



Trustee Landscape Qualitative Research

Further investigations into board dynamics and trustee training

Prepared for

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1 Executive summary

1.1 Introduction

This report summarises the results from the Trustee Landscape qualitative interviews carried out by OMB Research, an independent market research agency, on behalf of The Pensions Regulator (TPR).

A total of 30 in-depth interviews were conducted following completion of a large-scale quantitative survey¹, the main objective of which was to examine the ability of pension scheme trustees and their boards to fulfil effectively their roles and responsibilities in the context of recent developments in the pensions environment. This qualitative stage focused on two broad areas: the way schemes' trustee boards are structured/how they operate; and how trustee boards go about ensuring that trustees have the adequate skills and competence to fulfil their duties. This included how they identify the need for and organise the provision of training for their trustees.

1.2 Overview of key findings

1.2.1 Differences in approach were evident by size of scheme and type of trustee

Larger schemes and those with professional trustees usually reported more formal strategies and clearer delineation of roles within their boards. They also described more regular interaction and greater involvement with ongoing administration and tactical planning.

1.2.2 Larger schemes were more likely to be able to achieve their ideal board composition

Trustees agreed that effective boards require a good mix of different trustees' backgrounds, experience and knowledge, as well as representation of all interested parties. Larger schemes reported a greater pool of potential trustees from which to appoint.

1.2.3 Formal board meetings were not the only means of interaction

The frequency of formal, full board meetings varied considerably, with large schemes and defined benefit (DB) schemes reporting more frequent meetings than smaller and/or defined contribution (DC) schemes. However, trustees described a range of other informal interactions during which key governance tasks were undertaken.

¹ The research report can be found on TPR's website:
<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

1.2.4 Schemes described a wide range of approaches to governance of administration and investment strategy

They differed in the degree to which trustees were actively involved with administration tasks and investment strategy planning, and the degree of formality in their approaches. Some (usually larger schemes) reported very formal processes with high degrees of trustee engagement. Others were less engaged and activities were not planned in detail. These tended to be smaller schemes and/or those with only lay trustees.

1.2.5 Trustees often relied heavily on third parties

Overall, trustees were more likely to be actively involved in the running of schemes at the strategy setting and planning stages. However, once principles and overall goals had been set third party involvement often became more important. Trustees often saw the appointment and review process as the primary means of ensuring they received good value for money and service from third parties. Service level agreements (SLAs) were often in place, but active use of them as a means of challenging providers was less consistently reported.

1.2.6 Trustees rarely disagreed with advisors

Not all lay trustees (especially Member Nominated Trustees - MNTs) were confident in their ability to challenge professional advisors. They were also often worried that by ignoring professional advice they risked being accused of negligence. Furthermore, trustees often felt that they should not need to disagree with advisors, and trusted them to give the right advice. However, trustees often explained that they challenged advisers and scrutinised their advice in detail.

1.2.7 Basic understanding of how pensions work was considered crucial but detailed knowledge was seen as less important than personal attributes

Trustees agreed that in order to be effective they needed to understand what their role was and have a basic level of understanding of how pensions work. However, they felt that really effective trustees needed to have other qualities such as an inquisitive analytical mind and an ability to apply new knowledge and information quickly. Detailed knowledge of the technicalities of pensions was said to be less important and accessible from third parties.

1.2.8 Chairs of trustees were said to play a number of important roles

Trustees agreed that chairs need to be able to lead and set the strategic direction as well as keeping the board working well as a unit and delivering consensus between different parties. Again, they felt that some knowledge of pensions is necessary, and ideally chairs should be able to guide and advise other trustees. However, personal attributes such as negotiation and communication skills were considered much more important.

1.2.9 Most schemes considered their boards to have sufficient knowledge

Trustees were usually confident in their board's overall level of skill and knowledge. However, they explained that this did not mean that every trustee was knowledgeable about all aspects of pensions. They felt that it was acceptable for individuals to have gaps in their own base knowledge provided that knowledge resided in the board overall.

1.2.10 Training needs and trustee competence were usually not formally assessed

Some larger schemes and (more consistently) schemes with professional trustees reported formal assessment and monitoring of training requirements and activity among trustees. In some cases, these schemes also insisted that all new trustees complete some form of formal trustee training (often the TPR's online toolkit). However, many schemes were less rigorous in their approach, organising training on an ad hoc basis, if at all.

1.2.11 The main barriers to accessing formal training were lack of time and lack of perceived need

A wide range of different training opportunities were said to be available to trustees (both formal and informal). While a few trustees were not aware of these, most were aware of at least some. However, training was not consistently undertaken, often because trustees felt that the time required to do so could not be justified by the benefits it would deliver.

1.2.12 Those accessing formal training (including TPR's online toolkit) reported a positive impact

Lay trustees who had completed the online toolkit, (or professional trustees who had sat on boards with others who had) reported an increase in confidence and willingness to participate. In some cases, trustees identified a direct link between training and their ability to challenge advisors or other trustees and affect strategic or tactical decisions to the benefit of members.

2 Background and methodology

2.1 Background and objectives

The pensions landscape is going through the greatest period of change in generations:

- While pensions assets remain heavily biased to DB schemes, owing to automatic enrolment DC schemes now account for more active memberships than DB schemes.
- Market factors, in particular the low interest rate environment, pose challenges for all scheme types.
- By March 2016, over 6 million workers had been successfully automatically enrolled since the reforms began in 2012.
- Trustees of certain occupational pension schemes that provide defined contribution benefits are subject to new legal requirements, introduced in April 2015, designed to drive up the quality of governance and administration and deliver good member outcomes.
- Changes in the law from 6 April 2015 mean that many members of UK pension schemes which offer DC benefits have increased flexibility over how they take their pension.

In this context, TPR's commissioned a quantitative survey of over 800 trustees to examine the ability of pension scheme boards to fulfil effectively their roles and responsibilities. More specifically, the quantitative research sought to better understand:

- the characteristics of trustee boards and their members
- how trustee boards operate
- training and development of trustees
- the role and performance of trustee boards, in their own estimation
- the relationship between trustee boards and their advisers and service providers.

Following completion of the quantitative survey, two topic areas were identified for further exploration:

- Board composition/dynamics.
- Trustee skills and training.

In-depth qualitative research was conducted to provide greater detail and understanding of these areas, and to provide additional insights into these topics.

2.2 Methodology

2.2.1 Fieldwork

A total of 30 in-depth interviews were completed:

- 18 conducted face-to-face, lasting 1 hour.
- 12 conducted by telephone, lasting 45mins – 1 hour.

Interviews were conducted between 19 October and 3 November 2015. All those interviewed were scheme trustees who had previously participated in the quantitative survey and agreed to be re-contacted for further research.

Interviews were conducted using a discussion guide, developed by OMB Research in collaboration with the TPR. The guide was designed to be used in a flexible manner, with the interviewer adjusting the order and flow according to the responses provided, in order to ensure key issues and nuances were captured.

All interviews were audio recorded and detailed field notes taken. These formed the basis of the qualitative analysis.

2.2.2 Sample profile

The sample covered:

- schemes with 12+ members (broadly equal mix of small [12 to 99 members], medium [100 to 999 members] and large [1000 or more members])
- a mix of DB, DC and hybrid schemes (public service schemes were not included in the sample)
- a mix of schemes with lay trustees, professional trustees or both
- a mix of schemes used for automatic enrolment or not
- a range of different behaviours relating to training (those reporting higher and lower levels of training)

3 Key findings

3.1 Board composition and structure

In this chapter, we begin by outlining some overall differences between scheme types in terms of how trustee boards are structured and how they behave. We then cover the perceived role of trustee boards and individual trustees. We go on to describe what trustees considered to be important factors determining the effectiveness of board structure and composition, and the degree to which schemes are able to achieve an effective board structure.

3.1.1 Factors affecting board structure, composition and approach

Key findings from the quantitative survey

- There was a wide diversity of board sizes, with 32% having 6-10 trustees but 31% having just one trustee. The average was three trustees.
- Half of all schemes (52%) had professional/ corporate trustees on the board (with 27% consisting solely of professional/ corporate trustees)
- Larger schemes were more likely to:
 - Have sub committees (small 2% / medium 15% / large 60%)
 - Hold formal board meetings at least quarterly (small 25% / medium 48% / large 89%)
 - Have higher self reported trustee knowledge and skills (*)
 - Have a trustee training plan and log (small 20% / medium 46% / large 61%)
- Boards with only professional trustees were more likely to:
 - Have higher self-reported trustee knowledge and skills (*)
 - Spend more time on trustee duties (14 days per year vs. 10 for non-professional only boards)
- ‘DC only’ scheme trustees were more likely to:
 - Spend less time on their duties (9 days per year vs. 12 across other scheme types)
- Meet less frequently (36% held formal meetings every quarter vs. 50% of other schemes)

(*) in a range of areas related to trustee duties and their schemes (eg trustee roles and responsibilities, knowledge of investments, challenging advisers etc)

Throughout this report, we will highlight the key differences between different types of scheme in relation to the issues being discussed. However, this section provides an overview of the main differences identified in general terms, and the factors and

characteristics which have an impact on how boards are structured, as well as how they approach the task of trusteeship.

Reflecting the findings of the quantitative survey, three primary factors were seen to have an impact on how boards are structured and behave:

- Scheme size (size of assets and number of members): In general, larger schemes in the sample were more likely to report a formalised approach to the structure and activity of their boards than smaller schemes. They more commonly reported formalised structures such as sub-committees and formal, transparent processes for appointing trustees and chairs, and monitoring training and development activity. They were also more likely to meet regularly than smaller schemes in the sample.
- Trustee type (professional or lay): In many cases, schemes using professional trustees described formalised processes and procedures for appointing trustees. They also reported formal structured approaches to meetings and other interactions. Conversely, this more formal approach was less consistently described by lay trustee-only schemes. Professional trustees themselves were also more likely to spend longer on their trustee role than their lay equivalents.
- Scheme type (DC, DB, hybrid): Trustees involved with DB schemes were generally more likely to describe high levels of interaction and involvement among board members. DC schemes (particularly smaller ones) were more likely to report infrequent (or no) interaction between trustees.

