

Briefing

# What The Pensions Regulator expects of 21<sup>st</sup> century trustees

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The Pensions Regulator (TPR) carried out research in 2016 which identified that many schemes were not being run to the standard expected by TPR. This was particularly true of smaller and medium sized schemes where there is generally less resource, both in terms of money and headcount, to support trustees. On the back of these findings TPR initiated an education program which was given the name of “21st Century Trusteeship”.

## So what is new?

Well actually nothing. All the pointers given in TPR material are long established good governance practices which, by and large, but not exclusively, many bigger pension funds were following already.

Legislation already exists for many governance areas expected by TPR.

## Why is it so important?

Doing the right thing, in the right way, means that trustees set clear goals and timescales, understand and manage risk, communicate clearly and get the maximum from available resources and advisers. This results in better outcomes for all stakeholders and protects the interest of the members.

## What needs to be considered?

We have set out the areas for attention identified by TPR, with some of the questions a trustee board should consider and some comment on value for members.

### Governance, roles and strategy

- Are you reviewing how your scheme is run on a regular basis?
- Is record keeping and trustee access to information adequate?
- Are all responsibilities clear and roles defined?
- Is there someone who oversees all activity is taking place when it should, including things required by law?
- Do you know which governance and administration policies you have (and should have) and review them periodically?
- Is your committee structure and reporting to the main board working?
- Do you know what activities are delegated? Do you have a clear delegations matrix? Do you have a review cycle in place?

- Do you have a strategic business plan (as opposed to a calendar of activity) which you discuss with the sponsor?
- How do you monitor that plan and take action when things go off course?
- Do you apportion agenda time and governance resource with reference to your strategy?

### Training, skills and advisers

- Do you regularly assess your need for training?
- Does that result in a training plan which is followed through?
- Is there a proper induction process for new trustees?
- Do you have the correct skills (both technical and soft) and diversity on your board?

### Risk and conflict of interest

- Do you understand your risk management framework and where responsibilities lie?
- Do you understand any risks you have agreed to take and why you are taking them?
- Is time spent in the right proportion on thinking, challenge and discussion of risk and maintaining the documents capturing that process?
- How do you capture the risks that are less easy to measure e.g. governance, cyber and data security?
- Do you have policies in place for managing conflicts, anti-bribery, gifts and entertainment, and anti-money laundering and are trustees asked to disclose as required at each meeting?
- Does your conflicts process capture the conflicts of advisers?

### Meetings and decision making

- Do you receive the right information, at the right time to be able to take informed decisions at your meetings?
- Do the agendas cover matters in the right order, allowing the correct amount of time to support the delivery of your agreed strategy?
- Is it clear from your papers what action is required from the trustee for each item?

- Are you reviewing papers in advance to ensure that you are getting the best out of meetings?
- Does planning start far enough in advance of your meeting?
- Does everyone on the board feel able to contribute and speak their mind?
- Is your chairman effective?
- Is the board able to reach collective decisions?
- Is the use of advisers at meetings effective and are their papers set out clearly?

### Value for members

The law requires trustee boards to calculate at least annually the charges and transaction costs to which defined contribution "DC" members' funds are subject; and to assess the extent to which they represent good value for members. The result of the assessment is then reported in the annual Chair statement.

This Department of Work and Pensions "DWP" legal requirement could apply to defined benefit "DB" scheme trustees who are responsible for member's AVCs where there is another form of DC benefit in the scheme e.g. a money purchase underpin. (DC AVCs that are linked to a DB scheme where no other DC benefits are provided are currently exempt).

Even where DB trustees are not required to complete the value for members assessment they are expected to follow TPR's DC code in relation to AVCs.

Whilst there is currently no legal duty on DB schemes to annually assess value for members, TPR recommends trustees do so to help ensure good member outcomes.

The DWP's White Paper (published March 2018) proposes that in the future trustee Chairs of DB schemes produce an annual Chair's statement, which would have to be submitted to TPR with each valuation. This would include information about funding decisions and approach to risk management. This would also likely require the inclusion of a value for members assessment, which could be disclosed to members. Trustees should have this potential future disclosure on their radar during their next valuation process.

### Full information

You can refer to TPR's site for full details of their guidance and example case studies.

## So what should trustees do?

Even if on initial reflection the trustees feel they are complying with these standards it would be a worthwhile exercise to carry out your next trustee effectiveness exercise with an eye on TPR's expectations.

Barnett Waddingham has an effectiveness questionnaire which covers all these main topics so you can benchmark your scheme against the 21st Century Trusteeship standards and take action if required. It is important to allocate enough time to focus on the questionnaire output and agree a board consensus on resulting actions or improvements.

Trustees should also be aware of the potential future disclosure requirement of the proposed DB Chair statement. The exact form and timing of this is still being considered but it will come.

Barnett Waddingham has extensive experience in supporting trustees getting their governance right including conducting trustee effectiveness reviews, reviewing governance structures, and supporting adviser reviews.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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