Summary

- Recent research from TPR found trustees relied significantly on advisers. It also found that some trustees do not feel equipped to challenge the advice they receive from their advisers.
- Using multiple advisers can result in cost issues for schemes and create additional risks with regards to data protection.
- A benefit of multiple advisers is that they can offer niche specialisms, as it can be difficult to find an individual adviser that can provide holistic expert help. It can also be beneficial to schemes if the advisers know there are other voices preparing to challenge them.

Winning numbers

Getting the right advice is essential for trustees, but just how many advisers are needed to successfully run a scheme? And is there such a thing as too much advice? Lauren Weymouth explores

Last year, the news of the collapse of the BHS pension scheme sounded deafening alarm bells in the pensions industry. Nothing rang more true than the message that companies and trustees need to take greater responsibility for their pension schemes.

Part of this responsibility – and a big one at that – is to seek the relevant advice from the right people. Trustees have a duty to make sure the advice they receive is professional and, as The Pensions Regulator notes, they have a mutual trust, open and honest dialogue, and productive communication with their advisers. Failing this could, and sometimes does, result in the demise of a successful scheme.

For example, the role of advisers and the nature of the advice given for arrangements within the BHS scheme came under fire after the scheme's deficit had ballooned from £61 million in 2012, up to £274 million by 2016. By the time of its collapse, it had surged even further to almost £600 million. Naturally, the Work and Pensions Committee probed into why the advisers had failed to properly restructure the scheme.

It could have been argued that whilst a number of different advisers were working hard on the case, there were just too many opinions coming from different directions, costing the scheme millions of pounds, but failing to reach the root of the problem.

The importance of advice

But is it really possible to obtain 'too much' advice? In an increasingly complex pensions landscape, one thing is clear: trustees are more reliant upon the help from their advisers than ever.

Research published by the regulator last year revealed the significant reliance trustees place on advisers and the benefits they bring to running pension schemes. However, it also highlighted 'concerns' that some trustees do not feel equipped to challenge the advice they receive from their advisers.

The regulator's executive director for regulatory policy Andrew Warwick-Thompson says an example of this was the revelation that 90 per cent of schemes

employed advisers, and only 10 per cent of schemes didn't – mainly because they couldn't afford to. The research also found there were only a few instances where trustees disagreed with their advisers and not all lay trustees were confident in their ability to properly challenge professional advisers.

So it is evident that now, more than ever, trustees are in need of as much help as they can get. But what their advice panel should look like, and how sizeable it should be is open to debate. Wealth Wizards account director Philip Blows argues that while having multiple advisers can often mean multiple points of contact with "niche specialisms", this can also leave members "confused about where to get information about their pension and how to make positive change".

In addition, he notes how employing multiple advisers and third parties can also leave the scheme's data at risk. "For advisers to be effective and add value to both the scheme and its members, they will need access to good quality data", Blows says. "That said, data protection is an issue that is growing and the more third parties that have access to sensitive information, the more risk there is to it being used inappropriately."

But data protection is only one of the risks associated with accepting advice from third parties. Knights Professional Services partner Philip Woolham explains how outside of investment management, it is generally 'counterproductive' to have multiple external advisers, and it can also be incredibly costly.

He argues there is a difference between the need for individual specialist advisers and the need for more than one in each category. And, he adds, appointing more than one for each category and retaining them on an ongoing basis certainly doesn't come cheap.

Cost issues

For example, in BHS' case, appointing several different advisers to help clear up the wreckage of its collapse cost the scheme millions of pounds – an expense that was far from welcome to an already-diminishing fund.

The professional advisers that poured in to help care for the fund cost BHS £1 million in just six weeks, and even more after that. This added expense brought BHS' total expenses up to £2.8 billion.

BESTrustees chairman Alan Pickering says it is the trustee's job to "make sure that we do not rack up costs where advisers are talking to each other rather than talking to the client. Both elements are important but I personally do not want to spend the clients' money while advisers are debating intellectual niceties or domical points", he explains.

The right fit

Pickering argues that it is more important to ensure there aren't too many voices coming from unwanted places. "The challenge is to find the right adviser for a particular client," he adds. "The differentiator is usually one of chemistry rather than ability. Nothing annoys me more than a service provider who thinks they know better than the client when it comes to getting the right fit."

"I like to get best in class for each business line," he continues. "Sometimes I may end up with sourcing more than one line with a particular provider. In other instances, I might source each line of business from a different supplier." But, more importantly, he adds: "I like all of my advisers to work as a team whether they come from the same business house or not."

Diverse experience

While it may often appear having too many advisers can cause a bit of a tangled web – a costly one at that – it can also be advantageous to larger schemes, where it is necessary to have specific advice.

ARC Pensions Law senior partner Anna Rogers argues that having multiple advisers allows trustees to "choose horses for courses". For example, she says they could use a specialist firm for a particular project, where the experience of that firm means the work can be done on a fixed basis fee.

As TPR research into the relationship between trustees and their adviser's highlights, the challenges facing the modern pension scheme trustee can be very diverse, and it can often be difficult to find an individual adviser that can provide holistic expert help in all facets.

Therefore, Blows argues: "It can often be advantageous to engage with multiple advisers, such as one that has a successful track record in advising around DB liabilities, another that has expertise in communicating and engaging with staff in their DC scheme and that specialises scheme governance and so on. By drawing upon a deep, diverse pool of experience from multiple advisers, pension scheme managers and trustees can ensure all bases are covered for their members."

In some cases, it can also be beneficial to schemes if the advisers know there are other voices preparing to challenge them, Rogers adds. For example, she highlights how some schemes feel it "keeps their advisers on their toes" to know there is a network of other relationships and that the barriers to changing advisers are not so high, as it would be if it was necessary to conduct a full market review.

But this, she says, is where the 21st century trustee comes in. A trustee that that can save on cost, be nimbler and 'take back control', instead of allowing the agenda to be driven solely by their advisers.

A trustee's responsibility

The regulator is already undergoing work in this area to highlight areas of concern and provide trustees with better training to allow them to fulfil their duties to the best of their abilities.

This is because ultimately, regardless of the amount of different advisers trustees take on board, it still remains the responsibility of the pension manager/trustee to govern the scheme effectively by filtering the advice they receive.

As Warwick-Thompson concludes, trustees need to be able to ensure they are confident in their understanding of what each adviser is doing so they can assess whether it's being done adequately and represents good value for money. Furthermore, and more importantly, "trustees should merely strive to foster an excellent working relationship with whatever advisers they employ".

Written by Lauren Weymouth, a freelance journalist