Although these factors were seen to play an important role in determining how boards are structured and interact, not all schemes in the sample adhered to the differences outlined above. For example, some small schemes described very formal approaches, while not all larger schemes did. The factors affecting exactly how trustee boards are structured and behave are therefore more complex and multifaceted. Other factors which were seen to have an influence were:

- History and circumstances: Specific experiences and circumstances such as how a scheme was set up, the financial performance of the sponsoring employer and the degree to which individual trustees have a financial stake in the scheme can impact their engagement and interest. Schemes reporting very (proportionally) large deficits described high levels of engagement and interaction among trustees. Similarly, those schemes with trustees who themselves had a financial interest in its performance often explained that this drove high levels of engagement among those individuals.

“All the trustees are members, and some have a lot at stake. That makes a big difference.” Medium, DB with DC section

- Sector: Schemes sponsored by employers in the financial services or other professional services sectors described having access to high levels of relevant expertise and knowledge. Some explained that this enabled them to better understand their roles and responsibilities, as well as be more confident when dealing with advisors. Knowledge and expertise in pensions and associated topics was lower among trustees from very unrelated backgrounds/sectors.

“We are lucky that most of the staff here have a background in banking and investments.” Medium, DC only

In addition to the factors outlined above, trustees often explained that the approach, composition or behaviour of their board had changed over time. For example, some lay trustees described how their involvement and engagement with the role had grown as their knowledge and experience had increased. Other participants noted that procedures and processes had been developed over time, as trustees became used to working with one another and the requirements of governing their schemes became better understood.

“We work really well together. We all know each other and we know that we are all pulling in the same direction.” Medium, DB with DC

In some cases, long term changes in circumstances were also said to result in decreased levels of engagement. For example, some schemes that had closed or were in the process of winding up explained that the level of active engagement and communication between trustees had reduced notably as a result.

Short-term fluctuations in activity and levels of engagement were also reported. Some trustees of DB schemes explained that their boards were more active during the triennial valuation period. They described more frequent meetings and more interaction with external advisers. Others explained that changes in personnel (bringing in new trustees, trustees leaving) had also affected how their board operates. In some cases, new personnel such as professional trustees had introduced new working practices. In others, the loss of key personnel had resulted in less engagement between trustees overall.

“We have been meeting a lot more recently as it has been the valuation. It must be 6 or 7 meetings in the year.” Medium, DB only

3.1.2 The role of trustees

Trustees' understanding of their role

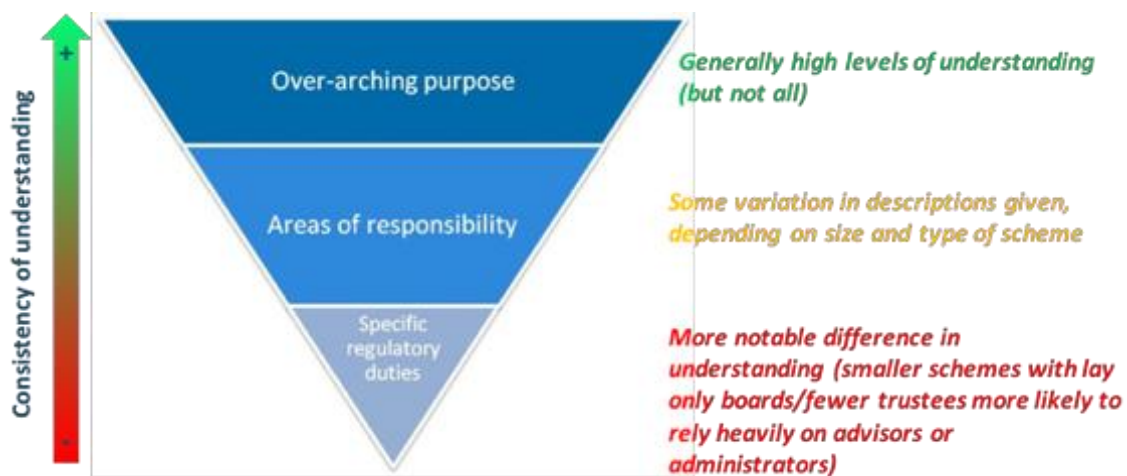
Key findings from the quantitative survey

- 26% viewed “protecting members’ interests” as the main role of the board
- 29% felt that the changing regulations and environment was the biggest issue facing trustees

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

Trustees were asked to describe what they considered their role to be, as well as the role of the board of trustees in general. Qualitative exploration revealed different ‘layers’ of understanding regarding the role of trustees, moving from general understanding of the overall purpose of trustees, through to more detailed specifics about areas of responsibility and duties. These layers are illustrated in figure 1 below.

Figure 1: Understanding of the role of trustee boards



Nearly all trustees in the sample were able to describe the over-arching purpose of trustee boards. However, understanding and awareness of areas of responsibility and specific legal duties were less consistent. While all but a few smaller schemes and those with lay-only trustees could describe the broad areas of responsibility, far fewer talked in detail about specific legislative requirements. Professional trustees and/or trustees of larger schemes (especially master trusts) were most likely to do so.

Below is a summary of how (some) trustees described their purpose, responsibilities and duties.

Over-arching purpose

Trustees understood that they were ultimately in place to protect the interests of the scheme's members and act on their behalf.

"We're trying to provide good outcomes, good pension outcomes, good retirement benefit outcomes for the scheme members" Medium, DC only

Areas of responsibility

Trustees described a number of areas of responsibility, as follows:

- Record-keeping and administration: Most trustees understood that part of their role was responsibility for the scheme's administration. While all agreed that they were ultimately responsible for this, levels of direct involvement with administration and record-keeping varied. This is discussed in more detail in section 3.2.2.
- Holding providers and advisers to account: Trustees generally understood that they were expected to ensure that any external providers delivered a good service and value for money.
- Liaison and/or negotiation with employer: Some trustees saw their role as something of a conduit between scheme members and the sponsoring employer. The degree to which trustees felt the need and/or ability to actively negotiate with the employer varied considerably. However, there was general agreement that a trustee should occupy a position independent of the employer.
- Communication and engagement: Many trustees explained that an important part of their role was to share relevant information about the pension scheme with its members. Member-nominated trustees (MNTs) in particular considered their roles as communicators to be important. They felt that their familiarity with members and their circumstances put them in a strong position to keep members informed effectively.

"More and more my role is about keeping members informed of what they need to know. I think that is a really important part of the role." Small, DB only

In some cases (small DC only schemes) trustees described their role as exclusively one of communication.

"All I really do is pass info onto the members and sign a few papers." Small, DC only

Some trustees (especially of DC schemes) felt that engaging members was a difficult challenge. They explained that members often failed to attend consultations with pension advisers or engage with the scheme overall. Some said that they spend a lot of time and effort trying to encourage members to take an interest.

“Communication is really, really important and the communication; trying to get people to engage. This is a really difficult one and I’m sure people have said this to you; trying to get your average, standard member of a DC scheme to engage either in the investments that their pension pot is in or even just thinking about what’s going to happen to them when they retire.” Medium, DC only

Some trustees explained that they were often asked questions by members about the scheme and sometimes about the members’ individual investment strategy. They explained that they were not sure whether they were permitted to offer such guidance, or whether this was outside the role of a trustee.

Specific [legal] duties

Only a minority of trustees described specific [legal] duties as part of their role. These fell into the following categories:

- Reporting and record keeping requirements (eg risk register, Statement of Investment Principles);
- Trustee board composition requirements (eg need for certain occupational pension schemes which provide money purchase benefits to appoint a chair).

Changes to the role of trustee over time

Those who had been in post for some time generally agreed that the role of trustee had become more arduous. They explained that trustees now need to spend more time fulfilling their duties, mainly due to the increase in legislative requirements and codes of practice introduced over the past few years, such as requirements related to reporting and record-keeping. Specifically, the introduction of new regulations around DC schemes was often mentioned.

Most trustees in the sample felt that they now had a greater level of responsibility and are more likely to be held accountable for any issues which may arise in relation to a scheme. This added pressure was said to be a deterrent for some potential MNTs, with some trustees explaining that recruiting MNTs had become more difficult in recent years, and attributing this to the change in the nature of the role.

“We found it very difficult to persuade anyone to be a trustee. It is seen as a big responsibility...things have changed.” Small, DB only

In addition to the changing legislative environment, trustees also felt that the investment and economic landscape had changed in recent years, with a resulting impact on what trustees need to deal with and understand. Some noted that the investment markets have evolved and changed significantly, with more complex options available for consideration by trustees. They explained that this required a greater level of understanding among trustees (both professional and lay).

Others noted that deficits were now very common among DB schemes, leading to greater need for negotiation between trustee boards and employers. This meant that trustees' roles had shifted accordingly.

“Since nearly everyone is in deficit now, it has been a real wake-up call. Trustees have to take the job a lot more seriously.” Medium, DB only

3.1.3 Establishing an effective board composition

Key findings from the quantitative survey

- 46% of those appointing a new MNT had more than one candidate for a single role
- 49% of recently appointed MNTs were motivated by ‘an interest in pensions’
- 51% of chairs were selected by the employer, 34% selected by the board

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

What constitutes an effective board composition?

While different types and sizes of scheme were said to require somewhat different trustee board structures, trustees generally agreed that a board should ideally comprise the following attributes in order to deliver the best outcomes for members:

- Balance of skills, experience and qualifications: A diversity of backgrounds was generally considered a strength. Trustees felt that boards benefited from having trustees with experience of different aspects of pensions, financial services and HR, as well as including some with no technical knowledge in these areas. They felt that this provided overall strength in terms of capability to scrutinise advice and make decisions.
- Balance of interests: Trustees agreed that ideally boards should comprise of members from different backgrounds. This meant a representation of people without a vested interest in the sponsoring employer being on the board. The inclusion of trustees who can claim to be completely independent and

impartial (ie neither connected to the employer nor a scheme member) was said to be valuable.

- The right mix of personalities: The ability to work well together, trust one another and interact in an efficient manner was regarded as important. Trustees often cited a strong understanding between themselves and other board members as a key strength in their ability to govern effectively.

Delivering an effective board composition

Many trustees in our sample felt that they had very effective board compositions, with an appropriate mix of skills, experience, backgrounds and personalities. Many of these described a formal, planned process to appointing trustees and planning the composition of their boards, characterised by:

- regular calls for nominations/applications, resulting in ability to refresh the board composition when required
- formal discussion and debate among trustees regarding the type of trustees required to fill positions on the board
- use of business plans to identify skills requirements and subsequently inform the appointment or recruitment process
- advertising the position and interviewing prospective trustees (either lay or professionals)
- making appointment decisions based on candidates' abilities to fulfil specific skills and experience gaps or requirements

This more formal approach was often (but not exclusively) reported by larger schemes. However, some small and medium-sized schemes also described adopting at least some of the approaches outlined above. Those with professional trustees in place were also more likely to adopt this approach.

