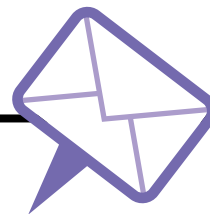


# Testing times for trustees



## Summary

- Serving as a pension scheme trustee has become ever-more difficult, thanks to the changing nature of schemes, the complexity of scheme stewardship and an ever-tougher regulatory regime.
- Schemes, employers and the industry in general are trying to improve recruitment of and support for member-nominated and other lay trustees.
- Use of professional trustees continues to increase and can be very effective, but concerns remain over the accreditation regime and diversity on scheme boards.
- The UK's pension schemes will continue to need high quality lay and professional trustees for many years to come.

The phrase 'it's a tough job, but somebody's got to do it' could have been coined for pension scheme trusteeship. In the past, being a trustee may sometimes have been quite straightforward, but that is rarely the case today, thanks to changes in the scale and nature of schemes, ever-tightening regulatory demands, and the growing complexity of scheme investment strategies.

In that context, the DWP and Treasury joint call for evidence related to trustee skills and capability, launched in summer 2023, makes perfect sense. It focuses in particular on knowledge and skills related to investment strategies and working with scheme advisers, but trustees also have to grapple with many other issues, including cyber and data security risks; and the environmental, social and governance (ESG) agenda.

In addition, many DB scheme trustees may be preparing a scheme for

## The technical, practical and regulatory demands faced by trustees have all increased in recent years. David Adams looks at the possible consequences of those changes for the recruitment and retention of both lay and professional trustees

buy-in or buyout transactions; while trustees of DC schemes face other challenges, including encouraging lower paid members to keep making contributions during the cost-of-living crisis; and ensuring that members approaching retirement have the support they need to make good decisions about how to use their pension pots.

### Regulatory burdens

But it is arguably regulatory change that poses the most problems for trustees; and at present we await the next round of announcements from policymakers, with the results of the call for evidence and publication of the regulator's Single Code of Practice both due in the near future.

"What is expected of a trustee has gone up and up over the years," says The Pensions Regulator (TPR) policy lead, Nick Gannon. "And I think that's right – schemes are holding many millions of pounds for thousands of members, so you would expect them to look after the members' interests. But we hear that it's become very hard to recruit some member-nominated trustees, depending on the workforce and the scheme." In 2021, the Association of Consulting Actuaries (ACA) found that almost nine out of 10 employers (88 per cent) expected their schemes to struggle to find new trustees.

Member-nominated trustees (MNTs) and other lay trustees are still needed, because their contributions to the governance of many schemes can be so



important. They provide valuable insights into the most effective ways to communicate with members, may have a deep understanding of the sponsor's internal processes and culture; and can increase the overall diversity of talent and ideas on the board.

Association of Member Nominated Trustees (AMNT) co-chair, Maggie Rodger, does not think the tougher conditions for trustees have led to those already serving as MNTs resigning, but she agrees it has become more difficult to recruit new trustees.

"It is difficult when you get DB schemes that are very mature, and the only members are retired," Rodger admits. "The natural course of things then is that you end up with a professional trustee and a wind-up. But that decision still feels like it needs members to be involved." She also laments the effective loss of the old trusteeship model for DC schemes that are being moved into big master trusts.

Employers must play their part in finding and supporting trustees, says Rodger. "Give people time to go to the

meetings, to prepare for the meetings and read the papers,” she urges. “Give them time to train.” But some schemes and employers appear to be unwilling to do so: AMNT research published in spring 2023 showed many MNTs were not given time off or money to attend trusteeship training. Rodger sees this as a very foolish false economy.

“If we want well-trained trustees [employers] need to put some effort into this,” says Rodger. “It’s also lot cheaper than using a professional trustee.”

### Professional approach

Of course, working with professional trustees can be a valid solution. Half of all UK schemes now use a professional trustee, and one in five now use a professional sole trustee, according to LCP research published in September 2023.

Having a professional trustee on the board can be very helpful for a scheme moving towards buyout. “A buyout project is immensely complex,” says Pi Partnership head of trusteeship, Lynn Pointon. “So that can be a driver for bringing in a professional trustee, either as a sole trustee or to supplement the existing board.”

Many professional trustees will do an excellent job, whether joining an existing board, or, where appropriate, as a sole trustee. But some in the wider pensions industry have expressed concern about the fact that formal accreditation is not yet compulsory for professional trustees.

“We place a greater level of expectation on professional trustees,” says Gannon. “We would like to get to a position where everyone is accredited.” He points out that compulsory accreditation is among the options discussed in the DWP/Treasury’s call for evidence.

But however well qualified and resourced a professional might be, there is an argument that an increased reliance on their work will reduce the diversity of decision-making inputs guiding the scheme.

Hymans Robertson head of governance consulting, Laura Andrikopoulos, points out that if many professional trustees have come from similar professional backgrounds – as former pension consultants or actuaries, for example – there is a danger of a lack of diversity in approach. There has also been significant consolidation within the professional trustee sector during the past year, so reducing an already relatively small pool of professional trustee providers.

## “Trustees can continue to serve scheme members and pensioners for years to come, if they focus on quality, rather than quantity”

Association of Professional Pension Trustees (APPT) chair, Harus Rai, thinks schemes working with professional trustees might look at diversity in a slightly different way. “If you have a [professional] trustee working on 10 or more schemes, the diversity of experience across those different schemes, how their different advisers are working, and the different challenges those schemes have faced – that can be more diverse than the experience of someone seeing the issue for the first time,” he suggests.

Rodger acknowledges that a professional trustee may be experienced and well-qualified, but she worries that having helped a number of schemes negotiate similar issues may leave these individuals with the impression that they now know all the answers. “Someone needs to question that,” she says. “They can be brilliant, but we need to make sure there are lots of other voices alongside them. Member-nominated trustees provide that diversity.”

TPR also recognises the need to find ways of increasing the diversity of

the UK’s pool of trustees: The regulator launched a diversity and inclusion survey in July 2023. “It is important that you’re not falling into the trap of only one voice being heard when making decisions,” says Gannon.

### Tough questions

Pointon thinks trustees can continue to serve scheme members and pensioners for years to come, if they focus on quality, rather than quantity.

“My sense is that the average size of the board is diminishing – you used to have nine trustees, now you have five,” she says. “But did you really need nine? I think it’s important to make sure that everyone on that board bring different things. You don’t want seven clones – you’d be better off with three who have different backgrounds.

“There are bad trustees out there, but overall I think trustees have done a sterling job over the years, getting schemes through some challenging times,” she says. “It’s hard to see a better system, but the challenge is always maintaining the quality of trusteeship.”

For Rodger, it all comes down to trustees challenging a scheme’s advisers – and perhaps also professional trustees – by asking simple but vital questions, like: ‘Can you tell me how that works?’ ‘Where is the return coming from?’ or ‘What are the risks?’

“They are easy questions to ask but they force people to go back to first principles,” she says. “That challenge – ‘I’m a member, tell me why this is a good idea?’ can be used anywhere.” A well-trained, well-motivated trustee’s determination to get answers to those questions and deliver life-enhancing results for members makes all the struggle to find and support new trustees worthwhile. It really is a tough job, and getting tougher all the time – but we really do need people who can do it.

 Written by David Adams, a freelance journalist