

### Summary

- Many schemes have struggled to find people willing to act as MNTs for some time due to regulation and falling active memberships.
- DB and DC consolidation are leading to a further drop in numbers.
- Better education and communication of the role could help fill gaps on boards.
- Recent negative high-profile pension headlines may have attracted a new cohort of potential candidates.

# Mass exodus

**➤ Scheme consolidations, shrinking boards and tougher regulation are forcing more lay trustees off boards. Does this mean that the days of the MNT are numbered?**

It was the Pensions Act of 1995 that introduced the requirement for one third of company pension scheme boards to be made up of

member-nominated trustees or, in the case of a sole trusteeship set up, member-nominated directors.

Circumstances were markedly

different back then. The vast majority of FTSE 100 companies were able to dangle a final salary DB scheme carrot in front of prospective new employees and regulation was, in the most part, still of the light-touch variety. The future of the MNT looked secure.

Some 20 years later, with DB schemes falling like dominoes and The Pensions Regulator (TPR) cranking up the dial, the story could not be more different. Companies are now focused on either moving on, or winding down, their DB schemes, while the number of replacement DC schemes also looks set to shrink significantly as the pensions world prepares for a master trust-dominated future. For the remaining funds, regulation is leaving some MNTs to question their positions.

“For many schemes the honest truth

## ✈ DEPARTURES

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is that they are looking at consolidation as they may have four or five member trustees coming to retirement and they're struggling to get a new wave coming through, as DB is now a legacy issue," says TPT Retirement Solutions' head of direct distribution, Adrian Cooper.

"Regulation is also not going to slow any time soon. I'm having conversations with quite a few MNTs and they are telling me that they don't want to do this anymore, or they believe that they've done their duty for the scheme and it's time to step off."

At the same time, professional trusteeship continues to grow in influence. Cooper sees sponsors increasingly turning to professionals

in order to cover off governance requirements. This, he muses, could accelerate the exit of further MNTs, particularly from small and medium-sized schemes, who may be reassured that their scheme will be managed competently in their absence.

His view is widely shared. In March this year, a survey run by RSM found that around 70 per cent of pensions professionals believe that there will be no need for lay trustees to be present on pension scheme boards in 10 years' time.

The Association of Member Nominated Trustees (AMNT) is also concerned about the prospects for MNTs. One of its committee members, Peter Sparks, says that recruitment has always been challenging, but

the required knowledge, and lack of understanding of what it means to be a trustee have now led to the establishment of even higher barriers to entry.

### A lost voice

For many, MNTs have become essential parts of any trustee board.

"I'm a big fan of MNTs – they add genuine value to trustee meetings," says Barnett Waddingham partner Paul Houghton. "The trustee world will be poorer if we do end up with an absence of member trustees. Some of the more challenging questions come from MNTs. Their questions can help us step back and consider whether what we're doing is right."

Another benefit that most MNTs

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bring to boards is their intimate knowledge of a sponsor. To Houghton, this understanding

is vital when it comes to discussing member communication, particularly in terms of its style and nature. “They can also add value when the trustee role requires negotiation with the employer,” he says. “Having an insight into an employer can be very helpful and MNTs give a more rounded balance to a board.”

For Aon partner Susan Hoarne, a world without member trustees is one that risks rubber stamping groupthink, where everyone is running in the same direction with the same viewpoint, and therefore “must be right”.

Including MNTs is about the need for diversity, she argues. This ensures that funds have different thinking patterns, which then lead to boards making the best decisions. “The big risk is that we are deprived of the voice of the shop floor worker *[and lose that ability]*”.

Member trustees are also capable of fostering greater engagement from a scheme’s membership. Arc Pensions Law partner Vikki Massarano says that one downside of consolidation and the use of master trusts can be the lack of involvement of members in the operation of the scheme.

“Increased use of professional trustees is beneficial where it results in increased efficiency and good governance. Nevertheless, it would be a shame if this led to a situation where MNTs were not used at all,” she says.

### A little education goes a long way

The drop in MNT numbers could perhaps be reversed with a little education. Many members are put off applying for the role because they believe they need to be highly informed in all areas of pension matters. Houghton explains that this is a common misconception.

“It’s really the level of understanding across the whole board that matters,

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rather than each individual knowing everything inside out,” he says.

“If you compare it to a company board, most of them are run very well on the premise that it’s made up of people with different skills and it’s the board as a collective that matters. So the HR director is not required to understand all the ins and out of the finances; they only have to have a minimum level to contribute to the conversation. It can be the same on trustee boards.”

MNTs should not think of themselves as inferior to their professional counterparts either, argues Sparks. He endorses TPR’s push to raise standards and levels of professionalism, but believes that this has led to a false belief in some camps that trustees have to be professional. “As a trustee and a MNT, I welcome the call to raise standards, and believe that all trustees should act professionally. Trustees on both DB and DC schemes should look to deliver member benefits in the most professional way and to the highest standards. The type of trustee should not affect the execution of the role.”

### Making the role more attractive

Hoarne says that the MNT role could be made more attractive with some refreshed marketing.

When asking for nominations, communication within schemes usually focuses heavily on the technical aspect of the trustee role. Instead, she recommends also highlighting the softer skills that effective trustees need.

“We have to talk to people and say these are the key skills that we think trustees bring to the role. It should be more about broad skills, not just technical skills. Then someone can look at that and say ‘I can add value to this role.’ That’s the piece that is missing.”

Hoarne believes that companies could work harder to help attract MNTs as well. She suggests that potential candidates should be encouraged to view a position on a trustee board as being the equivalent of that of a non-executive on a company board. “It is a huge development opportunity and so for me there should be people fighting to take that role on in the business. It is an important role and one that you can gain so much value from.”

### Hope springs eternal

Encouragingly, there does remain some interest in the role, particularly in larger organisations, which better communication and education could capitalise on.

Sparks’ fellow committee member at the AMNT, Chris Mounton-Hill, admits that positive and informed input is required to refute certain misconceptions and to reinforce the need for MNTs, but argues that there remains a large pool of members to choose from.

“I query the basis and validity of information put forward relative to problems finding lay trustees. Unions and staff associations have a strong interest in the continuance of this role and never seem to be short of volunteers. If there is a problem it is the need for training because of the growing complexity of pensions and pensions-related issues.”

In her experience, Massarano has observed an increased interest for some schemes. She says that members may have become keen to be involved in trusteeship because of recent press coverage of high-profile fund failures.

There may yet be a future for MNTs after all.

**Written by Marek Handzel, a freelance journalist**