and long term savings, Carolyn Saunders, suggests that if the same kind of consolidation occurs in DB as DC – with DB scheme governance and charges requirements following the DC model – then this would mean boards of trustees for DB master trusts, rather than sole trustees.

But for now, just as tablets have not yet done away with the PC, so sole trusteeship and the full board models can continue to coexist.

Written by Laura Blows

Corporate trustee companies

Question: When can a DB trustee board be dissolved and then reappear with all the same players? Answer: When it becomes a corporate trustee company.

Also a growing trend within pension trustee boards, this conversion usually occurs to protect the trustees of a pension scheme from being individually liable to legal action; trustee companies have greater protection.

According to Association of Member-Nominated Trustees (AMNT) co-chair David Weeks: "Board members probably feel, whether rightly or wrongly, that they are better protected in law by *[becoming a corporate trustee company]*. I think that this reassurance can be an advantage in itself."

As The Association of Corporate Trustees (TACT) president Keith Wallace says, employers, who have to nominate people within the company to the board, may find their staff require their personal exposure to risk to be mitigated before joining the board. MNTs may also be put off without this protection.

Wallace adds: "Litigation against a trustee board of individuals can be terrifying if things are asserted to have gone wrong. Contrast being a director of a trustee company. Psychologically as well as legally, you're in a much more protected position."