The future of pension scheme trusteeship
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Introduction

Pension scheme trustees are reaching a confidence crossroads. High profile corporate failures impacting huge groups of ordinary people have once again taken schemes onto the front pages of the nation’s press. With pressures from regulators and members, and the personal responsibilities they have towards their members, today’s trustees are increasingly stuck between a rock and a hard place of moral obligation and industry regulations. This then begs the question, what will the future hold for trusteeship and where will the trustees of the future come from?

High profile campaigns by The Pensions Regulator (TPR) and joined up initiatives with the Financial Conduct Authority (FCA) clearly indicate that the role of a trustee is topical. As an integral and newsworthy cog in the pensions wheel, the trustee faces a number of intricate and unique challenges as well as their day-to-day job. Against this backdrop, RSM’s 2019 pension scheme survey interviewed almost 200 trustees across the UK to find out what the biggest issues facing the sector were, and more importantly, what the future of pension scheme trusteeship looks like.

Where is the road ahead leading to – do lay trustees no longer have a role to play? Are boards dominated by professional trustees? And are expectations of trustees beyond reasonable, particularly for member nominated trustees for whom the boardroom may not be a natural habitat?

Is the work of trustees as we know it something that will continue on, or is the role in fact at a crossroads? Our research indicates those in the industry see the role continuing and evolving, but the future direction is far from clear.

Ian Bell
Head of Pensions
What is a pension scheme trustee?

A pension scheme trustee is someone who technically holds an occupational pension scheme’s assets for the beneficiaries. They act separately from the employer for the benefit of scheme members and their powers are written in the trust deed and the scheme’s rules. TPR states that as a trustee, ‘you are responsible for the proper running of the scheme – from the collection of contributions, to the investment of assets and payment of benefits. The scheme members look to you to make sure that the scheme is well run and that their benefits are secure’.

What does a trustee do?

A trustee works to ensure the best outcomes for the beneficiaries under the Trust. A ‘beneficiary’ is anyone who is entitled to, or who might receive, a benefit from the scheme, now or in the future.

In doing this, a trustees’ main fiduciary duties include:

• acting in line with the trust deed and rules;
• acting in the best interests of the scheme beneficiaries;
• acting impartially; and
• acting prudently, responsibly and honestly.

What are the main types of schemes that trustees are responsible for?

• Defined Benefit (DB) schemes - sometimes known as ‘salary-related’ or ‘final salary’ schemes;
• Defined Contribution (DC) schemes – sometimes known as ‘money purchase’ schemes;
• Hybrid schemes – one trust with both DB and DC elements; and
• Master trusts – a scheme that administers members’ benefits from unrelated employers.
The future of pension scheme trusteeship
Pressure

Trustees have a vital, often under-appreciated and wide-reaching role in the pensions’ world.

A trustee faces a number of pressures, in some cases as part of extra workload alongside their day job, and these seem to be steadily increasing. When we questioned their burden of responsibility, 65 per cent of our respondents stated they felt under more pressure than a year ago. Interestingly only 3 per cent said they were under less pressure.

This figure is split between larger and smaller schemes, with middle ranging schemes seeming to load more pressure than their larger or smaller counterparts.

What is it about the role that is heating up the pensions sector? Where are trustees feeling the pinch? What can be done to ease it? Why do mid-sized (£100 million to £1 billion) scheme trustees feel the pressure more strongly than their larger and smaller scheme counterparts?

It’s certainly true that a greater focus is on the pensions industry than ever before, hitting the headlines far more regularly than in the past. As well, there is a far greater pressure on trustees’ shoulders to fulfil both financial and moral obligations to ensure that they are acting in the best interests of their members. One recent additional pressure weighing on many trustees’ shoulders is the increase in the moral responsibility that they have to members wanting to take advantage of the pension freedoms legislation.

We wanted to understand where trustees are feeling the strain. In answering our survey, respondents indicated that the main area of pressure is in relation to sponsor and funding concerns for the scheme, whilst time pressures to perform the role came in second place. The big question is whether this is affecting their ability to adequately perform their vital role and if they are deriving any job satisfaction from doing so.

