

Briefing note.

What is the 21st century trustee?



Towards the end of 2015, the Pensions Regulator (tPR) published the results of its survey into how well placed trustees are to fulfil their governance roles.

They are using the findings to drive debate over what an effective 21st century trustee should look like.

The pension **trustee role is becoming increasingly complex** and important and can literally impact on the financial outcomes of members in retirement.

The Regulator and government are rightly concerned that trustees across all defined contribution (DC), defined benefit (DB) and hybrid pension arrangements have the knowledge and skills needed to best manage their schemes. They recognise most trustees are **lay people with little pensions experience, but with a huge responsibility** for the pension security and welfare of their members.

Headlines from the research show larger pension schemes are more likely to be well governed than small and medium ones. That's hardly surprising given larger schemes tend to have bigger budgets and access to the best advisers.

tPR also found **pension schemes with professional trustees are more likely to be well run**, for example in their ability to assess best advice and value for money from their advisers. This reflects real life: our ability to manage advisers to get the best from them and beef up scheme governance are often key drivers to our appointments.

The results relating to trustee knowledge and training were most surprising:

only 49% of schemes without a professional trustee believe all their trustees had a level of trustee knowledge and understanding (TKU) that met the minimum standards

10% of schemes had not even heard of the TKU code

less than 50% of schemes reported that their trustees had undertaken any formal training during the previous 12 months

This doesn't actually reflect our experience in working with lay trustees, but that may be because we proactively encourage our co-trustees to take advantage of (often free) training provided by advisers. However, the survey shows there seems to be an issue and tPR may become more prescriptive about trustee training in future.

So, what should a 21st century trustee look like?

Over the years, the pension trustee role has become increasingly onerous and time consuming. Until now tPR hasn't been proactive in monitoring and managing trustee effectiveness, beyond the provision of their excellent TKU toolkit and Codes of Practice. There has been **little public criticism of pension trustees** who have not taken their knowledge requirements earnestly, who may not have performed their roles diligently or, worse still, who have deliberately ignored conflict of interests. Other than for clear and purposeful wrongdoing, we have seen **few cases where the Regulator has used sanctions**.

That said, in our experience, the majority of lay trustees are committed to bringing their best to the role, ensuring they have a firm grasp of key issues and challenging advisers when needed. However, **finding the time** to keep up with trustee business, changing regulatory requirements and increasing complexity **is a challenge to many lay trustees** who have to juggle the needs of the day job or a busy retirement schedule. The concern is if trustees don't have the requisite knowledge they are at an immediate disadvantage.



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In our view, an effective 21st century pension trustee will need to:

- **Be realistic** and understand the time and effort required to deliver the role to the best of their ability.
- **Regularly analyse their individual knowledge** and skill gaps and dedicate sufficient time to developing their pension and investment knowledge.
- **Keep on top of developments** in the pensions industry press and take advantage of training opportunities.
- **Maintain a training record** that can be independently audited.
- **Be proactive** and able to demonstrate confident executive qualities.
- **Prepare diligently** (ie read and understand the meeting packs), attend meetings and make regular, meaningful contributions to discussions.
- **Understand and manage their own conflicts**, particularly where an executive role is held with the employer.
- **Be able to negotiate firmly** with employers over resources and contributions available to the scheme.
- **Be comfortable in challenging** scheme advisers and asking for clarification.
- **Ensure advice is fully understood** and the pros and cons of each course of action are fully debated before reaching any decision. **Don't fall foul of 'WYSIATI'** (what you see is all there is) - think about all the considerations, facts and figures that could or should be brought to a decision. Don't simply depend on the information put in front of you in the meeting pack.

The **trustee role** is often a thankless task but can be very rewarding when approached with the seriousness it deserves. The ability to make decisions that will impact on a member's wealth in retirement can be **daunting but ultimately fulfilling**. That's why some of us do it as a professional career. The 21st century trustee will rise to challenges through improved knowledge and a firm grasp on the management of advisers to bring about better member outcomes.