Schemes with access to a large and diverse pool of potential trustees were also better able to achieve the composition they wanted. Again, large or medium-sized schemes associated with relatively large employers sometimes felt fortunate to have large numbers of employees who could potentially be appointed by the firm or nominated by the members. Larger schemes were also more likely to feel able to employ professional trustees, giving them another means of filling gaps in expertise and skills.

The size of scheme was not the only factor affecting the scheme's access to suitable trustees. Those associated with businesses within the financial services sector were able to tap into the financial expertise of their staff.

Some trustees described difficulties achieving the board composition they wanted. This was usually attributed to a lack of interest among scheme members resulting in

a limited number or no MNTs being in place. The reasons for this lack of interest were usually concerns about the time required to carry out the role and reservations about taking on the additional responsibility. However, some trustees also noted that employees were often simply not interested or engaged in the topic. In the case of some smaller schemes, this lack of interest from staff had resulted in trustees being given little choice and heavily encouraged into the role.

“My boss and accountant said ‘have you ever seen this email?’ and I read it through and I said it’s not for me; I haven’t got time to think about all that as we were quite stressed with timeframes and stuff like that. They said to me they needed someone to take this seriously and if I didn’t the risk was that no one would put themselves forward.” Medium, DB with DC section

Furthermore, a small minority of trustees felt that their boards had not been ‘properly’ appointed. For example, some described unilateral appointments by senior staff at the sponsoring employer, without any formal or transparent selection process.

“The MD decided that he wanted someone else from the company board as a trustee.” Medium, DB only

Case studies 1a and 1b below illustrate the different approaches to appointing trustees.

<u>Case Study 1a</u>	<u>Case Study 1b</u>
<p><u>Scheme details:</u> Large, DB with DC section, professional and lay trustees</p>	<p><u>Scheme details:</u> Medium, DB with DC section, lay trustees</p>
<p><u>Board structure:</u> five trustees, two MNTs (including the chair); two EATs; one professional</p>	<p><u>Board structure:</u> three trustees, one MNT; two EATs (including the chair)</p>
<p><u>Approach to appointing trustees:</u></p> <ul style="list-style-type: none"> • 4 yearly elections for MNTs, multiple nominations usually made • EATs stepped aside from role as chair to reduce conflicts of interest and appointed middle managers with some financial and HR experience • Board discussed suitability of EATs before approval • Professional trustee appointed by employer, with board approval 	<p><u>Approach to appointing trustees:</u></p> <ul style="list-style-type: none"> • EATs and MNT all appointed in similar manner • Senior staff at employer approached them and asked/instructed them to take on the roles as nobody else wanted to • Some time limits put on tenure, but no formal nomination or election process in place • MNT not fully aware of what the role entailed before attending first trustee board meeting

3.1.4 The chair of trustees

The role of the chair

Trustees generally described the role of the chair of trustees as multifaceted. Most agreed that chairs play a vital role in setting the approach adopted to governance and scheme management. Four main aspects of the chair's role were identified:

Organiser and leader

Trustees agreed that the chair needs to spearhead the direction of the board's strategy and allocate tasks. Furthermore, they need to take overall responsibility for 'making things happen' within the board. For example, they should chase up other trustees and check progress on specific projects. They were also said to play an important role in ensuring participation and involvement from all trustees, particularly new and/or less experienced MNTs who may feel less confident.

"The chair must be satisfied that within the mix of a group of trustees they've got people that will challenge him. So that requires a characteristic within a chair that acts both as a leader and an enquirer." Small, DC only

Negotiator and mediator

Chairs of trustees often felt that just as important as leading was their ability to deliver consensus and encourage contribution and discussion among other members of the board. They explained that it is important that they are able to listen to all points of view and be even-handed and fair while also providing a solution and direction.

In addition to building consensus within the board, chairs were also said to have a role negotiating with third parties and/or the sponsoring employer. They may need to demonstrate strength and negotiation skills to secure value for money from advisers, administrators or service providers. They may also need to negotiate with the sponsoring employer regarding levels of contribution and scheme funding for DB schemes.

"I am regarded as a straight person so therefore this sort of role suits somebody like me. I'm very much a collaborative person. I would say that a trustee chair would have to be someone who likes collaboration, and is a straight person." Small, DC with AVC

Some described the importance of (and difficulty associated with) managing conflicting interest and tensions within the scheme and between different parties. This might involve mediating between two conflicting points of view (eg between members and the employer). However, chairs also noted that they needed to make decisions about issues such as the use of external advisors where a balance was required between ensuring spending is not excessive but also providing access to suitable expert opinion, or in DB schemes ensuring a fair contribution from

employers while not causing indirect detriment by damaging the employer's ability to make profits. Some chairs explained that sometimes their efforts to deal with one source of potential conflict or lack of impartiality resulted in conflicts of interest in other areas.

Communicator

Chairs were said to play a vital communication role. They were described as being the public face of the scheme and the main interface with external providers and/or the sponsoring employer. Furthermore, trustees felt that the chair had a responsibility to keep the other board members informed of important information and issues which required their time and attention. Some chairs also felt that it was ultimately their responsibility to keep members informed of relevant information and encouraging their involvement/engagement in the scheme overall.

Teacher and trainer

Many trustees felt that chairs should ideally be able to guide other (especially new) trustees. They agreed that new trustees will often look to the chair as a source of advice or guidance and that the chair should ideally be able to provide this themselves or be able to direct the trustee to suitable sources of information about it.

Approaches to appointing chairs

Trustees described a range of different approaches to appointing chairs. In some cases, schemes (often the larger schemes and/or those with professional trustees in place) adopted a formal, transparent approach: the role of chair was advertised among trustees and members, or in some cases more widely; a ballot was conducted or interviews carried out (when appointing professionals).

In other cases, a less formalised approach was reported. Smaller schemes in particular described a 'natural' succession to role of chair when the previous chair had left. Others described a very passive process whereby the chair was appointed by default, as no other candidates were available. Some MNTs of small schemes were not sure how the chair had been appointed and were not involved or consulted about the appointment.

In many cases chairs were selected because of their previous or current expertise and/or qualifications, or due to their long-standing service as a trustee and knowledge of the scheme. However, some chairs were said to have been selected primarily due to *who* they were, rather than their experience and knowledge. For example, an MNT may be appointed as chair in order to balance the interests of

members vs. employer, or a senior manager may be appointed due to their position and/or connections within the employer firm.

3.1.5 The use of professional trustees

Our sample included professional trustees of different types. Some were independent consultants, working by themselves. Others were part of large companies providing professional trustee services either exclusively or as part of wider professional services. The professional trustees themselves in our sample were from the following backgrounds:

- Legal
- Actuarial
- Investment banking
- Employee benefits/HR.

In some cases, we interviewed professional trustees themselves, while in others we interviewed lay trustees from schemes that also had professionals on the board.

Within our sample, professional trustees were usually appointed and paid for by the sponsoring employer. However, the decision to use a professional did not always originate with the employer. In some cases, the other trustees and/or chair of trustees suggested the appointment.

Reasons for using professional trustees

Most schemes using professional trustees had decided to do so in order to increase knowledge and expertise on the board. In some cases, this decision had been taken in response to the general increased burden of regulation. In others, gaps in knowledge had emerged after other trustees had left (or schemes were looking to avoid this situation in the near future).

In a few cases, professionals had been appointed in response to changes in circumstances (eg looking to wind up, preparing for buy-in or buy-out or dealing with a DB scheme deficit). This was either as a means of accessing necessary expertise, or to provide a degree of impartiality when potential conflicts of interest were likely.

“When they decided they were going to look at closing the scheme, they wanted an impartial presence to guide that process.” Professional trustee

Some professional trustees explained that their expertise had been sought in an effort to reduce the need to pay for expert advice from lawyers and investment advisors. They therefore saw their appointment as primarily a cost-saving exercise.

In the case of some small and medium-sized schemes, professional trustees had been appointed in order to fill a resource gap. Some small schemes were not able to find lay trustees to join the board, and professionals were the only solution. In other cases, lay trustees were too busy to take on all aspects of the role effectively (and with confidence that they were being fully compliant with regulations). Therefore, a professional trustee had been appointed to support the board with its responsibilities.

The impact of using professional trustees

Overall, both lay and professional trustees agreed that the impact on schemes of using professional trustees was positive. They variously described how professional trustees had:

- introduced new ways of working and sharing information
- provided expert guidance and advice to other trustees
- introduced new processes for appointing trustees and/or advisers
- introduced new processes for identifying training needs and skills gaps
- introduced improved training provision (from external providers)
- reduced some of the need to use external advisers
- challenged the views of external advisers
- driven better service from advisers and administrators (through demonstration of their superior understanding and rigorous approach to monitoring)

“I develop the pre-meeting agenda and I insist on covering a detailed and comprehensive range of items to make sure everything is covered...I see it as my role to guide the other trustees and use my experience to help.” Large, DC Only

Evidence from both the initial quantitative survey and these qualitative interviews supports the assertion that professional trustees can have a positive impact on how boards operate and their overall levels of skill and knowledge.

However, trustees also noted that using professional trustees can carry certain risks. Firstly, they explained that the presence of professionals on boards can potentially discourage input from (less informed/confident) lay trustees. Professional trustees explained that they are mindful of this risk and seek to reduce it by actively encouraging participation from all.

Trustees also acknowledged that sponsoring employers and other trustees can sometimes assume that professional trustees will never need to seek external advice on any issues. Professional trustees themselves explained that while their knowledge and skills are considerable, they cannot be experts in all areas. Therefore, seeking professional advice on, for example, legal matters or investment strategy will still be necessary.

“The company wanted to use a professional because they thought the scheme was spending too much on legal advice and things. I have reduced that a little, but you still need advisers.” Professional trustee

Another area of risk associated with professional trustees is that of their independence and impartiality. Some professional trustees explained that pressure can be put on them to treat the employer’s interests as a priority. They also acknowledged that because they are usually paid by the employer, there is an added pressure ‘*not to bite the hand that feeds you*’. Ultimately, they noted, the employer could decide to terminate their contract if their actions were considered to be detrimental to the business.

