Summary

• Pension schemes, particularly older DB schemes, are finding it more difficult to find new member-nominated trustees, in part because of a disconnect between older schemes and a sponsor's workforce and/or management; in part because trusteeship has become more complex.

• Increased regulatory demands and the threat of prosecution may be discouraging members from seeking to become trustees.

• More schemes are using professional trustees, including as sole corporate trustees – but some candidates are also discouraged by the increasing demands of the job and by accreditation requirements.

• Schemes, employers, policymakers and pension industry bodies must work together to improve recruitment, training and support for trustees, succession planning and the diversity of trustee boards.

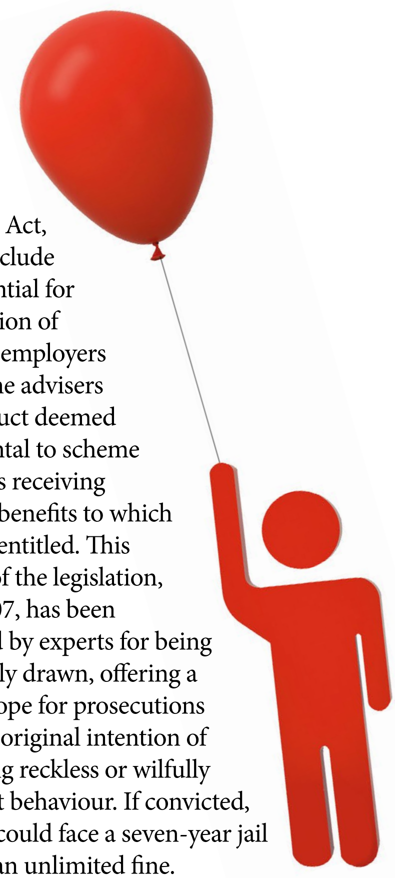
Attracting trustees

Trusteeship has become more complex and demanding in recent years. Amid worrying signs that more current and prospective trustees are deciding not to serve in the role, David Adams asks if the professional trustee industry can help to meet growing demand and considers what else can be done to ensure a steady supply of new trustees are able to deliver effective scheme governance

One theme of 2021 has been economic and social problems caused by labour shortages, of HGV drivers, agricultural workers and nurses, for example. But there is one such shortage that has received very little publicity, yet could ultimately cause problems for millions of people: a shortage of pension scheme trustees. Almost nine out of 10 employers (88 per cent) expect pension schemes will struggle to find new trustees, according to research published by the Association of Consulting Actuaries (ACA) in November. More than three quarters of employees (76 per cent) expect more trustees to consider leaving the role, as the pressures and responsibilities associated with trusteeship increase.

"It's undeniable that the pool of available lay trustees, both employer-nominated and member-nominated, is shrinking," says professional trustee firm Capital Cranfield managing director, Neil McPherson. One key reason is the disconnect between the current workforce of a sponsoring employer and DB schemes that may be closed to entrants and future accrual. Over time, fewer scheme members will still be working for the employer, which may, in turn, object to senior managers spending a lot of time serving as trustees for a legacy pension scheme.

As the ACA research identified, the most challenging elements of trusteeship, such as helping the scheme to prepare for de-risking activities, may also be discouraging would-be trustees. Pensions and Lifetime Savings Association (PLSA) deputy director, policy, Joe Dabrowski, also highlights the potential implications of the regulator's new powers granted under the Pension Schemes Act, which include the potential for prosecution of trustees, employers or scheme advisers for conduct deemed detrimental to scheme members receiving pension benefits to which they are entitled. This section of the legislation, clause 107, has been criticised by experts for being too widely drawn, offering a wider scope for prosecutions than the original intention of punishing reckless or wilfully negligent behaviour. If convicted, trustees could face a seven-year jail term or an unlimited fine.



"Whether *[the regulator]* exercises these powers or not, they may act as a red light for current trustees or people thinking about becoming a trustee," Dabrowski warns.

PTL managing director, Richard Butcher, outlines the impact this can have on the member-nominated trustee recruitment processes that his company runs for schemes. He says there are occasions where there will be more than a dozen people being put forward as potential trustees, "but it's much more normal for there only to be a handful, or one or two".

That is bad news for schemes in general, because member-nominated trustees often make such important contributions to effective scheme governance. "They are there to remind the board what members want, what they are going to be unhappy about and what decisions look like from the member's perspective," says Association of Member Nominated Trustees (AMNT) co-chair, Maggie Rodger. She also highlights the important role member-nominated trustees can play in using the right tone

in member communications, while their presence on the board also reduces the risk of groupthink by increasing the diversity of the board, in background, age and experience.

The AMNT is among a number of industry bodies seeking to address the decline in numbers of member-nominated trustees, by promoting the benefits of trusteeship for individuals, as a way to learn valuable new skills linked to management, finance and communications and more.

"*[Member-nominated trustees]* need support from their schemes and sponsors," says Rodger. "They need to feel that time spent in trusteeship is valued by their employer.

"We need to encourage people to think they could do it, rather than just waiting for them to apply."