Respondent scheme profiles
• 73 per cent DB scheme;
• 12 per cent DC; and
• 15 per cent a hybrid.
The future of pension scheme trusteeship

What size scheme is feeling the most pressure?

- 22% of respondents felt more pressure on schemes with £1bn or more.
- 46% felt more pressure on schemes between £100m and £1bn.
- 32% felt more pressure on schemes with less than £100m.

71% of respondents felt pressure from sponsors/funding concerns.
56% felt pressure due to the time for the role.
54% felt pressure due to regulator requests.
46% felt pressure due to understanding advisors.

Where are trustees feeling the most pressure?
Job satisfaction is one of the main motivators in any industry, with a recent government survey showing over 60 per cent of employees rated it the most important aspect of their career. Our own findings show that of those surveyed, 87 per cent were satisfied overall.

While the level of job satisfaction is certainly good news, the number of those who don’t believe they are paid appropriately is concerning. 51 per cent of those surveyed by RSM do not feel their remuneration reflects their responsibility.

While it seems job or personal satisfaction is a key driver to trusteeship, many obviously feel as though they are under intense pressure, which is then not reflected in their monthly pay packet (if they are indeed paid at all). This contributes to a perceived lack of satisfaction in what should be a rewarding role. How then, can we expect these potentially under-rewarded trustees to act in the best interests of members, and what can be done to remedy the situation?

One of the main complaints from those surveyed was the lack of time to perform their appointed task. This certainly supports the overriding theme that regulatory pressure, and demands of the role, are increasing at a greater rate than the time they have for the role, and is a major concern.

Pension scheme members expect trustees to be acting in their best interests and achieving the best outcomes, but trustees are having to juggle a multitude of demands on their time. If trustees are to be given the best opportunity to fulfil this role, then scheme chairmen must be working with their boards to identify the pressure points and agree how best to equip their board members for the roles they have been appointed to perform.

Ian Bell, RSM

Elisabeth Storey, RSM
The future of pension scheme trusteeship

Trustees have told us that they need more time to fulfil their role to the best of their ability. Perhaps consideration now needs to be given by scheme chairmen as to how they can help the members of their boards to achieve this:

- Do meetings need to be held more frequently?
- Do meetings need to be longer?
- Are sub-committees needed to get through business more efficiently?
- Are board papers circulated to give trustee board members sufficient time to process them?
- Are too many decisions needing to be taken outside of the meeting cycle?

What one thing would ease pressure on the role?

From these statistics, we can gather that some trustees would like more guidance and support from regulators to ensure they are performing to the very best of their ability, especially considering the very challenging regulatory pressures. Trustee advisors also have a key role to play in ensuring that appropriate support is given to trustee boards in getting to the heart of the key decisions that need to be made.

What is the industry opinion of the pressure cooker trustees seem to have found themselves in? While many seem to see it as all part of the job, as ‘if you can’t handle the heat, get out of the kitchen’, those in the industry should be questioning whether this is the right attitude, and considering whether changes may need to be made to ensure trustees are better supported.

There must then be questions around how long they can maintain their position, as the future role of the trustee is seemingly unclear.

Given the pressures on the industry and high-profile pension scheme failures, surely it’s not surprising that TPR is beginning to explore whether there needs to be a transformation in this area. Certainly the “21st Century Trusteeship” research indicates that many pension schemes are not meeting their expected governance standards. This has led TPR to launch their programme to raise the standards of governance across all pension schemes.

There are many questions around whether all boards should include a professional trustee. Would this lead us to a future where trustee boards get the right answers every time? Or at the least a world where trustee boards have more influence in their conversations with employers?
Engaging the ageing

The way in which we communicate, especially in business, is rapidly evolving.

But our need to stay in contact is still the same. How can we amalgamate both the old and new together in the pensions world, which can be notoriously behind when it comes to technological advances? A prime example of much needed developments is the government’s dashboard project, which is still waiting to make significant progress several years after it was announced. The dashboard is intended to be an online platform allowing people to manage their multiple pensions all in one place. It aims to reduce unclaimed pensions savings and help to mitigate pension fraud. Yet the long-awaited project is still pending, with the government set to launch the first test case in 2019.