When asked how they managed this issue, professional trustees explained that their professional integrity ensured that they acted impartially. They suggested that they were more concerned about maintaining a reputation for independence than retaining one client. Those working for large firms added that it was easier for them to take the risk of losing one client, given the size of their portfolio.

3.2 How boards operate

This chapter covers the ways in which trustee board members interact with one another. We will describe the range of behaviours reported in relation to type and frequency of interactions at a general level. We will go on to describe the processes and procedures adopted to deliver scheme governance, exploring the range of different approaches reported and their impact on member outcomes. Lastly, we will discuss how trustees interact with advisors: how they select them, hold them to account and the degree to which they challenge their advice.

3.2.1 How trustees work together

Key findings from the quantitative survey

- 46% of schemes held full board meetings at least quarterly
 - This increased with scheme size: small 25% / medium 48% / large 89%
 - 9% of ‘DC only’ schemes had never had a full board meeting
- 18% of schemes had sub-committees
 - This increased with scheme size: small 2% / medium 15% / large 60%
- The vast majority (84%) received administration reports at least annually
- The administrator typically attended board meetings at least annually (although 17% never do so)

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

Type and frequency of board interactions

Schemes within our sample described a range of different types of interactions between trustee board members. The 'full' or 'official' board meeting was commonly mentioned by all but a few small schemes (who either did not have a board as such or had never met). Reflecting the quantitative data, larger schemes, DB schemes and those with professional trustees in place generally reported more frequent board meetings. Several respondents explained that they were required to have a certain number of meetings per year, with additional meetings scheduled on top of this when necessary (eg during a DB scheme's triennial valuation or times of change).

A small minority of schemes had not had a board meeting. These were either small DC only schemes or schemes with a single professional trustee in place (where board meetings were not possible, but regular contact was made between the professional trustee and the employer). Small schemes with multiple trustees that had not had meetings had either not ever considered doing so or could not see any benefit from doing so. They were unsure what they should cover in meetings or in one case were not aware that board meetings were a possibility.

"No [does not interact with other staff on pensions issues]. I do pass on some information to the financial director but generally no. The scheme was put in place and it just continues to be used. I mean we have occasionally had the odd conversation where maybe one of the employees have asked about something..." Small, DC only

Scheduled, full board meetings were often supplemented by other forms of interaction including: sub-committee meetings; one-to-one meetings; telephone calls; round robin emails; ad-hoc board meetings on a specific topic.

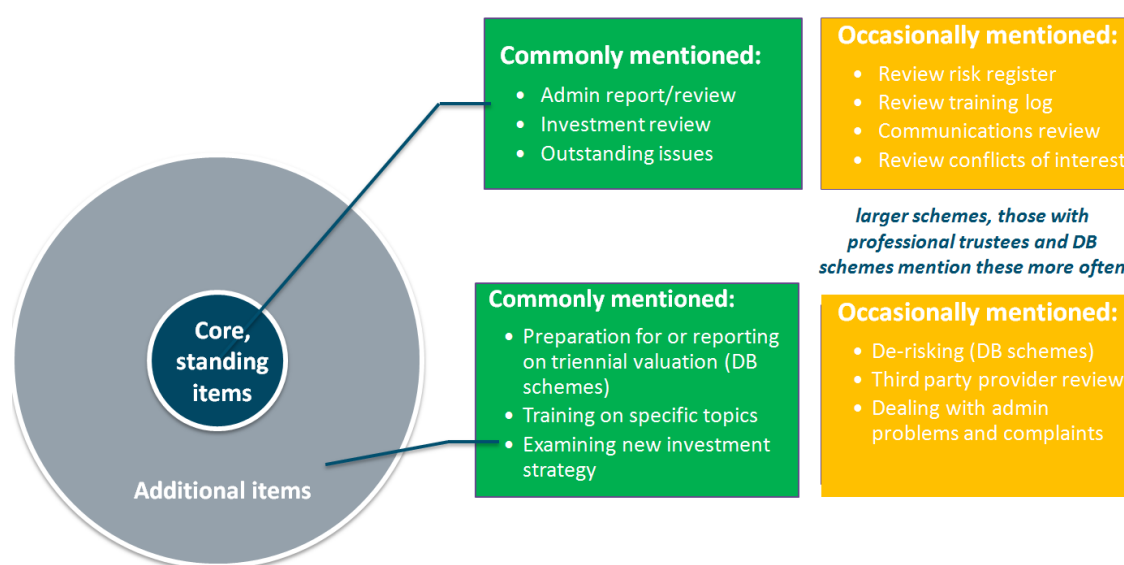
"We have at least four full meetings, but then there are sub-committees and meetings we set up as and when we need them." Large, DB with DC section

Many trustees explained that much of the detailed work associated with governing their scheme was conducted outside of board meetings. Therefore, it is important that low frequency of full board meetings is not always interpreted as an indicator of low engagement with scheme governance overall. However, it should be noted that it was mainly those schemes that already had regular and frequent meetings who also engaged in the other activities outlined above.

Approaches to trustee meetings and interactions

Trustees described relatively consistent board meeting structures in terms of topic coverage and core organisational attributes. A formal, pre-prepared agenda was commonly used. The agenda was generally circulated in advance in the form of a meeting pack (often prepared by third party administrators) including administration reports on SLAs, investment performance updates, etc. Trustees' descriptions of the standing agenda items and additional 'ad hoc' items were also very consistent, reflecting the consistent approach to developing the agenda. However, as illustrated in figure 2 below, larger schemes, those with professional trustees and DB schemes were more likely to mention a wider range of items overall.

Figure 2: Agenda items covered at trustee meetings



Schemes with both a DB and DC component explained that they covered each of these elements separately within particular agenda items. For example, when covering investment reporting DC might be covered first, then DB. However, the time spent on each was said to fall out naturally, rather than being planned for in advance.

While the overall framework for meetings was quite consistent, boards described different specific behaviour within this framework. For example, large and medium-sized schemes generally described longer meeting durations (often one, or in some cases, two days) than small schemes (rarely more than half a day). Some large schemes explained that this amount of time was necessary to cover all the issues and provide time for training and informal interaction between board members.

Similarly, the time spent by trustees reading and preparing for meetings was longer for large and medium-sized schemes (ranging from two to five hours) than small schemes (typically around two hours). This reflects the greater topic coverage required by larger schemes at meetings. However, it is important to note that the

time *required* to be spent was not always reflected in the time that individual trustees *actually* spent preparing for meetings. Schemes of all sizes reported inconsistency within their boards in this regard, with some trustees much less reliable than others. They explained that the reasons for failing to prepare were usually related to sheer lack of time and the pressures of trustees' 'day jobs'.

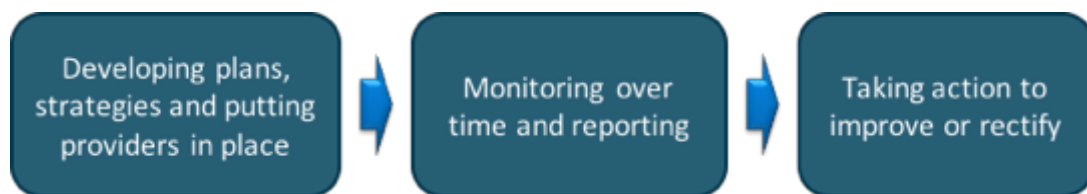
“Everyone gets sent a pack a few days in advance, but whether they read it, that’s another question...these are busy people and it is hard to get them to do it.” Medium, DB with AVC

3.2.2 Scheme governance

Trustee involvement in governance

When discussing scheme administration and investment governance, trustees described a number of activities and processes which can be categorised into three general stages. These are set out in figure 3 below.

Figure 3: Process steps of governance



Overall, trustee involvement with governance was most often concentrated at the beginning and end of this process. Trustees often talked about being involved with setting the agenda and strategy for the scheme. Dealing with and/or signing-off on changes in direction or dealing with the consequences of performance or service delivery issues were also seen as essential parts of the trustee role.

While trustees described involvement in the on-going processes of monitoring and adjusting administration and investment activity, many also noted that third parties played a more active role at these stages. They sometimes felt that they did not need to become directly involved in all aspects of day-to-day administration of their schemes.

Developing plans and strategies

Trustees explained that they were involved with setting the overall agenda for the scheme in terms of the approach to administration and setting out the investment principles. Many also explained that the sponsoring employer was also involved with this element of planning.

Many schemes in the sample had developed a written business plan. Plans were said to outline the strategic objectives for the scheme in terms of administration and investment. The development of the plans was usually said to have been the responsibility of the chair and/or professional trustees on the board. Other board members were less likely to have been actively involved, instead providing a sense check and approval.

While plans were often said to be in place, their active use was less consistent. Larger schemes and schemes with professional trustees were more likely to report active referral to business plans for on-going, specific activities. However, this was a minority across the sample as a whole. Other trustees described the plan as having been written but rarely referred to.

Monitoring over time and reporting

Trustees often felt that one of the most important aspects of ensuring effective governance was the selection of suitable third parties (to provide administration services, investment services or professional advice). They argued that if effective third parties were in place, the need to micro manage processes themselves was reduced considerably.

“Our approach is quite basic and simple. We have found a good administrator; they do what they are paid to do.” Medium, DC only

This attitude explains the relative disengagement from the detailed processes of administration among trustees. The degree of continued interaction and involvement with administrative process was often said to be minimal, especially among smaller and medium sized schemes.

This is reflected in the amount of time and resource devoted to administration and performance monitoring in some schemes' board meetings. For example, while most schemes had SLAs in place with third party administrators and received formal reports against these as part of their meeting agenda pack, usage of SLAs (ie to encourage better service or value) and detailed discussion of them during meetings was less consistently reported:

- In some cases, more commonly when professional trustees were in place (but not exclusively), SLAs were used to effectively hold third party providers to account and deliver better value for money. In these cases, administrators attended board meetings or were dealt with in a separate sub-committee. Any failure to meet SLA targets was used by the chair or other trustees to negotiate lower fees and/or to encourage changes in personnel or policy to improve efficiency.

- In other cases, SLAs were in place, but rarely discussed. Administrators provided reports and attended a proportion of meetings, but unless complaints were increasing significantly, they were not utilised.