Call a professional

A failure to find enough member-nominated trustees is one of several reasons why many schemes turn to professional trustees to fill gaps in the trustee boardroom, or to provide a different form of trusteeship, as professional corporate sole trustees (PCSTs).

The Pensions Regulator executive director for regulatory policy, David Fairs, highlights two specific instances where working with a professional trustee can be a good option. "Where a scheme is considering a more complex investment structure, or a potential buy-in or buyout, bringing an experienced professional trustee to the board can be beneficial," he says.

Figures obtained from the regulator by Lane Clark Peacock (LCP) under the Freedom of Information Act show that whereas in 2015/2016 around 20 per cent of DB schemes had professional trustees on the board, by 2020/2021 they were present on almost one in three boards (32 per cent). There has also been a growth in use of PCSTs: about one-third of schemes using professional trustees employ them as corporate sole trustees.

Ross Trustees trustee director, Manpreet Sohal, points out that a PCST is not really a sole trustee in the sense they are working alone; they are supported by a team of experts at the professional trustee firm, specialising in the covenant, or on investment, for example.

But there is also some evidence

that some of the factors making it difficult to recruit member trustees are leading to some professional trustees resigning. A startling 62 per cent of DB scheme professional trustees intend to step down within the next three years, according to research published by Charles Stanley Fiduciary Management in September 2021. More than half of those who say they intend to leave (56 per cent of this group) cite the increased regulatory burden as a reason.

A (still only voluntary) requirement for professional trustees to seek accreditation, through one of the programmes created in 2020 by the Association of Professional Pension Trustees and by the Pensions Management Institute, may also be contributing to a decline in numbers of professional trustees. "The bar for accreditation has been set too low, in my opinion and should be ramped up – but the fact you need accreditation is putting some people off," says Butcher.

Yet this should also lead to an improvement in the capabilities of the professional trustees who remain. All the professional trustee firms say their firms are being contacted by a steady stream of well-qualified candidates. "Most of our appointments are people who are mid-career who have taken a decision to become a professional trustee, but have backgrounds as senior, experienced professionals," says McPherson. They may have worked in consultancy or fund management, or as actuaries, lawyers or covenant advisers, for example.

The perfect combination

What further support should schemes, employers and the professional trustee industry be receiving from the regulator or other policymakers or industry bodies, to ensure a steady supply of effective trustees?

"For me, it's about continued support from the regulator in terms of the Trustee Toolkit, making that valuable and relevant to incoming trustees; and continuing to set out expectations of governance standards that trustees are expected to meet," says Independent Trustee Services director, Hetal Kotecha. "Is that over-burdening trustees? In a sense it is, but the governance requirements are there for good reason. There's a judgement call to be made in terms of how they are applied to individual schemes."

Sohal thinks the regulator is right to maintain a focus on increased diversity. "The regulator is definitely trying to put across the message that in terms of diversity we need a wider net," she says. This includes increased diversity in age: "We don't want people to think that being a trustee is something you can only do in your 60s."

Fairs confirms that the regulator is "looking to attract individuals to the trustee role that may not have previously considered it".

The PLSA is also committed to encouraging and supporting would-be trustees. "We will continue to help with training, trustee guides and pushing the governance envelope where we think things need to be improved," says Dabrowski. "We can also help with mythbusting around challenges that might put people off becoming trustees; and by supporting younger people interested in becoming trustees."

Whether they are scheme members or professional trustees, the best trustees are worth their weight in gold, so schemes and sponsors must continue to recruit and train new member-nominated trustees and to put effective succession planning processes in place *[see boxout]*. All trustees need time to learn how to perform their role effectively and to build up the knowledge and expertise they need.

"Good governance is a combination of things: technical skills as well as more general skills, plus commercial acumen, intellectual curiosity; and being ready to challenge your advisers," says Dabrowski. "It takes a lot to be a really good trustee."

The right candidates are out there – the challenge is to find and support them. But schemes, their members and sponsors that succeed in doing so, will be able to reap valuable rewards for years to come.

Written by David Adams, a freelance journalist

Succession planning for trustee boards

Good succession planning is essential for effective scheme governance. "Having a succession plan in place encourages trustees to think about things like having staggered terms of office, so you don't have experienced trustees all stepping down at the same time," says Independent Trustee Services director, Hetal Kotecha.

Succession planning should be based around audits of the skills, knowledge, strengths and weaknesses of the board. "The more planning that can be done, the better," says Kotecha. "If you have descriptions for key roles, like committee chairs, then if the people in those positions move on, it is that bit easier to find someone to fill that knowledge and skills gap."

He also suggests using the member-nominated process to create a 'subs bench' of people waiting to become trustees. The 'subs' can join trustee meetings as observers and can start to work their way through the Trustee Toolkit.

Succession planning should also help to improve the diversity of the board, in accordance with guidance from The Pensions Regulator, but also to gain the benefit of a broader range of experience and perspectives around the board table. But achieving this will depend in part on a well-planned recruitment campaign, designed to encourage candidates from a wide range of backgrounds to apply.