Summary
• The regulator is set to update its 21st Century Trustee programme this year, but will this make it easier or harder for current trustees?
• Complexities are growing as the expected standards of trustees rise in order to safeguard member savings.
• New ESG duties, board diversity initiatives and data cleansing exercises are heaping pressures on trustees.
• Smaller schemes tend to struggle with all these requirements and have little place to turn to but costly advice.

Shaping a modern-day trustee

Be it planning for the end game, getting your head around new investment principles or trying to avoid groupthink, the pressures on a modern-day trustee are no walk in the park. So for this day and age, what skills are a must for trustees, and are the ever-growing requirements leaving some good trustees behind?

Barely a week goes by where trustees aren't 'urged' or 'warned' about new dangers facing their schemes, be it a new piece of guidance they have to follow or they are being alerted to the perils of a scheme that has fallen into the lifeboat.

While The Pensions Regulator's (TPR) 21st Century Trusteeship programme has improved the governance practices of trustee boards across the defined benefit (DB) landscape, and the introduction of master trusts has also raised standards on the defined contribution side, modern day trustees have much to consider.

In early 2020, the regulator is expected to publish its new, consolidated, code of practice, and while hoping to unify its message, will undoubtedly grow trustees' governance activity lists.

More responsibilities on environmental, sustainable and governance (ESG) duties, fiduciary tendering rules, master trust transferring guidelines and GMP equalisation have heaped yet more work onto trustees' plates, all at the same time as considering their own board diversity.

As the standards are set higher, the day-to-day complexities for trustee responsibilities grow, so how has their role changed over the past five years?

Growing complexities

Pensions and Lifetime Savings Association (PLSA) policy lead for investment and stewardship, Caroline Escott, believes we have seen "growth in the complexity and sophistication" for both DB and DC over the past five years.

"It's increasingly important that trustee boards are equipped to understand these issues and make the best decisions in members' interests," she says.

Dalriada Trustees professional trustee, Judith Fish, believes one of the biggest changes trustees have faced over the past five years is endgame planning.

She adds that the road to the end game has "tested trustees' understanding" of alternative investment strategies including liability-driven investment, and has been particularly tricky for those who remain a "long way off from the end game".

"This is where the trustees' communication and negotiating skills are really tested, as they are often being pressed in different directions by both parties, especially with TPR's 'clearer, quicker, tougher' regime," she says.

"The people skills required for these schemes are often harder than for the well-funded schemes as conflict and disputes are more likely to arise."

Barnett Waddingham senior pensions management consultant, Christine Kerr, also believes that the endgame planning has "reshaped business as usual trustee agendas" into a more strategically focused meeting.

"How and when all the scheme liabilities will be secured brings trustees lots more to consider by way of feasibility testing, data issues, trigger to action monitoring and the ordering and interrelationship of all the work streams that are required," she says.

Do your data

As mentioned by Kerr, data is another area that has shot up the trustee agenda over the past couple of years, partly as clean member data "sits at the heart of all de-risking projects" and partly for other projects such as GMP equalisation.

"Trustees are now realising it's a false economy not to invest in their data. Verified data can have a material impact on the cost of buying out benefits in the insurance market," she adds.

Recently, Mercer predicted that DB pension buyouts could quadruple to around £540 billion over the next 10 years, as schemes mature and get their data in order.

Within DC, "where schemes have decided to consolidate into a master trust, this has encouraged a renewed focus on data cleaning and accuracy", Escott explains.

"It is encouraging a continued focus from trustees as to whether they are achieving value for money as they are or whether they could be achieving greater value by consolidating into a larger vehicle," Escott adds.

While DC master trusts may have a better handle on their data than many legacy DB schemes, as the switch from DB to DC continues, and savers continue to take more investment risk with less savings, trustees are going to have to spend more time ensuring their default fund is good.

"This means a need for a good default, and trustee governance time devoted to good default," Escott says.

"As the scheme demographic changes, trustees need to be equipped to think about what this means for their investment strategies. For example, given higher interest in climate change and value-based investment strategies from younger scheme members."

Association of Member Nominated Trustees (AMNT) chair, David Weeks, also believes that trustees must have good knowledge of how investment works, particularly with new ESG requirements in place.

"There is still quite a bit of work to be done on measuring ESG in investment so the topics are measured properly instead of greenwashing," he says. "In terms of immediate activities is the regulations requirements for the statement of investment principles which our members find helpful."

Avoiding groupthink

While the amount that trustees are having to navigate is increasing, trying to achieve board diversity and avoid group thinking is yet another challenge, particularly for smaller schemes.

Fish says: "For smaller trustee boards it is difficult to have any meaningful diversity. Often, there are very few members volunteering to take on trustee roles or suitable company representatives.

"In these cases, finding an appropriate board with the relevant skills is more important than diversity and I think diversity is low down on their agendas."

Kerr agrees that robust and diverse trustee selection is much easier for larger schemes to achieve, adding: "It should not be underestimated how difficult it can be for smaller schemes to find anyone willing to be a trustee, far less with specific skills."

In its latest trusteeship and governance paper, the regulator asked trustees to disclose what steps they are taking to ensure greater diversity on their boards and has recently held up the master trust model as 'trailblazers' of diversity, particularly when it comes to engaging the next generation onto trustee boards.

Escott adds: "It's vital schemes have the right mix of knowledge, skills (including softer skills) and experience on their boards so they can reflect and respond to the broad range of savers' needs.

"Given the importance of avoiding groupthink to good decision-making and trustee boards' lack of progress so far in this area, this would be an additional reporting requirement but one we fully support."

It does however seem that this is really something only larger schemes are able to consider at the moment, with more consideration being given to diversity across both employer and member nominated trustees.

Fish says: "These issues should be addressed for larger boards and discussed with advisers. Where possible they should look to become more diverse and avoid groupthink as this may cause problems for the scheme and the members."

The size of a scheme can have a considerable impact on the pressure felt on trustees, particularly in the modern day, as the changing landscape of pensions puts yet more pressure on trustees across the board.

Efforts are being made by the regulator and the industry to ease complexities, but for now, trustees will have to catch up.

Written by David Andrew, a freelance journalist