

The trustee model of employer-nominated, member-nominated and independent trustees on a board can be considered the bedrock of the pensions system itself, yet time and change are reshaping this foundation. But is it at risk of being eroded completely?

“It’s true that in recent years the number of DB schemes closing and moving to buyout, coupled with the rise of [DC] master trusts, has had an impact on the number of pension schemes with boards of lay trustees,” says AMNT co-chair, Janice Turner, although she notes that the government has reported receiving 1,818 applications to register new pension schemes for 2019-20.

Dalriada Trustees professional trustee, Adrian Kennett, also draws positive news from stats. “When the government introduced the requirement for full funding on wind-up of DB schemes in 2003 there was thought within the industry that the DB scheme universe probably had a lifespan of approximately 20 years. Today there are more assets within DB schemes than there were then – and wind-ups are occurring at the pace of about 1-2 per cent per annum,” he says.

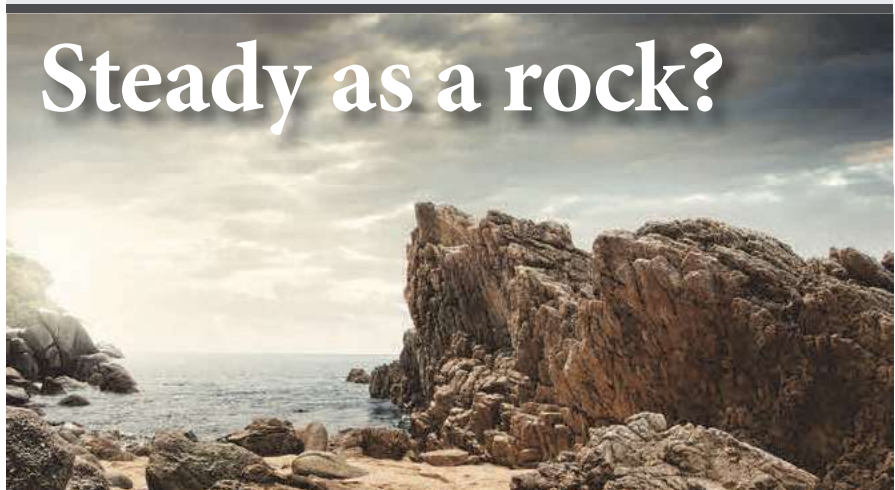
On the DC side, Kennett adds that “there is a clear movement away from employer trust-based DC provision, which is likely to accelerate under proposed legislation that will require schemes to demonstrate and evidence an effective system of governance”.

These shifts on both the DB and DC have caused the nature of trusteeship to change dramatically, PMI head of technical, Tim Middleton, states.

“The Pensions Regulator’s (TPR) demands and pressure to achieve wind-up are likely to result in fewer trustees and a growing role for those performing the role professionally. DB schemes may also be subject to consolidation and an increasing number of sponsors are moving to the sole trusteeship role as governance becomes more complicated and difficult. The increasingly

#### ► Summary

- There has been a decrease in the number of pension trustee boards, due to wind-ups on the DB side, and, within DC, a move to master trusts.
- A drive for greater professionalism on pension trustee boards is being coupled with a desire for a greater diversity of people and backgrounds on the boards.
- Lay trustees still have a vital role to play within the changing pensions landscape.
- Each trustee is expected to be increasingly proactive on their board and to meet more regularly.



### ► Laura Blows considers how the trustee model is adapting to the structural changes within the pensions industry and the requirement for greater professionalism from trustees

complicated nature of trusteeship has also been a driver towards the growth of professional trusteeship.”

#### Increasing professionalism

These ‘complications’ include there being fewer active members within the trust-based scheme population, meaning a smaller pool of willing/easily accessible ‘volunteers’, the complexity of governance requirements and investment vehicles, and the greater regulatory engagement in scheme governance. Press coverage of problems within a company’s pension scheme or of a corporate failure in which the pension deficit played a part may also add to this reluctance.

To take on these challenges, trustees have to have a wide skillset, as while they can take advice, they ultimately remain legally accountable for the decisions they make. “They therefore need to have a deep understanding

across a range of disciplines – including actuarial, investment, covenant, accounting, administration, data security, communications, legal and payroll,” Kennett says.

The requirement for these skillsets did initially create a push towards greater professionalism to make the trustee model more efficient, PTL client director, Richard Butcher, states. However, since then it has ‘fragmented’, he says, as there is now “the realisation that professional trustees have brought professionalism to the table but not the diversity that is needed, creating a drive back towards employer/employee-nominated trustees”.

