

Maintaining good governance

➤ Sue Austen explains how to make good governance central to everything trustees do

Pension scheme trustee boards are struggling for time and resources. They need to manage regulatory change and navigate uncertain markets, alongside complex scheme-specific projects and fulfilling long-term strategic goals.

From acting on the fallout from 2022's market issues, to ensuring the board has the right mix of skills and expertise, trustee workloads have become broader and more complex than ever.

To keep up with this demanding workload against strict time constraints requires exceptional governance not just from the trustee board itself but also from its advisers and strategic partners.

Have a clear strategy

Defining and documenting long-term goals helps to make sure that all efforts bring the scheme closer to achieving those objectives. It also helps to manage costs and make sure that trustees have factored in the risks and opportunities the scheme faces.

- *Set a clear plan* – This should be focused on achieving the scheme's goals. For example, a defined benefit (DB) scheme targeting buyout will have a very different strategy plan from one that is planning to remain self-sufficient in the future.

- *Think about the big picture* – Creating a strategic plan helps trustees to think about governance beyond day-to-day activities, and to ensure that their work focuses on all the scheme's priorities, not just funding and investment. For defined contribution (DC) schemes, improving member experience and cyber security could be key strategic objectives, whereas DB schemes preparing for buyout might prioritise preparing benefits specifications or data cleansing alongside monitoring the funding position.

Focus on building resources and relationships

With so many demands on trustees' time, making sure that boards have the right

resources and relationships with third parties is essential.

- *Explore board skills and knowledge* – Analysing trustees' strengths and identifying any gaps in skills and knowledge will strengthen a trustee board over time. Narrowing those gaps could mean expanding trustee training practices or identifying areas where the board needs to recruit new trustees or outsource work tasks to third parties. Nurturing new (and longer-standing) trustee potential through training courses and hands-on experience is also important to make sure governance remains strong.

- *Strengthen diversity of thought* – A board with diversity of experience, background and ways of thinking, leads to better quality decision-making. Having a good understanding of the range of personalities on a trustee board, their strengths, and weaknesses and how they can best work together is a vital part of good governance. Like all of us, trustees will have unconscious biases rooted in their own beliefs and experiences, so training to overcome these can also help to improve board dynamics.

- *Plan for the long term* – Good succession planning ensures that a board keeps the mix of skills and experience it needs, especially in key positions such as chair of the board or sub-committee leaders. It is also essential to document vital scheme knowledge so that it is retained when trustees move on.

- *Shake up recruitment methods* – Attracting trustees with new skills and diversifying talent could mean rethinking recruitment methods. Changing communication styles, channels and messages could make the role appeal to a wider audience and reach people who might not have previously thought about trusteeship.

- *Make sure that all voices are heard* – The chair of trustees has a vital role in making sure that all trustees can contribute confidently and effectively, to make the most of board diversity. This



may require training both for the chair and for trustees to build up confidence in making their voice heard.

- *Create strong relationships with advisers* – The relationship between trustees and scheme advisers can be the difference between a well-run scheme, and one that struggles to make decisions and progress. The willingness of advisers to work constructively together without direct trustee involvement, can also have a major impact on outcomes.

- *Work effectively with the sponsor* – Both the trustee board and scheme sponsor need to be aligned around the scheme's long-term goals and understand each other's roles in achieving them. That also means making sure that member nominated trustees (MNTs) are not put in a position where they feel conflicted if there are decisions to be made that affect both the scheme and the sponsoring company.

- *Appoint external resources as needed* – These could include secretariat services and project managers to make sure meetings and projects stick to time, goals, and budgets. It could also mean outsourcing specialist projects, such as member communications, or some day-to-day decision-making, for example by employing a fiduciary manager.

Use board time effectively

The pandemic forced trustees to make changes to the way that they work, with traditional quarterly meetings no longer possible at that time. As a result, most boards have become more agile and able to make decisions outside meetings, but making sure that trustee time continues to be used effectively and is focused on core board objectives, remains a priority.

- *Keep risk management up to date* – Documenting risks and maintaining risk management frameworks is an ongoing process, and the principles should be reviewed regularly.

- *Stay focused on scheme objectives* – Everything the board does should be contributing to achieving the strategic



aims. Advisers and external project managers can help trustees to bring projects back on track if budgets or timelines shift for any reason.

- *Be agile* – Trustees must sometimes make quick decisions, for example in response to unexpected situations. Being able to do that may not be just about trustee experience, but also how effectively trustees can collaborate outside regular meetings, their decision-making structures, and the way they work with third-party advisers or other stakeholders.

Review the way the board works

Even the most experienced trustee board can often find ways of working more efficiently or innovating to identify new ways of tackling old problems. By carrying out an operational review of their governance, trustees can find out more about what is working well and where there is room for improvement.

- *Prepare for the 'General Code'* – The Pensions Regulator's planned General Code, covering many aspects of scheme governance both for DB and DC scheme trustees, has yet to be finalised, but trustees can prepare by evaluating the way that their scheme operates against the draft code. That will help to minimise workloads when the final code is introduced.

- *Get feedback on board effectiveness* – It can be difficult for a trustee board (or any other management structure) to get truly objective feedback on its performance. Independent third-party reviews of how meetings are run, the way that scheme documents are presented, policies, practices and the experiences of people involved with the scheme are all invaluable sources of information for future governance improvements.

Aon has a range of tools and services to help trustee boards evaluate and improve all aspects of their governance. This leads to better outcomes for members, improved decision-making, and a smoother path towards the scheme's ultimate strategic goals.

We have launched [an information hub](#) dedicated to pension board excellence, based on our governance framework. It brings together our latest thinking on governance, our services and the wide-ranging expertise of our team, to help trustees start conversations about how they can improve the way their scheme is run.



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