Member engagement remains a challenge across the industry, something that surely needs to be addressed as we transition into completely online services – but will this then become another burden to fall on the shoulders of trustees?

We know that effective communication with members can be tricky, especially in this industry. Trustees, under pressure by the sometimes-staggering expectations of their role, have little time to engage with members regularly beyond the statutory requirements.

When asked by RSM, 50 per cent of DB schemes only contacted members outside of statutory requirements once a year. DC scheme trustees scored slightly better, with just over half contacting members more than once a year beyond requirements. The split between DB and DC is expected, as DC schemes are typically active, and current employees are more likely to be engaged. DB schemes however are more often legacy arrangements where there will be less drive and resources from the employer to stay in touch with individuals that no longer work for the company.

Trustees have a responsibility to all members, not just the active ones, and therefore there is a need to ensure that their best interests are being met — including ongoing communication with members.

How frequently are you in contact with members?

**DB schemes**
- 55% Once a year
- 28% More than once
- 9% Less than once
- 8% Didn’t know

**DC schemes**
- 25% Once a year
- 65% More than once
- 10% Didn’t know
Communication methods

Does the industry need a systematic communications shakeup? Is it time we engaged using more modern methods with ageing scheme members? Simply put, yes. The most common communication method is still overwhelmingly through letters or newsletters, with almost **90 per cent** choosing snail mail – a costly communication method in terms of both production time and actually issuing to members. This also brings in the added risk of fraud from mail falling into the wrong hands. Modernising the way in which trustees contact members would revolutionise the entire industry, which would in turn reach and engage more people, as well as making more members think about their own retirement provision.

We need to learn from the recent Tata Steel case, in which the independent reviewer of communication concluded that ‘early on there was very little communication’ between the four public bodies involved in the pension transfer exercise, including TPR, the FCA and Pension Protection Fund. The reviewer added that some members did not know what to do with the information packs they were sent and were defaulted into the pensions lifeboat fund.

The industry understands that pensions can be confusing and often leave members with many questions. Perhaps the lesson to be learned is that face-to-face is best, and direct interaction with members will lead to a better understanding of how their pension works.

Communication is vital to ensuring that members understand both their benefits and the risks they face from fraudsters who are all too aware of the value of members’ pots. Scammers are often more than willing to ‘help’ liberate member benefits, and trustees should have a key role to play in engaging with members so that they know what to look out for.
Measuring administrator performance is tricky and comparing that performance across DB and DC schemes is even harder.

According to RSM’s research, 60 per cent of trustees indicate that their current administrators are performing ‘in line’ with the Service Level Agreement (SLA). But is this accurate, when auditors and the TPR itself has commented on the increase in the number of errors by administrators? Is it time for trustees to be looking beyond the SLAs when measuring performance? Certainly, this point is to accentuate the difference between quantitative and qualitative measures. RSM’s Ian Bell says ‘the SLA might say that a calculation has to happen in five days – which is achieved – but what if the actual calculation is wrong? How are administration errors recorded and communicated to trustees, are these on the increase? Do SLAs need to be reconsidered to ensure that qualitative measures are reflected and monitored more closely?’

With just over 20 per cent regularly performing above the SLA, there is still room for improvement for administrators. While over half say they are generally in line with the SLA, this has stayed relatively consistent in the last 12 months, meaning there has been no growth or extension in performance.

How has the performance of your current administrator, in line with your SLA agreement, changed in the last 12 months?

<table>
<thead>
<tr>
<th>Pension scheme size</th>
<th>Better</th>
<th>Worse</th>
<th>Same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 100m</td>
<td>10%</td>
<td>5%</td>
<td>75%</td>
</tr>
<tr>
<td>100m–1bn</td>
<td>14%</td>
<td>15%</td>
<td>66%</td>
</tr>
<tr>
<td>1bn</td>
<td>12%</td>
<td>21%</td>
<td>56%</td>
</tr>
</tbody>
</table>
Through driving an awareness that standards should produce better outcomes for members, I believe there is a shift. Although disappointing, it is not as far reaching as we’d like. Some trustees are looking for more qualitative measures, such as member surveys to understand about their experiences and how they can be improved.

