

Alex Davies predicts how the role of a trustee will change in the future

# The future of trusteeship

This article briefly considers, the challenges facing trustees and attempts to predict some future trends (albeit without the benefit of a crystal ball)!

In 2004 a respected industry figure expressed the view that pension trusteeship was outdated and the 'Anglo-Saxon form of trusteeship had no future'. That view has yet to be borne out as trustees have seen significant changes to their role over the past five years.

## Current challenges

The past five years have seen the trustee's role change dramatically. Scheme specific funding, managing conflicts of interest, corporate restructures and clearance, investment volatility and a deep recession have all challenged trustees.

Trustees have had to become much more commercially aware in the way in which they relate to the scheme sponsor. The requirement to review the funding covenant has meant that they have been encouraged to think more like a bank that has lent the company money, but, unlike the bank, the scheme is an unsecured creditor. Therefore, of paramount importance is the security of the funding offered by the sponsor and trustees (albeit with help from specialists) need to understand balance sheets and business risks and be confident in the use of contingent assets such as parent company guarantees, letters of credit and charges over property.

The challenges are particularly acute for small companies which are finding it increasingly difficult to deliver good governance on a restricted budget and where often the priority is survival.

Trustees have never had as much power or as much responsibility.

If we did have a crystal ball, what might it reveal for the future?

## The trustees' role will become more professional

The demands and expectations placed on trustees are becoming more like those required of a "professional" and this trend is likely to continue. Increased knowledge of the role (through trustee knowledge and understanding requirements), job descriptions, remuneration (at the end of 2008, 59% of UK schemes were paying at least one trustee)<sup>2</sup> and the use of independent trustees are all becoming more common.

We should not underestimate the contribution made by lay trustees, the majority of whom give their time on a voluntary basis. In my experience, they bring an objective viewpoint, but many are beginning to struggle with the time demands of trusteeship. Despite this, another recent survey showed that 86% of lay trustees were eager to remain in their roles despite the added pressures of the current recession.<sup>1</sup>

## Regulation of professional trustees

As the burdens of trusteeship increase and the role

becomes ever more complex, many schemes are appointing professional independent trustees. One of their most important roles is to help manage conflicts of interest affecting the trustee board. Both The Pensions Regulator (TPR) and the Pension Protection Fund (PPF) have recommended that trustee boards consider the appointment of an independent in certain circumstances.

Currently there is no requirement for independents to be regulated, although perhaps the first tentative steps are being taken via the TPR's register and the PPF's mooted intention to score trustees on their performance during assessment. Most professional independent trustees should welcome this; after all, if you consider yourself part of a "profession" you should expect regulation.

## DC governance

Until now TPR has focused on the governance of defined benefit (DB) schemes, but the signs are that it is increasingly turning its attention to defined contribution (DC). TPR has expressed the view that record keeping has to improve, especially with regard to legacy data and the reconciliation of contributions. Trustees are responsible for good records and they must ensure that the administrator

they select has the requisite systems in place. Trustees will need to monitor their advisers more closely.

It would be sensible to visit the administrator on a regular basis and sit down with the individual who is actually responsible for allocating the contributions to confirm that this is being done properly.

Obviously this is going to cost money, but in our experience most members would accept this in return for the comfort that their money was being properly invested.

## DB trusteeship – a longer term view

The death of DB schemes has been widely predicted and no doubt the recession will bring further casualties. Despite the current financial pressures the trend is for the remaining schemes to become better funded. Eventually some will become legacy arrangements, with little or no connection to the sponsor. In all likelihood, those responsible for dealing with the scheme on the sponsor's behalf will never have been members.

We may therefore see a trend towards the appointment of professionals as the sole managing trustee. In return, sponsors will expect a high standard of governance and a cost-effective service.

## A final word

For those of you wondering what happened to the doomsayer who predicted the demise of trusteeship in 2004, we understand that he has become... an independent trustee!

<sup>1</sup> Mercer Annual Trustee Survey, December 2008

<sup>2</sup> Aon Consulting research, February 2009

**Trustees have never had as much power or as much responsibility**

Alex Davies is a senior consultant at HR Trustees