

# A juggling act



## Maggie Williams explores increasing governance workloads, and what the future holds, for pension scheme trustees

Good pension scheme governance begins and ends with the trustee board. Whether that's a defined benefit (DB) scheme planning for buyout, or a defined contribution (DC) arrangement grappling with issues such as member engagement and value for members, trustees are at the heart of every decision that affects the scheme.

"Trusteeship is a more demanding role now, with a faster pace of work and much greater complexity," says Aon senior consultant, Sue Austen. "The breadth of issues that scheme trustees are facing is extremely wide, including diversity, equity and inclusion, sustainability, cyber, pension gaps and projects such as GMP equalisation that are not straightforward."

In addition to the breadth of issues that trustees face, Vidett director, Duncan Willsher, says that he sees increasing pressure on boards to compete with each other for services such as buyout. "It is becoming a competition between

schemes to demonstrate that you are in the best place for insurers. The risk is that, in that rush, there is a herd mentality towards buyout and trustees can be slightly blinkered when other options exist. Sometimes there is a frenzy to get deals across the line, at the expense of other things."

### Increasing regulation and scrutiny

The Pensions Regulator's delayed General Code of Practice, which will bring together guidance on a range of governance-related issues, is unlikely to be released before autumn this year. The impact on trustee governance of the new code could be relatively minimal in terms of trustee working methods, says Vidett assistant scheme manager, Kat Gruenewald. "Complying with the code may just be a matter of evidencing certain considerations and decisions or checking your advisers are following the correct procedures."

The main requirement of the legislation will be the introduction of

### Summary

- Trustees' roles have become wider ranging and more complex.
- There is also increasing scrutiny from government and regulators.
- Professional trustee appointments are on the rise, but MNT accreditation is also important.
- Sole trusteeship can deliver good governance, but at the risk of losing member voice.

requirements for an Effective System of Governance (ESOG) and Own Risk Assessment (ORA), which have been a long-standing part of the draft regulations.

In the meantime, the Department for Work and Pensions (DWP) is also taking an interest in trusteeship standards. In July 2023, the DWP released a joint call for evidence on pension trustee skills, capability and culture in association with the Treasury. The report says that in addition to a focus on "whether trustees have the right knowledge and skills to consider investment in the full breadth of investment opportunities", the consultation is intended to explore "the role of advice and other barriers to trustee effectiveness".

Association of Member Nominated Trustees (AMNT) co-chair and a member-nominated trustee (MNT) of the Church of England Pension Scheme, Maggie Roger, says that the consultation is a positive step. "It shows that governance is being taken seriously by the government. This needs to be about getting practices right for members and trustee boards, rather than focused on avoiding calls on the Pension Protection Fund, which has sometimes been the focus in the past."

However, Roger cautions that when it comes to investment strategy, trustees' priorities need to remain with the scheme. "We've seen various government policies taking shape, such as calling for trustees to invest in asset classes like unlisted equities. Governments

can sometimes be short-term thinkers, but pension schemes need to be able to look at longer term risks and processes, especially around investment choices.”

### Effective decision-making

Roger’s AMNT co-chair and MNT of the BECTU Staff Retirement Scheme, Janice Turner, says that one of the governance challenges for trustees is future liability for decisions that they make now. “Decisions taken now in good faith could be overturned and seen as a litigation risk in the future,” she says. “All trustees need to be able to show a trail of how they reached their decisions.”

Turner gives the example of schemes turning to buyout as a new potential risk. “Choosing an insurer is a big governance issue and trustees may be under pressure from a sponsor who wants to remove the scheme from balance sheets. But choices need to be carefully documented, to mitigate the risk of a buyout insurer failing.”

“Schemes will need to be aware of the big decisions they are taking and the advice that they receive,” says Austen. “Taking out cover with trustee indemnity insurance is a good policy.”

The recent LDI crisis brought home to some trustee boards how little they knew about the strategies they had implemented. “The inexperience of some trustees, plus advisers and some fiduciary managers was highlighted in the crisis,” says Willsher. “But the important thing is that everyone learns from it. To be caught out a second time and not understand would be inexcusable.”

### Future of trustee governance

With so many pressures on boards, how will trustee governance evolve in the future? “Covid-19 taught trustee boards that they could act nimbly and make decisions quickly without the need for a quarterly meeting,” says Austen. “Not all schemes were capable of that before the pandemic.” Willsher agrees: “Covid-19 definitely had a positive impact on

trustees’ drive and willingness to engage digitally and make decisions closer to real time.”

He says that he is also seeing an increasing number of enquiries for professional trustee services, as well as a drive towards sole trusteeship. Austen agrees that wider use of professional trustees and sole trustees is a future trend. “Professional trustees will have been through similar projects before and can drive actions through.”

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But, she cautions: “You lose connection with the membership by losing MNTs and risk not knowing what members need. Setting up governance committees to support sole professional trustees is a good approach and provides more diversity of thought.”

While there have been calls to include a professional trustee on all trustee boards, Turner believes that including an accredited trustee – either an MNT who has completed the Pensions Management Institute’s Certificate of Trusteeship, or a professional trustee with equivalent qualifications – would be a more fitting framework. “We’d like to see at least one accredited trustee on every board,” she says. “The exams are the same for an accredited MNT and a professional trustee.”

However, Roger says that not all schemes and sponsors are prepared to support trustees in this way. “In our recent research we explored what is holding trustees back. “Some boards are exemplary, but in others there is less support and trustees have been knocked back from becoming accredited because the employer won’t provide the learning time or fees to do so.”

Achieving diversity of thought is also important for future standards of governance, says Austen. “We see the benefits of diversity, equity and inclusion coming through when trustees have different skills, work preferences, life experiences and perspectives on an issue. For example, one trustee might be focused on very precise details, where another might want to understand more strategic angles. There is value in having both of those perspectives.”

Willsher believes there will also be stronger calls to outsource aspects of governance – whether through a fiduciary manager, or in other areas of specialism such as data analysis. “Bringing people in to help trustees is important. That might include fiduciary management, or more operational support such as managing trades.”

“Delegating to a specialist fiduciary management team with wide experience of investing and considerable resources, should give trustees comfort that they are in the best hands to achieve their objectives - without giving up control over their overall investment plan,” explains Charles Stanley senior portfolio manager, Bob Campion. “It represents a professionalisation of the investment process for a defined benefit scheme.”

The volume and complexity of governance work that trustee boards need to undertake is unlikely to ease any time soon. With the DWP as well as TPR taking a direct interest in trustees’ skills and knowledge, there could also be future pressure for more accreditation and demonstrable standards of expertise on trustee boards. MNTs, professional trustees and sole trustee boards for DB schemes should all be prepared for closer scrutiny of their decision making and standards of governance in the future.

Written by Maggie Williams, a freelance journalist

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