

**H**ow do you judge standards of governance for a pension scheme, or evaluate the effectiveness of a board of trustees? Answering those questions is difficult because every scheme is different. As The Pensions Regulator head of policy Fiona Frobisher told the audience at the Pensions Age Autumn Conference in October, identifying good governance depends in part on recognising something intangible – on “knowing it when you see it”, as she put it.

Clearly there is a need to try to find a more tangible way to assess governance and help trustee boards to function effectively; and the regulator is actively trying to do exactly that. Visit its website and you will now find a growing range of new resources designed to help new and existing trustees, covering topics including trustee recruitment and succession planning, skills and knowledge assessments, training and development, the roles, responsibilities and accountabilities of key scheme participants; and governance structures.

Further resources to be added over the next few months will cover topics including engagement with advisers and providers; and risk management.

These new resources, designed to be clearer and more accessible, are being developed as part of the regulator’s 21st century trusteeship campaign, launched in September 2017, after a research and a consultation process. It also announced plans to provide further support to schemes facing difficulties; and details of interventions it could make if necessary, including penalty notices, independent trustee appointments and trustee prohibitions.

The Pensions and Lifetime Savings Association (PLSA) has also been focusing on this area and launched a discussion paper on good governance in August 2017. PLSA policy lead for stewardship and corporate governance Luke Hildyard notes that – as the findings of the regulator’s research also suggest – larger schemes enjoy significant advantages in trying to achieve best practice. They can draw on

greater resources, are likely to be better positioned to negotiate with service providers and may find it easier to recruit well-qualified trustees. However, Hildyard adds, “there are lots of small schemes that are well governed and some larger ones that aren’t”.

### Getting the right people around the table

The first problem facing many schemes is finding new trustees. Finding member-nominated trustees (MNTs) can be particularly difficult for older DB schemes closed to new members and/or accrual, because there is a smaller pool of potential MNTs to choose from, while the employer may only be considering the status of the scheme in bottom-line terms.

Association of Member Nominated Trustees (AMNT) committee member Bill Trythall emphasises the importance of ensuring adequate representation of the scheme membership. “The need to have people on the board with skin in the game who can bring the perspective of beneficiaries is clear,” he says. “One thing that concerns us about the increased use of master trusts and contract-based schemes is that member representation is inadequate on those governance bodies.”

The regulator’s acting executive director of regulatory policy and general counsel Anthony Raymond is quick to respond that the regulator recognises the importance of membership representation on the boards of master trusts. “Our primary concerns are, is the scheme well run, are the members’ benefits protected?” he says. “The efforts we are making to have a greater degree of scrutiny over those schemes reflect that.”

Assuming the scheme is able to recruit a decent number of trustees, what is the optimum size of an effective board? Clearly there is a balance to be struck between faster decision making with a smaller board and the broader range of expertise and perspectives that a larger

# Getting on board

## David Adams considers the structure and approaches required to create an effective pensions trustee board

### Summary

- There is a need to identify and encourage best practice in the effective running of a board of pension scheme trustees.
- The Pensions Regulator launched its 21st century trusteeship campaign in September 2017, which includes more accessible, comprehensive guidance and information to help new and existing trustees perform better; it also included details of measures it could take to address poorly-performing trustee boards.
- The key problems many trustee boards face are recruitment, particularly of member-nominated trustees, and ensuring diversity of background, expertise and approach on the board.
- The roles of the chair and sub-committees are vital in ensuring effective performance of the board and in getting best value out of advisers and service providers.
- Ongoing training and performance evaluation of individual trustees and of the board are also very important.



board can offer. PwC research published in August revealed that most of the 54 schemes it surveyed had between six and nine trustees, but schemes with assets worth between £1.5 billion and £5 billion were more likely to have more: with some having as many as 14. At the other end of the spectrum there has also been a growth in the use of sole trustees for some schemes.

The optimum number of trustees depends on the complexity of the

scheme, says Independent Trustee Services (ITS) director Dinesh Visavadia. “If there are many different benefit structures and a complicated investment strategy then you need people who can understand that,” he says. “With a simple structure you shouldn’t need so many trustees.”

Although it is obviously useful to have some professionals with relevant expertise on the board, Trythall thinks

this is not always necessary and can create problems. “The danger of having an actuary, or a lawyer, say, is that you don’t want to fall into the pattern of thinking that X is the expert on Y, so whenever Y comes up the rest of the board switch off,” he explains.

There is also general agreement about the importance of diversity on the board. The regulator’s research suggests



that male trustees currently outnumber female trustees by 82 per cent to 18 per cent, that only one in 10 chairs are female, only 8 per cent of trustees are under 40; and people with a BAME background account for no more than a few per cent of all trustees.

“To some degree the board should be representative of the scheme membership,” says Hildyard. “But a diverse board is likely to have a less complacent culture. There’s a lot of evidence that says people with different backgrounds and perspectives are less likely to slip into groupthink.” Many experienced trustees extol the virtues of using psychological profiling to assess how well different trustees’ personalities complement each other.

### Asking the right questions

But even if there is a well-chosen range



of talent and expertise sat around the table, much still depends on the skill of the chair. “It’s vital that the chair allows people to contribute and feel empowered to make good decisions,” says Pensions Management Institute president Robert Branagh. “But we all know of chairs who can be autocratic and don’t let people speak.”

Again, there is a balance to be found, says Cranfield Capital client director Allan Course, also an independent trustee. Sometimes a more autocratic approach is the best way to ensure the business of the trustee meeting is completed. “The chair needs to take account of the skills and abilities of the other trustees,” he says. “If they’re not up to it then he or she needs to step in.”

Collectively, the board must be able to challenge advisers to ensure the scheme gets the greatest possible value out of working with them. Sub-committee chairs in particular should have the necessary expertise to challenge advisers effectively, says Branagh.

But Trythall also highlights the importance of other trustees challenging advisers – perhaps particularly if they don’t quite understand the advice they are being given. “If someone is pitching an investment strategy, for example, if they can’t explain it to people who are reasonably intelligent and have mastered the regulator’s toolkit, you should be asking ‘do we really want to do this?’” he says.

PTL client director David Brown stresses the importance of training as a means of arming trustees with the knowledge they need. “I’m a big believer in just-in-time training,” he says. “Pensions is a massive subject. Focused just-in-time training should mean a subject is at the front of your mind when you need to grapple with these issues.”

He also advocates individual training programmes tailored to the needs of trustees.

Brown and Branagh also both say that boards of which they have been members have also benefitted from regular evaluation processes, where trustees consider their own effectiveness and that of the board, possibly with the assistance of a third party.

Visavadia has some other suggestions to improve trustee board effectiveness: more frequent, but shorter meetings, in order to cover different subjects at different times and to enable consideration of items that might not otherwise be considered in a meeting with a very long agenda; and the ability to co-opt trustees with specific expertise during short periods when that expertise was required – if a scheme was about to



invest in a niche asset class, for example.

But perhaps the single most important factor in determining the effectiveness of a trustee board is simply a commitment to the fundamental purpose of the scheme – to work in the members’ best interests. Trustees have to want to do the job, says Course. “The best trustees I know really want to be trustees of pension schemes,” he says.

**Written by David Adams, a freelance journalist**