

# A diverse approach

## ✓ Why diversity and inclusion should be on your pension trustee board's agenda

**P**ensions trustees are responsible for the retirement savings of scheme members with a wide range of different characteristics, views on retirement and socio-economic backgrounds.

But many trustee boards still conform to the stereotype of older, white men with a background in finance. Research carried out by Aon in 2017 found that the average trustee is male, 54 years old and university educated.

But it isn't just the visible diversity characteristics that matter, there are very good reasons why creating a more cognitively diverse trustee board with a range of different backgrounds is essential for effective decision-making and top-quality governance. It can even have an influence on member engagement.

"It stands to reason that trustee boards benefit from access to a broad range of skills and diversity in perspective and experience," says Shromi Jeyakumar from Aon's governance team. "This supports robust decision making and mitigates against the risks of knowledge gaps and over-reliance on a single trustee or adviser."

Every one of us has a set of 'unconscious biases', which are hard-wired beliefs, often based on our background and personal experiences. They define the way that we respond in certain situations and help to frame our decision-making. We can't eliminate them, but we can become aware of them and learn to minimise their effect. However, if everyone taking part in a decision has a similar set of biases, it becomes more difficult to filter them out and look at other options.

"It's instinctive to overlay your own

preconceptions, based on your own background, cultural environment and personal experiences into your decision-making," says Sue Austen of Aon's governance team. "While you might filter what you say, there's probably a gremlin inside disrupting your logical thought process. Therefore, it really helps the process to have a diverse group in the first place, so the unconscious biases don't pull in the same direction."

### Why care about diversity and inclusion in your pension scheme?

PWC's *2020 Global Diversity and Inclusion Survey* (<https://www.pwc.com/gx/en/services/people-organisation/global-diversity-and-inclusion-survey.html>) found that 76 per cent of businesses said diversity and inclusion was a priority for them.

As this trend continues, the types of benefits being offered to employees, and the way these are communicated, will come under greater scrutiny. "Most sponsors to pension schemes will already have a diversity and inclusion policy, and many corporates will want to ensure that there is a consistency of policy within the pension arrangements they sponsor to avoid damage to their brand," adds Austen.

The Pensions Regulator (TPR) is also taking more interest in trustee board diversity. Its Future of Trusteeship and Governance consultation asked for insights into how it could help trustees achieve this, and its February 2020 response document outlines plans to create an industry working group with a focus on diversity. Whilst the formation of this group has been delayed following the pandemic TPR have made a commitment to find ways to support

schemes to take steps to improve both diversity and inclusivity. But trustees don't have to wait for the regulator to take action.

### How to build a more diverse trustee board

For a trustee board that feels stable, efficient and well-run it can be hard to justify change. On the surface, it may seem like an advantage that everyone thinks alike, so decisions can be made quickly.

But there can be a vast difference between a decision that is made conveniently, and one that is optimal. Trustees have to make many subjective decisions, whether related to everyday tasks such as the design of communications, or sensitive scenarios such as how to manage death in service payments. Making sure that those decisions have the best possible outcome for the scheme and its members is vital.

Poor diversity can also store up future problems for the scheme. A 'people like us' approach to member-nominated trustee recruitment inevitably limits the pool of potential candidates, closing the door on employees from different backgrounds who might have a lot to offer, but don't feel that trusteeship is aimed at them.

The same also applies to appointing scheme advisers and asset managers. Opting for advisers who have the same characteristics as the board itself can further entrench biases.

But introducing more diverse characteristics onto a trustee board may not seem that straightforward. Member-nominated trustees are voted in by the membership; and it may not be easy to have much control over employer-nominated representatives. Using quotas can also feel tokenistic. Feeling that you have been appointed to the board because of your ethnicity or age is hardly a recipe for a good working relationship. Cost and time to make changes may also feel like a barrier, especially for smaller schemes.

When trustee vacancies appear, reviewing recruitment methods and materials can make a huge difference to the response the board receives. Even if members have the ultimate vote on member-nominated trustees, the quality of communications asking for volunteers will have a huge impact on applications. Similarly, discussing skills and diversity gaps with the sponsor can help strengthen employer-nominated appointments.

“Traditionally, the comms for MND elections or selection exercises haven’t been the most compelling. But we are now seeing real effort in effective recruitment campaigns,” says Aon principal, Sarah Butlin. “We see boards really thinking about how to structure their communications to attract candidates with the skills and experience that the Board needs to complement the individuals they already have.”

### Working on diversity and inclusion issues with an existing trustee board

Large-scale change doesn’t have to happen overnight – there are many smaller steps towards achieving authentic diversity and inclusivity that every trustee board can take.

Creating a roadmap for longer-term change is a valuable exercise. That could include both long-term areas for focus. Aon’s *Practical Diversity and Inclusion*

#### ► Actions

- Create a roadmap for longer-term change
- Assess the skills and diversity of the current board
- Engage with the sponsor to highlight diversity gaps and to strengthen employer nominated candidates
- Review MND communications and processes
- Undertake practical D&I training on discretionary decisions
- Review your member communications from a D&I perspective



for *Trustees Guide* sets out a number of practical and implementable thoughts and ideas across a wide range of scheme areas including:

1. Unconscious bias in discretionary decision making
2. Diversity in trustee appointments
3. Accessibility of member communications
4. Unconscious bias in scheme rules
5. D&I in investment decisions
6. Actuarial calculations

Training on diversity and inclusion can be welcomed by trustees particularly when it is practically based around decisions they might have to make. Austen gives the example of “Practice using tools to spot unconscious bias when looking at a discretionary ill health decision – does it make a difference if the illness is depression rather than a bad back?”

Other immediate actions might include understanding more about the characteristics of the membership and thinking of ways to help them feel included in pension savings, such as reviewing communications. For example, make sure your online communications are screen reader accessible, check your language is accessible and clear, and consider the small things like the images you use.

Working with the scheme sponsor to understand their business-level policies on diversity and inclusion is another simple step. And, as boards become more diverse, chairs will need to think about how to run trustee meetings so that everyone feels included and confident in their ability to contribute.

Building more diverse, inclusive pension schemes is a key part of good governance. Aon’s experience with pension schemes has highlighted the value diversity brings to trustee decision-making and informed the tools that we offer to support boards. Download Aon’s *Practical Diversity and Inclusion Guide* to find out more about why diversity matters, and how we can help schemes build a more diverse future.

**To speak to Aon’s team in more detail on how diversity and inclusion should be on your pension trustee board’s agenda email [talktous@aon.com](mailto:talktous@aon.com)**

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