“Yes, there are SLAs, they are reported on at the half yearly meetings, but nothing happens as a result. Everything seems to be going OK.” Small, DB only

Taking action to improve or rectify issues

Overall, trustees reported greater involvement in dealing with problems and seeking to rectify them than was seen for the detailed management and monitoring of administration, record-keeping and investment performance. However, as outlined above, schemes did not report consistent approaches to holding providers to account, maximising value for money and improving service. These differences are explored more fully in relation to administration and investment governance below.

Overall, the most commonly mentioned means of driving better service and lower costs was said to be conducting regular reviews of administration providers and the threat of switching to alternatives.

“We can go out to tender if we feel that the administrators are not performing. They know that we have in the past, so that keeps things working well.”
Medium, DC only

While this potential sanction was often described as an effective threat, switching was also said to be undesirable (and a last resort) as it could result in lower quality service and potential data loss/inaccuracies.

The interview extracts (Case studies 2a and 2b below) highlight the significant variations in governance practice across the pensions landscape, from disengaged and uninformed arrangements to highly resourced and well informed trustee boards.

Case Study 2a

Scheme details: Small DC

Board structure: one trustee

Extracts from interview

...Okay and is the scheme a defined contribution scheme or defined benefit scheme. Are you aware of that?

I don't know the answer to that question...

So you've been looking after the pensions about seven years, something like that?

Probably. I wouldn't go as far as saying looking after it – its more signing what I am told or advising the brokers and following their instructions

So there are no other trustees?

No. Not that I am aware of. I mean I'm listed as the trustee because I am the person who signs when we request new applicants. I'm the person who signs the bit of paper but not sure that's probably the full guide to the trustees duties!

I was going to say. What do you understand to be the role of the trustee of a pension scheme?

Well since all this sort of information and these questions came in I am beginning to realise that I have no idea. I assumed it was something to do with being a signatory and because we required a signatory therefore I was happy to take it on.

Case Study 2b

Scheme details: Large DB

Board structure: 10 trustees, four MNTs; five EATs (including the chair), one independent trustee

Extracts from interview

So, in terms of the trustee board, how many members are there on the board?

10 trustees: Six of them are company appointments and four of member nominated.

So how many other sub-committees are there?

The investment committee, the funding and monitoring committee...There's also a risk and audit committee and (the) economic committee. We have our own in house investment people and it's a separate limited company, a subsidiary of the pension scheme and we employ full time investment professionals from big merchant banks....

So it sounds like there's quite a close eye on making sure there's the right spread of expertise and knowledge and experiences...

Yes. Yes it does. One European directive came up last year with an idea that is current and there's a suggestion that all trustees should be fit and proper persons, which means we'll all have to have some type of qualification.

Scheme administration and record-keeping

The challenges associated with ensuring effective administration and record-keeping varied by scheme size and complexity. Larger schemes with higher volumes of interaction had more complex requirements and their administration needed more 'constant' attention. As such, the approaches adopted by the trustees of these schemes to the governance of administration were generally more involved and often more formalised. Administration was considered a much lower-level concern by some smaller schemes. They were able to quite easily keep track of member interactions with providers and tended to deal with issues in a more informal manner.

These different needs in relation to the governance of administration gave rise to a range of different approaches and behaviours across the sample. We can consider these different types of behaviour in terms of the level of formality and trustee involvement reported.

Level of formality

A number of schemes within the sample described formal and organised approaches to the governance of administration. These involved the following specific activities or processes:

- Formal, planned tendering (and re-tendering) processes for administrators and/or pension providers, and regular review of costs. This resulted in lower fees and/or changes to terms and conditions to a more favourable position;
- Action plans developed from SLA 'red flags' and addressed during administration sub-committees or full board meetings. This enabled schemes to clearly understand where problems existed and whether progress on dealing with them was 'on track'.

These approaches were more commonly reported by larger schemes and those with professional trustees in place. However, some smaller schemes with lay-only boards also adopted similar approaches.

Other schemes (usually small, with only lay trustees) described more informal approaches to the governance of administration. Some schemes appointed administrators in an informal manner, more akin to a consumer relationship. They explained that recommendations or previous relationships were the important drivers of choice, rather than formal assessment. These schemes also reported no formal strategy for assessing value for money.

Others explained that they would talk to their account manager or key contact within the third party organisation to discuss price and cost in an informal manner. They felt that this was an adequate means of securing value for money.

Level of trustee involvement

A number of schemes within the sample described high levels of trustee involvement in the governance of administration. These involved the following specific activities or processes:

- Detailed, regular and proactive scrutiny of reports from administrators or pension providers, involving key individuals (eg the chair or sub-committee chair) communicating regularly with senior representatives from the third parties to ensure service levels improved and/or costs fairly reflected the service provided. This involved claiming or negotiating rebates or reductions in fees for missed SLA targets;
- Monthly or weekly updates provided to trustees by an in-house pensions secretary or similar. These drew trustees' attention to issues or risks as they happened, rather than waiting until they were raised at a scheduled meeting. The result was said to be faster resolution of issues and therefore improved service for members.

Other schemes within the sample described lower levels of trustee involvement in the governance of administration. Some small schemes' trustees were not involved with monitoring administration or record-keeping activity at all. Others (of all sizes) described a reactive approach, responding to complaints and problems as they arose. In these cases, formal reports from administrators covering SLAs were prepared and shared with trustees at regular meetings, but rarely scrutinised.

Case studies 3a and 3b below illustrate how two different types of scheme approached administration; one in a more formal manner and one less formally.

Case Study 3a

Scheme details: Large, DB only, lay trustees

Board structure: five trustees, two MNTs; three EATs (including the chair)

Approach to governance of administration:

- Administration sub-committee meets 2 – 4 times per year
- Managing performance of external administrators through re-tendering every three years
- Value achieved through negotiation on level of service provided as part of fixed fee and limiting levels of discretionary spend by administrators
- Admin committee reviews SLA performance reports in detail, flagging issues for follow-up
- Full board reviews admin performance by checking against SLAs and Risk Register

Case Study 3b

Scheme details: Small, DB with DC section, lay trustees

Board structure: An IFA acts on behalf of sponsoring employer, which has corporate trustee status

Approach to governance of administration:

- Dealt with almost entirely by an IFA working on behalf of the sponsoring employer
- Limited time spent beyond sending out schedule of contributions and responding to individual member questions as and when they arise
- Trustees themselves (or corporate trustee representatives) have little or no involvement with the administration beyond receiving an annual update at a regular meeting and some ad hoc calls

Governance of Investment Strategy and performance monitoring

The challenges associated with developing and reviewing investment strategy and monitoring performance were primarily related to the complexity and importance of the issue. Trustees of DC schemes in particular explained that getting the investment strategy right was of critical importance as it could have a significant impact on members' future well-being. For DB schemes in deficit, trustees' primary concern and on-going challenge was often related to how best to reduce this deficit.

Given the complexity of investment markets and the difficulty associated with balancing size of return against risk, trustees often explained that they placed a great deal of trust in their advisors to get this right. Trustees' ability and desire to become directly involved with the development and review of investment strategy and monitoring of performance was not consistent. Furthermore, trustees' overall approach to governance varied for a range of reasons. As such, we can again consider different approaches in terms of the level of formality of processes and policies and the level of trustee involvement.

Level of formality

A number of schemes within the sample described formal and organised approaches to developing and reviewing investment strategies and monitoring fund performance. These involved the following specific activities or processes:

- Investment strategy developed and reviewed in line with the overall business plan and/or Statement of Investment Principles;
- Scheduled reviews of investment strategy involving formal reports from advisors and investment providers;
- Consideration of providers for alternative strategies via formal tendering;
- Formally reviewing investment performance frequently (two or four times per year), with official presentations from investment providers and advisors, with performance tracked against goals;
- Use of 'flight paths' by DB schemes in deficit to formally monitor progress vs. their recovery plan.

This more formal approach was more commonly reported by large schemes and those with professional trustees in place.

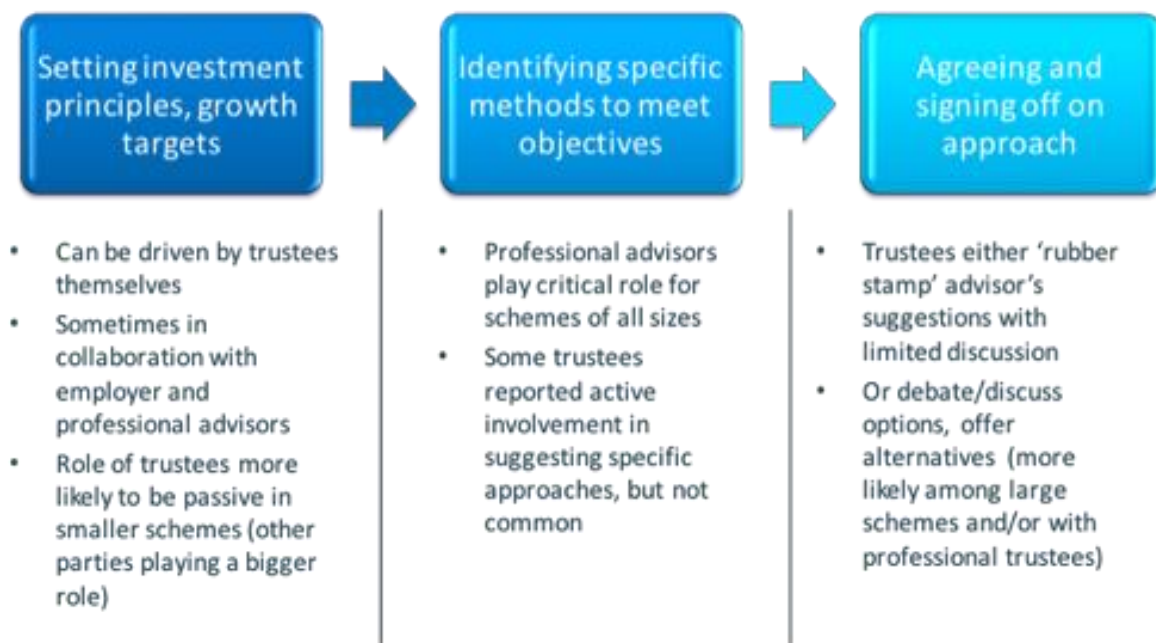
Other schemes described more informal approaches to developing and reviewing investment strategies and monitoring fund performance. They described informal discussions between the trustees and senior employer staff, advisors and/or the pension provider as the main (or only) means of scrutiny. While reports were produced by pension providers or advisers on an annual basis, no other performance monitoring was in place. This approach was reported mostly by small,

usually DC only schemes with relatively modest assets and basic pension products in place.