We are beginning to see member driven SLAs being talked about rather than simply dictating how long a task will take. We also want trustees to be looking at the amount of rework or errors administration incurs. That’s not just what gets out the door. It’s also those errors which are picked up beforehand. Trustees know when things are very bad and SLAs are dropped well down the scale. But when their administrator is meeting ‘say’ a 96 per cent SLA, do trustees know whether their members are being treated fairly and produce the best outcome they can? You have to look beneath the bonnet and explore more than the statistics. It’s not always easy, but it’s worth it. After all although the trustees’ job is to ensure the member gets the right benefit at the right time, it is also their job to ensure it is delivered in the right way.

Kim Gubler, Chair of the Pensions Administration Standards Association
Beware the aware

Fraud is one of the biggest threats to most businesses worldwide, whether from internal or external means.

Most businesses have strong and rigorous processes in place to protect themselves from these constantly evolving threats to ensure both customers and their information are safe. When considering the hefty impact of fraud on the pensions industry, RSM’s survey statistics look strong on paper, but are they really, and is the industry prepared?

Our figures suggest that the industry members are all aware of fraud and the results demonstrate that the incidence of fraud has fallen. Only 10 per cent of scheme trustees experienced fraud in 2018, compared to 2017 where 16 per cent had experienced some type of fraud. Surely this is positive and a measurable sign of progress?

However, there is still work to be done as there are some simple fraud-prevention and response measures that have not been put in place. When asked whether they had a 24-hour cyber response plan in place, a staggering 68 per cent either did not or did not know whether their scheme did. Not only does this not run in line with other statistics which show businesses believing they are fully in line with fraud prevention measures, but also demonstrates non-compliance with regulatory guidelines.

Of our respondents, just under a third have undertaken a full cyber security review following regulatory guidance issued in April 2018, which seems unacceptable in an industry that is awash with personal data and which avidly prides itself on fraud prevention. It is also significant to note that there are still a sizeable number of trustees (17 per cent) who do not see fraud as a risk that should appear on their risk register.

What action has been taken in the last 12 months to mitigate fraud?

- 85% on the risk register
- 64% on the risk register
- Trustee training
- 59% on the risk register
- 29% on the risk register
- Asked their service organisation provider for fraud risk policy
- 51% on the risk register
- 51% on the risk register
- Asked their service organisation provider for fraud risk policy

2018 results

2019 results
The future of pension scheme trusteeship

The most common fraud activity in the pensions world has remained the same in recent years, with pensioner existence topping the table every time. But we have seen subtle shifts in other fraudulent activity in 2018. Why has this become a new trend?

It is certainly the case that pension scheme trustees in the UK are responsible for a significant amount of investment assets but the real value of pension schemes is arguably the substantial data held in administration and employer systems. From RSM’s perspective it is notable that IT security and theft of member data has moved up the priority list in terms of vulnerability to fraud.

Whatever the future, as an industry we must be looking down the road to a place where scammers can no longer be preying on members when they are at their most vulnerable. Trustees and the pensions industry must continue to develop systems and raise awareness of this evolving issue to protect members from unscrupulous advisors at factory gates who will prey on members when they are at their weakest.

Where have you experienced fraud?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensioner existence</td>
<td>38%</td>
</tr>
<tr>
<td>Member data/identity theft</td>
<td>14%</td>
</tr>
<tr>
<td>Investment/investment transaction</td>
<td>12%</td>
</tr>
<tr>
<td>Internal dishonesty</td>
<td>12%</td>
</tr>
<tr>
<td>IT systems/cyber crime</td>
<td>8%</td>
</tr>
<tr>
<td>Transfers/ pensions liberation</td>
<td>8%</td>
</tr>
<tr>
<td>Scheme expenses</td>
<td>8%</td>
</tr>
</tbody>
</table>

2018/2019 comparison: top three issues

2018
1. Pensioner existence
2. Transfers and pension liberation
3. Theft of member data and internal dishonesty

2019
1. Pensioner existence
2. Member data/identity theft
3. Investment transaction and internal dishonesty
Clearer, quicker, tougher

There has been a positive reaction to the proposal that the regulator and FCA will work closely together strategically moving forward.

