

TPR seeks to make the trustee model work better

► In brief

- TPR has launched a consultation on trusteeship and governance
- The consultation looks at whether there should be a legal requirement for trustees to demonstrate a minimum level of knowledge
- It considers whether a professional trustee should be mandatory on all trustee boards and how greater diversity can be achieved
- There will be increased targeted regulatory activity for small DC schemes

► Next steps

- The consultation closes on 24 September 2019. In the meantime we encourage trustee boards to consider their make-up and their effectiveness

Following last year's 21st Century Trusteeship campaign, the Pensions Regulator (TPR) has outlined a vision where all pension scheme members are in schemes with excellent standards of governance, delivering good value and outcomes. TPR has launched a consultation on trusteeship and governance with proposals intended to make this vision a reality over the coming years.

Background

TPR has set out on numerous occasions that it views effective trusteeship and governance as the bedrock of any well-run pension scheme. A trustee board needs the right balance of knowledge and skills and the right structure in place to enable effective and timely decision-making.

TPR has had a focus on driving up standards of governance using targeted communication and education. This culminated in the 21st Century Trusteeship campaign in 2017/2018, which set out TPR's expectations of what good governance looks like. TPR's research suggests that standards of trusteeship and governance have improved in recent years, although unsurprisingly smaller schemes tend to display weaker governance on average.

With this in mind TPR has launched a consultation setting out its aspirations for further reforming its standards on trusteeship and governance, with a focus both on addressing the risks of today and on protecting members' interests in the future.

Trustee knowledge and understanding, skills and ongoing learning

Under the Pensions Act 2004, trustees must have sufficient trustee knowledge and understanding (TKU) to exercise properly their function as trustees. The current code of practice is geared around achieving this via a broad TKU syllabus for trustees to check their knowledge against. TPR is considering moving away from this to more competency-based standards. A supervisory approach would mean trustees would increasingly be expected to demonstrate how they meet TKU requirements. This might involve TPR making more proactive contact with trustees.

TPR asks in the consultation whether there should be a legislative requirement to demonstrate a minimum level of TKU. This could involve relevant training or qualification, industry accreditation and/or introduction of a formal Continuing Professional Development regime whereby a certain minimum level of training would need to be logged.

TPR recognises that such measures could discourage many from performing the trustee role and it is necessary to strike a balance between achieving the right standards and being able to find willing trustees.

The recently released **XPS Governance Survey** delves deeper into current standards of trusteeship and governance. XPS can also calculate a 'Governance Score' for your scheme and benchmark you against your peers. **For more information please contact robert.wallace@xpsgroup.com**

Trustee board make-up



The above chart is taken from TPR's 2018 'Defined benefit trust-based pension scheme research' survey, and sets out the percentage of defined benefit (DB) schemes responding that met TPR's key 21st Century Trusteeship expectations. The lowest scoring area, relating to processes to select new trustees, feeds into another area of focus in the latest consultation. TPR sets out that there is a role for the pensions industry to play in helping trustee boards to increase the pool of potential trustees, and provide diversity of backgrounds and skills.

TPR notes that a 2016 PLSA survey found that 83% of trustees are male. The age profile of trustees also does not match that of pension scheme members for most schemes. TPR believes that pension boards benefit from having access to a range of diverse skills, points of view and expertise. This helps to mitigate against the risks of significant knowledge gaps or over-reliance on particular individuals. TPR reins back from seeking diversity quotas, but asks whether there should be a requirement for UK pension schemes to report to TPR on the actions they are taking to ensure diversity on their boards.

Professional trustees

TPR has higher expectations of professional trustees and holds them to a higher standard than lay trustees. The new Professional Trustee Standards published in March, and the accreditation framework due to follow later this year, are designed to improve the quality of professional trustees and discourage poor practices in the market.

TPR believes that the vast majority of pensions schemes would benefit from appointing an accredited professional trustee to their pension board. TPR notes that currently 20% to 30% of schemes employ a professional trustee. It is seeking views on whether a professional trustee should be mandatory on all trustee boards in the future, noting that this might only be feasible once pension scheme numbers shrink.

TPR also notes increasing use of the sole trusteeship model, usually where a professional trustee firm acts as the only trustee for a scheme. Whilst this can be valuable in certain circumstances, TPR expresses concern about the potential loss of member representation and the ability to achieve robust decision-making in some cases.

Consolidation of DC pension schemes

TPR's survey findings continue to show that a significant number of small DC schemes continue to lag behind in meeting key governance requirements. TPR views consolidation of schemes in the DC market as a way of closing the quality gap. It will assess this gap with targeted regulatory activity, with schemes that are unable or unwilling to improve their governance standards being given the opportunity to wind up their scheme and move members to a well-run alternative. It believes that it would be good practice for trustees to consider whether they should consolidate on an annual basis.

TPR notes that it has confidence in the ability of master trusts to deliver and maintain high standards of governance, particularly given the authorisation regime. TPR recognises that some schemes have barriers to consolidation such as guarantees and wants to work with the industry to find solutions to wind up such arrangements without detriment to the members.

Summary

We support TPR's stance in trying to improve governance standards and hence improve decision-making. Whilst governance is a fundamental part of a well-run pension scheme, it is an area that can often be overlooked for matters that can be seen to be more pressing or exciting. However, there is a natural conflict between TPR's wish to raise the bar for trustees and encouraging more diverse trustee boards. A pragmatic balance needs to be struck, with trustees being encouraged to devote more time to governance matters and to reflect on how they are operating.

For further information

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