Level of trustee involvement

Overall, trustees reported more involvement in investment strategy at the point of setting overall principles and goals and deciding on strategic direction, rather than when deciding on specific investments i.e. making decisions about markets or fund managers. However, as illustrated in figure 4, the level of involvement in investment strategy varied.

Figure 4: Trustee involvement in developing investment strategy



A number of schemes within the sample described high levels of involvement in the development and review of investment strategies and the monitoring of fund performance. These involved the following specific activities or processes:

- Regular investment sub-committee meetings, enabling some trustees to interrogate investment strategy in detail;
- Expert trustees with past or current investment experience suggesting alternative or new investment strategies;
- Calling ad hoc sub-committee or full board meetings in response to performance fluctuations/other external factors;
- Key trustees (eg chair) having access to frequent (monthly) updates on fund performance.

This type of activity was more common among schemes with professional trustees on board, or with lay trustees with a strong background in investments. Some trustees explained that this high level involvement in investment strategy had helped them avoid what they considered to be ill-advised decisions by their investment providers and increase returns as a result.

Other schemes within the sample described lower levels of trustee involvement in the development and review of investment strategies and the monitoring of fund performance. These schemes (of all sizes, but usually with only lay trustees) described little or no trustee contribution to investment strategy development or revision. While they received official performance updates, they rarely or never took action as a result of these. This was usually due to a lack of confidence to get involved. Some small schemes saw little or no point in considering investment issues in detail as they felt their options for changing approach were very limited.

3.2.3 Working with external advisers

Key findings from the quantitative survey

- 89% of schemes reported the use of external advisors/service providers
 - Most commonly auditors (73%), legal advisers (71%), actuaries (69%)
 - Use of advisers significantly lower for 'DC only' (75%) & small (81%) schemes

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

As outlined in the previous section, use of external advisors and providers was considered a critical aspect of scheme governance. The initial quantitative survey found that the vast majority of schemes (89%) used advisers of some kind. This was reflected in the qualitative interviews, with trustees confirming that they relied heavily on professional advice. They felt that external advisers delivered necessary expertise, independence of thinking and up-to-date knowledge.

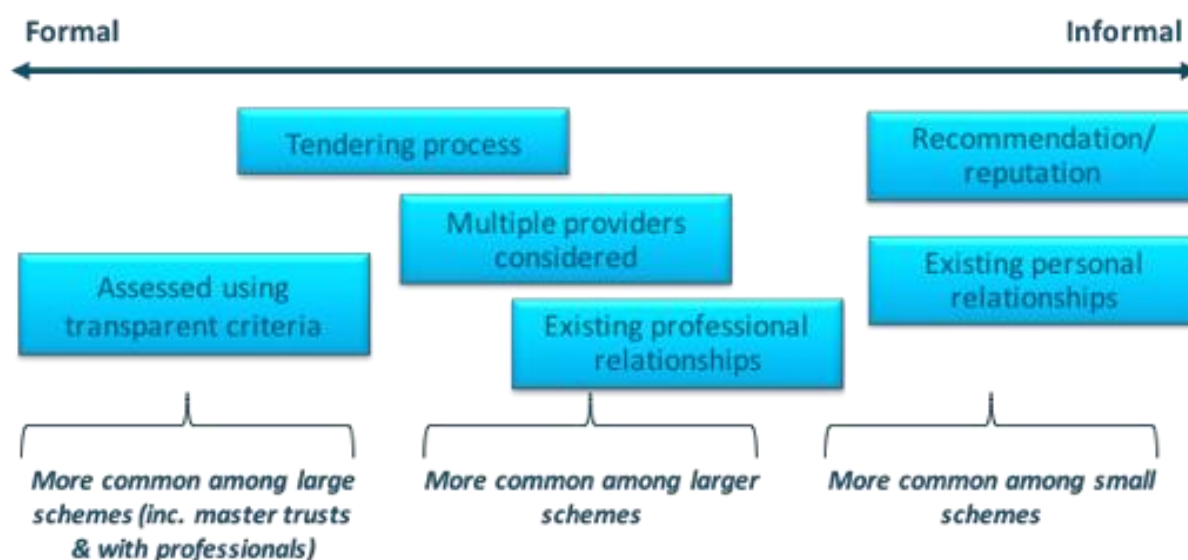
The use of a single company as a provider of administration, actuarial services and investment services was quite commonplace. This approach was said to deliver economies of scale. However, it was also said to require careful management on the part of trustees to avoid conflicts of interest.

Selecting external advisers

Trustees described a range of different approaches to deciding to use and selecting external advisers and service providers. These can be considered in terms of their level of formality. They are summarised in figure 5 below.

At the formal end of the spectrum, some schemes described highly transparent and open tendering processes to select all or most of their third party providers. This was most commonly described by larger schemes or those with professional trustees. Some schemes used formal tendering for some advisers and not others. For example, administrators may have gone through a tendering process while legal advisers were appointed based on a long-standing professional or personal relationship with trustees.

Figure 5: Approaches to selecting external advisers



In some schemes, *all* appointments were made based on either previous relationships or recommendation/reputation. These tended to be smaller schemes, but not exclusively so. In the case of those not going through formal processes, they often explained that this was not deemed necessary. Trustees of these schemes felt that they were able to judge quality and value based on their previous experience or from talking to others. Some felt that a tendering process would not always identify the most suitable provider.

“When you work in the financial services industry for a few years, you get to know who is good and who isn’t. It is all about making an informed judgment.”
Small, DB with AVC

Challenging external advisers

Key findings from the quantitative survey

- Boards were unlikely to disagree with their external advisers (24% never did and 58% did so rarely) - although the vast majority gave a high rating for their *ability* to challenge advisers
 - Small schemes least likely to disagree with advisers (35% never disagreed compared to 20% of medium and 9% of large)

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

This qualitative exploration revealed that the interactions between trustees and their advisers are relatively nuanced. While outright disagreement with advisers was rare (as found in the quantitative survey), many trustees explained that they did rigorously scrutinise advice. They explained that they would ask questions, understand the rationale behind advice and ensure that they were happy to accept it.

“The advisers wanted to deal with the surplus in a particular way, but I thought it would be unfair to some members. We went away and discussed it, and asked for more clarification before we agreed.” Medium, DB with DC section

However, some trustees (usually from smaller schemes and always lay-only) conceded that they rarely or never challenged or scrutinised the advice provided by professionals.

Professional trustees and large schemes were most likely to disagree with advisers. Some professional trustees explained that it is important to challenge advice in order to avoid being sold services or products which will profit pension providers or investment providers, but not necessarily the scheme itself.

Overall, trustees were more confident challenging third parties on issues such as administration errors or ideas on administration delivery. Lay trustees without a related background were less likely to challenge investment or legal advice. In these instances, the main barrier to challenging advice was a lack of confidence in doing so.

“Two of the lay trustees are basically useless. They don’t say a word.”
Medium, DC only

Trustees often explained that they were nervous about overturning or ignoring professional advice in case it resulted in a problem such as loss of scheme value. They felt that they would be held accountable for that loss because they had been negligent by ignoring professional advice.

While some trustees felt unable or unsure about challenging advisers, this was also often accompanied by a positive sense of trust in the advisers. They often explained that the whole point of advisers was to listen to them.

“They are the experts. We have a degree of trust with them.” Medium, hybrid

Furthermore, some felt that they had scrutinised potential advisers sufficiently to make an informed decision when appointing them. Therefore, they did not feel the need to scrutinise their advice on an ongoing basis.

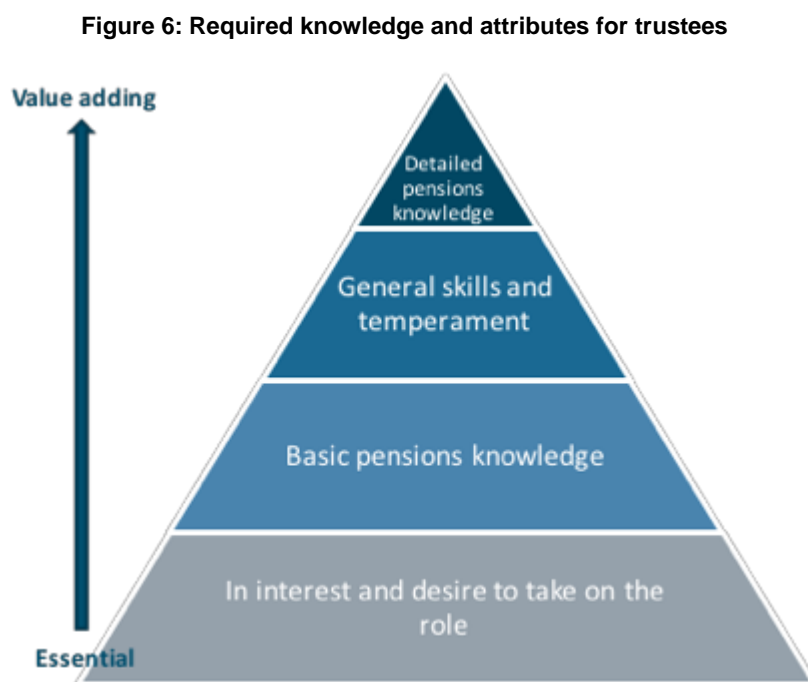
3.3 Trustee skills and knowledge

In this chapter, we explore the skills and knowledge within trustee boards. We will firstly consider the skills and knowledge of trustees in general, and the collective knowledge of trustee boards. We will describe what trustees felt were the most important attributes, skills and types of knowledge required to do an effective job. We will then go on to consider how well trustees deliver against these needs and where skills and knowledge gaps exist. We will then repeat this process for chairs of trustees.

3.3.1 The skills and knowledge of trustees and boards

What makes an effective trustee?

Figure 6 below illustrates what trustees considered to be the relative importance of different areas of knowledge and skills in relation to being an effective trustee.



