Summary
- There are two aspects to achieving good working relationships: appointing suitable advisers in the first place and making sure that they continue to be the best choice for the scheme.
- When appointing an adviser, trustees have been urged to ask themselves how they want to do this and what controls and constraints need to be put in place. This establishes how much discretion and flexibility the advisers have in their brief and helps trustees identify at what point they need to engage with their advisers to make sure everything is going as it should.
- Once an adviser has been chosen it is important to make sure that the terms of the contract reflect what the trustees want them to do and that there is legal recourse – such as the ability to fire or sue them – if they fail to deliver.
- To establish and maintain good working relationships with advisers it is essential that each party knows what to expect from the other and that there are clear lines of communication.

A healthy relationship

Trustees need to work with a range of external advisers and service providers to help them achieve a high standard of scheme governance. Sally Ling explores what is needed to create a good working relationship and looks at the common sources of problems

Trustees of defined-benefit (DB) schemes are required by law to appoint a scheme actuary and an auditor. Beyond that there is no legal requirement for trustees to use external advisers, though few have the resources or the expertise to run their scheme entirely in-house. As a result, certain aspects of scheme management are routinely delegated to professional service providers. But as the trustees remain legally responsible for the work carried out on their behalf, it is important to make sure that these relationships are working properly and delivering value for money.

Starting out

There are two aspects to achieving good working relationships: appointing suitable advisers in the first place and making sure that they continue to be the best choice for the scheme.

Pinsent Masons partner Alastair Meeks says that when appointing an adviser, it's important to seek proposals that are comparable. And to achieve this, trustees need to have a robust process in place; they should think carefully about how much support they will need so that they can specify what services they require. He adds that the best value for money may not always be the cheapest because some advisers will offer an all-inclusive deal while others will have add-ons.

PTL managing director Richard Butcher adds that when appointing an adviser trustees should ask themselves: "How do we want to do this and what controls and constraints need to be put in place?" This establishes how much discretion and flexibility the advisers have in their brief and helps trustees identify at what point they need to engage with their advisers to make sure everything is going as it should.

Once an adviser has been chosen it is important to make sure that the terms of the contract reflect what the trustees want them to do and that there is legal recourse – such as the ability to fire or sue them – if they fail to deliver. Butcher emphasises that it's important to make sure there is a proper liability chain not just covering the primary adviser but also any providers they use.

Trustee dynamics

Different trustee boards will have different needs and will rely on their advisers to varying degrees. It is important, therefore, that trustees have procedures in place to monitor what their advisers are doing and to spot problems. The quality of the relationship with advisers will also vary between individual trustees. With some it may be down to personality, with others experience. The Association of Member Nomination Trustees (AMNT) co-chair David Weeks observes that the regulator has been paying quite a lot of attention to the broad dynamics of trustee boards and that "the prevailing view is that it is good to have members with diverse backgrounds who represent different interests". He says that while four-fifths of AMNT members have managerial experience and are used to dealing with other professionals, the remaining fifth are from a trade union or other background and need more training to help them work with advisers.

While all trustees are required to act in the interests of all beneficiaries, different types of trustee can play different roles in relationships with advisers. For example, Butcher says that as a professional trustee who works with a number of schemes, he can act as a "sense check" when negotiating fees, as he has an insight into what other schemes are being charged.

Weeks says that some MNTs initially lack the confidence to question advisers and appreciate training on how to go about this.

Creating good relationships

To establish and maintain good working relationships with advisers it is essential that each party knows what to expect from the other and that there are clear lines of communication. KGC Associates director Kim Gubler points out that often, the person who attends trustee meetings is there to look at strategic issues and look ahead, but when things go wrong it is at the operational not the strategic level. To avoid this, trustees need regular information from a range of people – not just the consultant or relationship manager.

Weeks says advisers should never assume that someone has a background in their subject. Instead they should speak as if to "an informed lay person", avoiding acronyms and jargon and not get too technical. He adds that advisers should recognise that many trustees also "have a day job" and present information concisely – ideally not more than two pages long. Any additional detail can be set out in appendices.

Sources of problems

Sometimes problems with advisers will arise because the service provided does not meet the required standard or mistakes are made. Often though, problems occur simply because pension schemes change over time. Meeks explains: "Sometimes providers adapt their service to meet trustees' changing needs but the contract terms are not amended. If things go wrong it becomes evident that the contract does not reflect what is being done by either side and this can cause problems."

Gubler has seen situations where, even though the scheme actuary attends trustee meetings and is party to scheme changes, the contract for services doesn't get reviewed. As a result trustees can find that they are paying for services that they no longer need and paying extra for what they do need as it falls outside the contract. She has seen situations where an adviser has been trying to tell the trustees that things need to change, but this has not been given priority and has slipped down the agenda.

Adviser reviews

Trustees are expected to conduct regular reviews to make sure that what their advisers are doing is what they actually need and that the service continues to represent value for money. There is no fixed timescale for this, so trustee boards need to consider what frequency is appropriate for their scheme. Meeks observes that many trustees follow a three- to five-year cycle but feels that five years is probably the maximum. What is important, he says, is to follow a structured approach to the process.

The level of review needed is likely to depend on how well the relationship is going. Meeks points out that in-depth reviews can be costly in terms of both time and money and could be disruptive to the relationship so if things are going smoothly a full review might not be necessary. Butcher agrees that reviews should be proportionate to need and says in some cases they can be as informal as simply asking: "Are we happy with the service we are getting?" If the answer is "yes" then that's OK. Gubler adds that it is important to engage with advisers on an ongoing basis and suggests that trustees should make time for a frank face-to-face conversation with their advisers outside of scheduled trustee meetings at least once a year.

Putting things right

Changing advisers can be a very involved process if done properly, so if problems can be resolved this is often best for all involved. Gubler often finds herself working with trustees and advisers to "refresh the relationship". When called in to help, she looks at the service the trustees are paying for and compares this to what she would expect to see in a 'model' scheme. Next she asks the trustees how they would scope out the service they were looking for if they were going to re-tender. Armed with this information she engages with both parties. She explains: "By having a dialogue where both sides get the chance to make suggestions you are more likely to end up with what the scheme needs." Finally, she adds that while this process doesn't always result in cost savings, at least the trustees know that they are not paying for anything they don't need.

Written by Sally Ling, a freelance journalist