There has been a positive reaction to the proposal that the regulator and FCA will work closely together strategically moving forward. Interestingly, this new proposal is being overwhelmingly supported across the industry with 80 per cent of respondents backing a more collaborative approach. This will be a huge step forward for the pensions world and something that will be solidly backed in years to come, meaning that the industry attitude towards the regulatory body is changing for the better. What does this mean for trustees?

RSM’s Ian Bell explains that ‘trustees want clarity in guidance from the regulator and our survey responses indicate that they currently feel this isn’t there in all situations. The industry has changed in the last 10 years evolving from DB to DC to master trusts to consolidators, and the way that it regulates needs to move with the times.’

TPR is a powerful body and has divided opinion in recent years. Its main function is to regulate the industry and protect workplace pensions. However, with regulation can come overzealous intervention.

Is there such a thing as too much regulation? Is regulatory red tape tripping up trustees so much they are unable to be effective?

When asked if the regulator was fit for purpose, 69 per cent said yes, yet a third still said no. This is no small number of trustees who see the regulatory body as unsuited to its role. The regulator is aspiring to be ‘clearer, quicker, and tougher’ and just over half of all respondents agree with this assertion. This does still leave just under 50 per cent who either don’t think it is or are unsure — so there is obviously more work to be done by the regulator in improving its performance in the industry.
The question then becomes, are we now finding ourselves in an industry that has ‘too much regulation to regulate’? This statement somewhat rings true in RSM’s data, after almost 40 per cent of those surveyed admitted there was too much red tape to be effective as a trustee, which as already mentioned, affects the ways in which the industry measures performance. With the combined regulatory and industry pressures weighing heavily on them, as well as increased media attention on reoccurring faults in their work, could we see the death of the trustee at the hands of the very red tape put in place to ensure their performance?

Red tape in any business can be tricky, but none more so than for a trustee struggling to get past the stringent regulations in order to achieve what they need to do. Rules and regulations are in place for a reason but in some cases the regulations can hold back progress and quick decision-making, to the frustration of others. When discussed with industry experts, many saw the amount of red tape in their way as hindering progress, with almost 40 per cent across the board frustrated by the amount of box ticking to comply with before being able to make any real progress.

**Do you think there is too much red tape affecting the decisions you take as a trustee?**

![Bar chart showing the percentage of trustees who think there is too much red tape based on the number of scheme members.](chart.png)

- For schemes with less than 1,000 members, 40% agree, 50% disagree, and 10% are unsure.
- For schemes with 1,000-10,000 members, 35% agree, 62% disagree, and 3% are unsure.
- For schemes with 10,000+ members, 44% agree, 50% disagree, and 6% are unsure.
Easing relations

It is a positive trend to see inter-organisational relations improving in the industry and none more so regarding trustees than with their sponsors.

Relationships are the key to strong trustee performance and when these sour, it makes the processes difficult and frustrating for all involved. In order to get things done, the trustee must have a positive or at least cordial relationship with the sponsor. It is absolutely vital that appropriate measures are in place to ensure that any conflicts of interest are identified and addressed in order to ensure that trustee business can be properly conducted.

In the last 12 months, almost 60 per cent of respondents commented that their relationship with sponsors had remained the same, which if it was constructive is good news across the board. If however, it was not, this certainly indicates an unwillingness to change working relationships. That said, around 35 per cent commented that their relationship was slightly or significantly better, indicating that there is a willingness among trustees to enhance and work on their sponsorship affiliations.

This relationship is often where a professional trustee is used as an ‘impartial’ individual to negotiate best with the employer. However, RSM’s Ian Bell says that ‘whilst often promoting this in the past, TPR’s latest consultation has now also expressed concern that sole professional trustees are potentially not providing a sufficiently robust challenge to the employer. This consultation therefore suggests that there is a conflict in handling these negotiations when the trustee’s job is on the line.’