#### Lay trustees

Middleton agrees that there is a growing awareness of the need for diversity on boards in order to accommodate different governance perspectives and to avoid groupthink. Therefore, “in spite of

the drive towards professionalism, there is still a vital role for lay trustees, as the presence of member-nominated trustees (MNTs) on a trustee board – a statutory requirement established by the Pensions Act 1995 – ensures that members' views are adequately represented".

MNTs on a trustee board instils greater confidence on the part of scheme members in the knowledge that MNTs have 'skin in the game', Turner says.

"If there was a move away from the lay trustee model it would risk a growing disconnect between scheme and member, and could undermine trust in the scheme. We would be particularly concerned about moves towards sole trusteeship and away from requirements for MNTs," she adds.

While there have been reports of difficulties at some schemes in recruiting volunteers to be appointed to the board of trustees, Turner stresses that removing the trustee board model is not the solution: "The solution is to consider how the scheme currently goes about recruitment of new trustees. Other pension schemes have no problem at all recruiting new trustees, and those in workplaces with active trades unions often take advantage of the unions' commitment to workplace pensions and get union assistance in bringing new trustees forward."

This desire for greater diversity may be creating a conflict with the other aim for increasing trustee standards, Butcher warns. "By increasing standards we are describing the 'optimal' trustee, but 'sub optimal' people as potential trustees may bring out new skills and angles to the board," he explains, adding that "we have to be careful that we do not end up with an environment that will scare of MNTs or trustees from a non-pension background".

Figures from an AMNT survey of August 2020 may back this, as 46 per cent noted a real struggle in finding new MNTs, although 38 per cent said that they had no issues. Only 10 per cent were below the age of 54 though.

However, MNTs are exceptionally aware of the necessity of ongoing training and development in relation to their role, Turner says. For instance, AMNT's August 2020 survey of its members found that 90 per cent of respondents thought that there should be a compulsory qualification for all trustees (both lay and specialist).

Turner states: "A growing number of MNTs (including me) are holders of the Pensions Management Institute's Level 3 award in pensions trusteeship, which is the level of knowledge required for professional trustees. Many lay trustees are also interested in attaining the new 'soft skills' requirement that has been brought in for professional trustees.

"It has been argued that multi-employer schemes require trustees to have a greater level of trustee knowledge and understanding and this has been put forward as a reason to remove the requirement for MNTs. But the growing number of lay trustees qualified to the level equivalent to professional shows that complexity of schemes is not an argument against lay trusteeship."

### Working styles

It is not just lay trustees that are responding to this drive for greater professionalism. According to Kennett: "Professional trusteeship firms are starting to understand that trusteeship is a career, not a path to semi-retirement."

While change is occurring, more need to be done to change those trustees who are 'passive' at meetings, being akin to non-executive directors that are 'hands-off' the day-to-day management, PwC head of pensions, Raj Mody, says.

"Because of the arrival of full-time professional trustees, we are seeing a shift from the non-exec model of trustee to a more active role," he says. "This means there are a lot of changes in meetings. We are moving from a passive model, with trustees simply receiving meeting packs from their advisers, to an on-demand approach of trustees determining what they want to do for each meeting. There

is now more proactive control from trustees, with less focus on 'set pieces' such as the triennial valuation, and the agenda more driven by topics they need to focus on at the time, such as the overall strategy and execution of it."

A consequence of that is trustees have to scrutinise the information they receive much more critically, Mody adds. "There is a need for trustees to understand the advice much more deeply"

However, a common frustration between trustees and sponsors is 'information asymmetry', where both parties have differing levels of information – for example the trustee board may only have a benchmark from a single source advisory firm but the sponsor may have more broader information, "so challenge your advisers, look for wider sources of data, and work out what you are not being told", Mody advises.

He expects to see smaller trustee boards where each trustee has a more active set of roles and responsibilities, resulting in faster decision-making due to sub-committees working inbetween quarterly meetings.

The trustee model may be changing, but "whilst there is increasing pressure on trustees to become more professional in their outlook, there remains a steady flow of people prepared to commit themselves to a vital role", Middleton says.

"There remains a strong consensus that the trust-based model remains the best option for ensuring the highest governance standards. Trusteeship have responsibilities recognised by law, and their independence from the scheme sponsor permits them to ensure that members' interests remain paramount.

"Whilst the role of trustees may be subject to change, they remain central to ensuring that the highest standards of governance are achieved."

 **Written by Laura Blows**

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