Trustees agreed that perhaps the most important quality a potential trustee must possess is an interest and willingness to take on the role. They explained that commitment was required to fit the role into other parts of a trustee's working life, and a genuine interest was necessary to deliver this.

In terms of the level and type of knowledge required, most trustees made a distinction between what they regarded as 'basic' knowledge and understanding of pensions and more advanced or detailed knowledge. Most agreed that trustees require at least some knowledge of how pensions work; enough to be able to ask sensible questions and understand the issues they were required to consider. Exact descriptions of what this constitutes varied, but most trustees felt that a broad understanding of the role of trustees, the differences between scheme types, basic legal and regulatory understanding and an understanding of the role of external advisors are necessary. The Trustee toolkit was described by some as delivering a good basic level, although some felt it need not be as comprehensive as it is.

While some knowledge was considered essential, detailed knowledge on topics such as investment, mechanics of how valuations work and the finer points of regulation was often considered less important than having the right general skills and temperament. Trustees felt that those taking on the role should ideally be inquisitive, analytical, challenging, quick to understand, absorb and apply knowledge and information and effective at communicating.

Trustee perceptions of their board's knowledge and skills

Echoing the findings from the quantitative research, trustees generally considered themselves and their boards to collectively have sufficient (or better than sufficient) skills, knowledge and experience. Many trustees were also able to support this assertion with evidence of formal training and qualifications among their board members. However, this was not the case for all schemes. In some cases, basic knowledge was very limited among trustees. A minority of small schemes were concerned that they did not have sufficient knowledge to make sensible decisions. However, most were not concerned about this because they felt confident that their advisors could provide them with the knowledge and understanding that they required.

"I can't think of any real gaps in understanding that we can't find out the answer to from our advisors. That's why we have them." Large, DC only

However, further discussion revealed that while many trustees felt that their board was strong in terms of knowledge, this did not mean that every trustee was equally knowledgeable about all aspects of the role. Rather, they explained that each trustee brought different, complementary skills and knowledge.

“As a whole, very competent. But the key is to know your limitations...you will never be an expert in everything...but they know what they don’t know.”

Medium, DB with AVC

Different levels of skills in different areas were said to deliver diversity and ultimately strength. This supports the points made in section 3.1.3 regarding effective board composition. Furthermore, some trustees (usually professionals or chairs) explained that having some members of the board with limited formal knowledge of pensions can be beneficial. They explained that some of the least experienced and skilled trustees on boards often asked important questions because they were not worried about looking stupid. They were also said to be effective at challenging advisers and other trustees to explain themselves clearly. This was said to be helpful for all members of the board.

However, some professional trustees pointed out the potential risks associated with an uneven distribution of knowledge. They noted that, in reality, skills can sometimes reside only with a minority of trustees. This can mean that boards become dominated by, or over-reliant on, a small number of trustees (often professionals). They also noted the risk that smaller boards might not have knowledge covering all relevant topics, or that this may be lost when a trustee leaves.

“Some boards have mostly people who do not know anything at all, they are pretty useless.” Professional trustee

Main skills and knowledge gaps

Given their generally positive assessment of their boards’ knowledge and skills, most trustees struggled to identify clear gaps in knowledge. However, certain topics were mentioned as being challenging and areas where trustees would ideally like a better understanding. These broadly reflect the quantitative findings, which show that the largest gaps between perceived knowledge and importance were for:

- pension scheme investments
- pensions law
- the role and responsibilities of trustees

Trustees usually mentioned the finer details of investments as a challenging topic. While many felt that they understood the basics of investments, specific topics had come up in the past which they had struggled with. They would ideally like to be better informed on these areas.

“Probably just investments. Thing like level of gilt returns. Things we don’t think about often.” Medium, DB only

Similarly, trustees often felt that they did not fully understand the intricacies of pensions law. While those without legal training felt that they should not be expected to do so, some felt that a better grounding in the topic would be beneficial.

“It would be things like legal matters or complicated investments.” Large, DB with AVC

Finally, some trustees felt that they did not yet have a full grasp of all the legislative changes introduced in recent years. They specifically mentioned the new pension flexibilities. Some trustees were also concerned about issues relating to automatic enrolment. They had struggled to find suitable information or answers to specific questions they had on this matter.

3.3.2 The skills and knowledge of chairs

What makes an effective chair?

Key findings from the quantitative survey

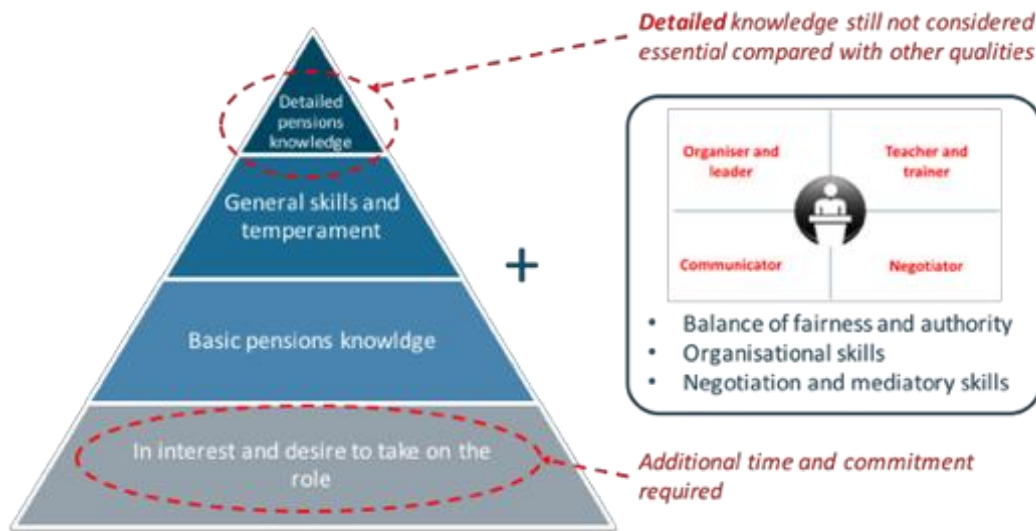
- The most important competency of the chair of trustees was judged to be ‘knowledge of pensions rules and regulations’ (54%)
 - But also a need for ‘softer’ attributes such as interpersonal skills (29%), leadership skills (28%), previous chairing experience (21%) and negotiation skills (10%)

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

The quantitative survey data shows that trustees judge knowledge of pensions rules and regulations to be the most important competency for chairs of trustees. Qualitative exploration supports this, but as for trustees in general, it was felt that other skills were more important than detailed knowledge for chairs.

Figure 7 (overleaf) shows that trustees felt chairs needed to embody all of the same attributes as other trustees, but also possess additional leadership, organisational, communication and negotiation skills. These reflected the multifaceted role trustees described for chairs.

Figure 7: Required knowledge and attributes for chairs of trustees



Chairs were said to require experience of business (at a high level) in order to have developed the right mix of personal attributes to deliver a balance of authority and inclusivity as well as having the required ‘gravitas’ to carry out negotiations.

“Having vision is very, very important...Checking that vision is even more important so that all the parties understand it and can get behind it if it’s the right thing to do.” Professional Trustee

Trustees felt that the chair should ideally have greater overall pensions knowledge in order to guide and advise other trustees on the board.

The perceived knowledge and skills of chairs

Reflecting the overall view of trustees about their own (and their board’s) level of knowledge and skills, most felt that their chairs were very well equipped for the role. In terms of overall business acumen and experience, the majority of schemes were confident that, as senior staff or people who hold (or have held) highly responsible positions within business, their chairs were very effective.

In a minority of cases, schemes with MNT chairs felt that other board members appointed by the sponsoring employer were able to override the chair and undermine their authority to some extent.

When considering the technical knowledge and experience of pensions rules and regulations, the calibre of chairs appears to be more inconsistent. In some cases, chairs had an enormous amount of experience and qualifications related to pension scheme governance. Professional trustees were formally trained and qualified in certain areas of pension governance and many lay chairs had years of experience

as trustees and had also accessed significant training and development over this time.

However, the technical knowledge of other chairs was described as much more limited. Some of those who had been selected as chairs by default had little or no pensions experience and their knowledge of the topic was only limited. This tended to be the case more commonly for smaller schemes and those where the chair appointment process lacked rigour and transparency.

“Our knowledge is quite limited really. None of us are pensions experts.”
Medium, DC only

3.4 Training and development

In this chapter, we describe the types of training activity undertaken by trustees in our sample, including how this differs by size and type of scheme. We go on to explore how boards identify training needs and plan/keep a record of the training activity of trustees. We will then describe the main barriers to undertaking formal training.

Key findings from the quantitative survey

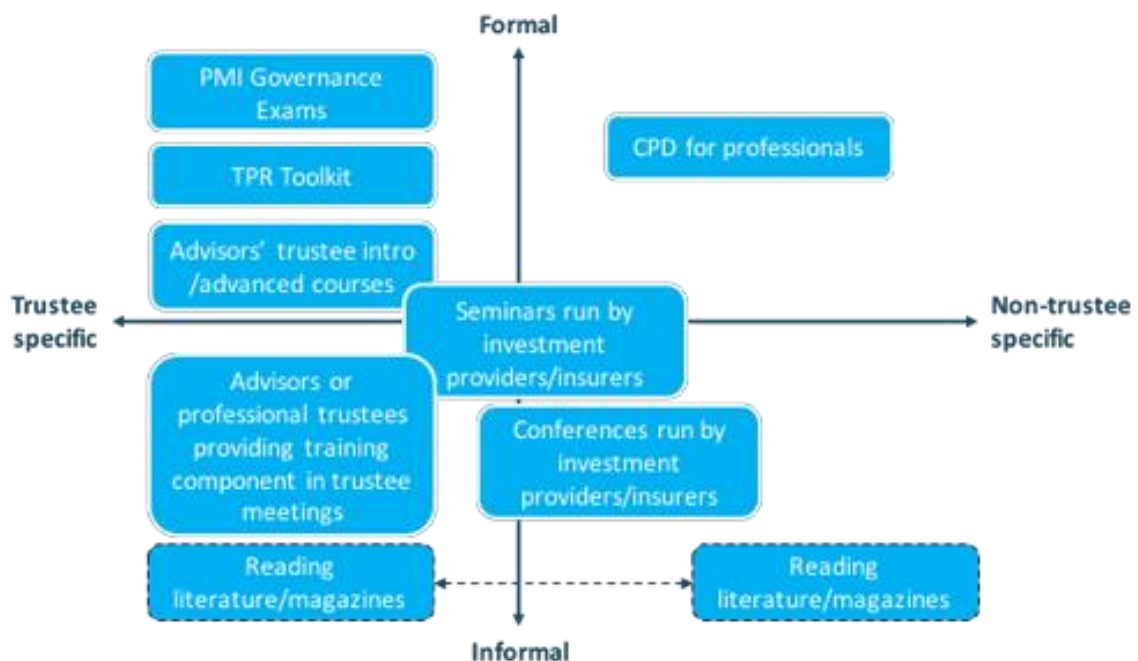
- 50% of lay trustees had undertaken formal training in the last year
- 92% of schemes felt the training/development opportunities afforded to their lay trustees were sufficient

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

3.4.1 Types of training undertaken

Trustees described a relatively wide range of training types, with many having accessed a number of these over time. These training types, as summarised in figure 8, ranged from the formal to the informal and could either be specifically aimed at trustees or more general in their targeting.