A covenant assessment — as defined by the regulator — is the employer’s legal obligation and financial ability to support their defined benefit scheme now and in the future. When asked about independent covenant assessments, the response was almost uniform, in that around 70 per cent of trustees had commissioned an independent covenant assessment. This indicates that many trustees have heeded the regulator’s guidance in this regard and will likely be building covenant risk into their approach to integrated risk management.

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Do you currently have an independent covenant assessment performed?

<table>
<thead>
<tr>
<th>Pension scheme size</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB scheme responses</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Lay trustees</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Professional trustees</td>
<td>83%</td>
<td>17%</td>
</tr>
</tbody>
</table>
TPR is becoming more involved (both proactively and reactively) in valuations where it views there to be a higher level of risk; a recovery plan longer than 10 years is certainly one area where its involvement may be more likely and where trustees ought to be monitoring the covenant support closely, to ensure members’ benefits are protected from any deterioration in covenant support.

Guy Mander, RSM’s Head of Covenant Assessment Services
The future of pension scheme trusteeship

Self reflection

How would you rate the governance of your own pension scheme?

DB schemes

- **45%** Strong
- **47%** Good
- **7%** Could be better
- **1%** Weak

DC schemes

- **56%** Strong
- **38%** Good
- **6%** Could be better
- **0%** Weak

Positive ratings around scheme governance are a step forward for the pensions industry, but are they sustainable? While most of those surveyed across the board saw their own scheme as strong or good, a number did not. These overwhelmingly positive messages mean that the industry is internally satisfied with its own performance, yet the regulator seems to have a different view. The regulator has released a ten-point checklist for trustees to follow in order to improve scheme governance. Ensuring that trustees hit these ten points is crucial for maintaining a well-managed scheme, in light of a multitude of pressures and a spotlight that will only intensify in time.

Increasing regulatory pressures seem to be dissuading lay trustees from applying. The drive to professionalize trustees looks to be having an unintended consequence of reducing the number of both lay trustees, and of company trustees (because of perceived conflict of interest) to the disadvantage of members and their interests. It is clear that TPR’s trustee policy would benefit from a rethink.

*Robin Ellison, Pension scheme chairman*
TPR’s ten-point checklist for 21st century trusteeship

1. **Good governance**
   There is a clear link between good governance and good fund performance, so it is an essential part of effective scheme management. Without good governance, you are unlikely to achieve good outcomes for members. Make sure you have people, structures and processes in place that work well for your particular scheme.

2. **Clear roles and responsibility**
   You need to be clear on your objectives and to focus your time on the areas that have the biggest impact on achieving those objectives. This means focusing on strategic issues and considering whether to delegate some day-to-day activities and decision-making.

3. **Clear purpose and strategy**
   Setting a clear purpose and strategy is essential to managing your scheme effectively and getting good outcomes for members. Develop and regularly review your scheme’s business plan. This will help you to manage your scheme effectively and get good outcomes for members.

4. **Trustee training**
   You need to have the knowledge and understanding to perform your role within six months of your appointment. Identify your strengths, weaknesses and any gaps in knowledge and understanding by carrying out self-evaluations and board evaluations. This will inform what training you may need.

5. **Skills and experience**
   Having a diverse board will help you manage your scheme well. When you recruit and select trustees, you should think about the needs of the board as a whole.

6. **Advisers and service providers**
   Select the right advisers to provide advice and manage certain aspects of your scheme – this is a vital part of governance. Refer to the free regulator trustee toolkit, which contains tutorials on how best to make introductions to and appoint service providers.
7. Managing risk

Review and update the risk register and the effectiveness of controls regularly to take account of new and emerging risks. Carry out a detailed analysis of your risk management framework at least annually.

8. Managing conflicts of interest

Make sure you have a conflicts of interest policy in place to help you identify, manage or avoid conflicts for trustees, employers, advisers and service providers.

9. Meetings and decision making

Boards should meet often enough to maintain effective oversight and control, which in most cases will be at least quarterly.

10. Value for members

It is strongly recommended that DB schemes assess value for members to help ensure good member outcomes. Trustees of DC schemes have a legal duty to produce a Value for Members (VFM) assessment and include findings in their annual Chair statement, which when compiled should adopt a proportionate approach, based on the characteristics of their scheme.
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