Figure 8: Types of training undertaken



For the majority of those who had undertaken formal training aimed at trustees specifically, the quality and delivery of what is available was considered to be high. Self-completion online approaches such as the Trustee toolkit were said to be

convenient and flexible. This is important when training needs to fit in around trustees' busy working lives. However, some trustees felt that staying motivated to self-complete can be challenging.

Some schemes (usually large or medium-sized, but not exclusively) sent their trustees on formal training courses run by investment providers or other professional service providers. They described both 'introduction to being a trustee' courses and more advanced or 'full' courses. These were delivered face-to-face, either in groups or one-to-one. Those using them were very positive about their content, delivery and impact on trustee confidence and knowledge.

"New trustees go on a one-to-one course with [name of administrator]. It is really comprehensive." Large, DB only

"We have done lots of training from different providers covering lots of topics...we are now able to demonstrate how we make all our decisions and because we come from a position of understanding we are able to respond to requests from the company, such as for a payment holiday, very effectively."
Large, DB Only

In many other cases, schemes had not consistently sent trustees on formal training courses of this type, nor had all trustees completed the Trustee toolkit. Rather, they favoured a less formal approach to training. In some cases, external advisers or professional trustees were providing a training component during board meetings. Trustees welcomed the convenience of this approach. They also felt that it was an efficient means of covering topics which were relevant to the current issues facing the board.

In addition to integrating training into board meetings, a large proportion of the sample had attended seminars or conferences run by investment providers/insurers. They usually felt that these were interesting and informative. In addition, they provided a degree of interaction with other trustees from different schemes. This was described as very valuable, particularly by new or less experienced lay trustees because it enabled them to informally discuss the role and gain a better insight into what they were expected to do or how others tackle the role.

"I really like the seminars that the investment companies run. It is good to mix with other trustees." Medium, DC only

While informal training opportunities were described as plentiful and useful, it is important to note that some professionals were of the view that these informal types of training were beneficial but should not be a substitute for completing a more comprehensive, trustee-specific form of training such as the Trustee toolkit. They felt that ideally all trustees should gain the same base level of knowledge and understanding from a consistent source of this kind.

3.4.2 Identifying training needs

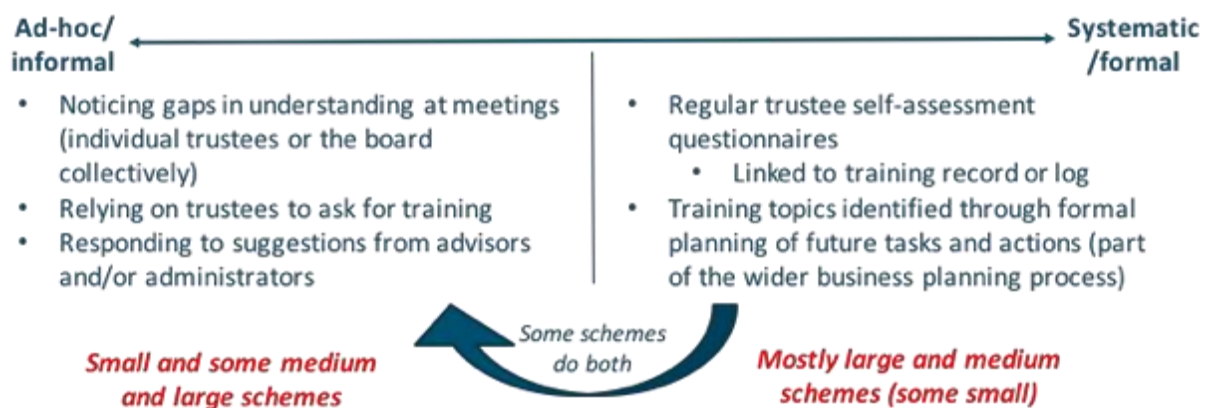
Key findings from the quantitative survey

- 48% of schemes had documented or formally assessed trustees' learning needs in the last year
 - This increased with scheme size (small 27% / medium 58% / large 77%)

<http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf>

Trustees reported a range of different approaches to monitoring skills and competencies, and identifying the need for training. Figure 9 below illustrates the two broad ends of the spectrum that emerged.

Figure 9: Approaches to identifying training needs



Many in the sample described an ad-hoc or informal approach to identifying training needs, and to monitoring/recording training activity of trustees. This reflects the quantitative data which shows that less than half of schemes (48%) had documented or formally assessed the learning needs of trustees in the previous year.

In many small and medium schemes in particular, trustees felt that there was no real need to formally assess needs. Rather, they were happy to react to gaps in knowledge as and when they were noticed, or respond to suggestions by their advisors or administrators that trustees undertake training in particular areas.

However, a minority of schemes were adopting a more formal approach. Regular trustee self-assessment questionnaires were being used by some. These were used in conjunction with a training log which was monitored and assessed by the chair on a regular basis. This approach was much more common among schemes with professional chairs.

“The independent trustee prepares self-assessment reports and so we get the trustees to do this on a regular basis, I mean not every four months but; how often do we do it? Every year or every couple of years. It’s self-assessment but it’s also saying where are the gaps in our knowledge, what sorts of things we need to look at.” Medium, DC only

In a small number of cases, schemes had also integrated their training assessments and planning with their overall business plan. They were able to identify topics in advance and put additional training in place to ensure trustees were comfortable with them before they were required to make decisions in that area.

3.4.3 Organising training activity

As well as displaying a range of different approaches to assessing training needs, schemes within the sample also approached the organisation of training in different ways. The main difference reported was the degree to which trustees were encouraged or compelled to undertake training (particularly formal training).

In some cases, completion of the Trustee toolkit was a mandatory requirement for all new trustees, and had to be completed within a specified timeframe. Trustees explained that if this condition was not met, trustees would not be allowed to remain in the role. This type of mandatory approach to training was nearly always described by professional trustees. However, some lay chairs also adopted it.

In other cases, the requirement to complete training such as the Trustee toolkit or another formal course was formally in place but less rigorous sanctions were applied (ie failure to do so did not result in termination of the trusteeship).

A less rigorous approach was more common among many medium-sized and small schemes. Some explained that trustees were told that training is available (and where to access it) and were then left to organise this themselves. In these cases, completion of training was not formally monitored or recorded. Rather, trustees would be informally reminded on an ad hoc basis.

Lastly, some schemes reported a very passive approach to training. In some small schemes, the issue was simply never discussed and trustees had not contemplated training. In other cases, training was only undertaken if individual trustees decided and requested to do so. In these cases, the chair (often a senior person from the employer) would only be involved to approve (or not) the trustee taking the required time to undertake the training.

It is important to note that external third parties such as service providers, professional trustees and IFAs were often the driving force behind encouraging (or suggesting) that training take place. The sponsoring employers were said to play a role in enabling this activity to take place. In some cases, this resulted in trustees

being ‘badgered’ by their IFA or pension provider to complete training, but not having the time to do so.

Case Study 4a

Scheme details: Medium, DC only, professional and lay trustees

Board structure: six trustees, two MNTs; four EATs (including the chair)

Approach to organising training:

- All trustees **must** complete the Trustee toolkit within six months of becoming a trustee
- Professional trustee prepares a self-assessment exercise for all trustees on a regular basis
- Output from assessments analysed and gaps identified
- Trustees decide collectively on the best training to meet the need (eg guest trainers at board meetings, external courses)

Case Study 4b

Scheme details: Medium, DC only, lay trustees

Board structure: three trustees, all EATs (including the chair)

Approach to organising training:

- All trustees are aware that the regulator’s toolkit exists, but no compulsion to complete
- One trustee has started toolkit (completing two modules in a year)
- No time available to devote to training of this type
- Training needs not assessed in any formal way and no training record held
- Trustees concede limited knowledge and understanding of some aspects of pensions

3.4.4 Barriers to accessing formal training

The quantitative data showed that only half of schemes had accessed formal training in the previous year. However, it also revealed that trustees generally felt that sufficient opportunities for training and development were available, with 92% agreeing that this was the case. The qualitative interviews support this finding, with trustees often describing a wide choice of training options.

Therefore, lack of availability of suitable training does not appear to be the primary barrier to undertaking formal training. Rather, trustees explained that they either did not have the time to complete training, or did not feel that they needed to.

The most commonly cited barrier to undertaking training was a lack of time. Trustees often explained that they had too many other pressures on their time to be able to participate in training. Some wanted access to shorter, less time-consuming training formats. However, many felt that format was irrelevant compared to their overall lack of available time.

Often the perceived time required was weighed up against the perceived need for, or benefit of, completing training, resulting in a decision not to do so. Some chairs and professional trustees felt that individuals *could* find the time for training if they were more committed to the role and better understood the benefits of training.

Some lay trustees felt that their employer did not support them in terms of providing them with the time to complete training. They complained that they needed to find time outside of work or risk their main job suffering. They felt that employers should be encouraged to support trustees more in this regard.

In some cases, trustees did not feel that they needed to participate in formal training. Some trustees already had relevant professional experience and therefore felt that they would not learn anything new.

Other, less experienced trustees of small DC schemes felt that their role was too simple to justify any formal training. In some cases, trustees had never considered that training to be a trustee existed, and would never have considered utilising it in any case.

“I cannot imagine why we would ever think about getting trained on this type of thing. It simply isn’t important enough to us, we have so much more going on.” Small, DC only