



# Trusteeship

## – getting your board on the right track

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### Setting the standard

Raising pension scheme governance standards is as hot a topic as ever. With recent developments in the area including the Pension Regulator's (TPR) 21st Century Trustee programme, IORP II and new standards for professional trustees, there is a lot for trustees to get to grips with. TPR states that good governance is "the bedrock of a well run pension scheme", and vital for achieving good member outcomes. Whilst we can all agree that effective trusteeship and governance are fundamental, the real challenge for trustees is working out what good governance looks like for them. TPR acknowledges that there is no single solution to delivering robust governance, so what is appropriate will depend upon the circumstances of the scheme and the trustees. With all that in mind, we suggest some practical steps for trustees to take on the path to good governance.



### Business plan

TPR expects trustees to have a clear purpose and strategy in order to manage their schemes effectively. Having a business plan will help boards to look ahead, make best use of trustee time and ensure that all legal and regulatory requirements are met.

Business plans should include:

- clear, long-term goals for the scheme;
- interim objectives around key areas of focus (such as investments, funding and administration);
- how the trustees propose to meet these objectives and goals; and
- how the trustees will measure and monitor progress towards them.

Trustees should then use the results of the self-evaluation to prepare and review their business plan, forming the basis of their priorities for the coming year.



### A good place to start

A trustee self-evaluation exercise is a good place to start. Take time to devise a questionnaire which draws out the key issues facing the scheme, and ask each trustee to complete it, giving their views on:

- their own level of trustee knowledge and understanding;
- the conduct of trustee meetings and business;
- existing governance processes and policies;
- advisers; and
- the relationship and interaction with the employer.

Collate the responses and identify any consistent themes or specific comments that should be addressed in more detail.



### TKU

The law requires trustees to have knowledge and understanding of the law relating to pensions and trusts, and the principles relating to scheme funding and investment. Put simply, trustees need to have sufficient knowledge and understanding to enable them to properly discharge their duties. One step towards achieving this is to implement a trustee training programme, with a clear commitment from all trustees to meet the agreed agenda for this. New trustees should be asked to commit to completing TPR's 'Trustee toolkit' as soon as possible after appointment. The best training is specific to the scheme and its circumstances. Generic legal and regulatory updates are helpful, but trustees should ask their advisers to speak, in particular, to the most relevant issues for their scheme at each trustee meeting. As part of the business plan, topical training could be scheduled to coincide with related trustee decisions. A skills matrix can be a helpful tool for keeping track of trustees' relevant qualifications and experience, and a helpful point of reference when allocating roles for sub-committees or delegating authority to working groups to take forward specific issues.



## Getting to know the scheme documents

Trustees are required to be 'conversant' with their scheme's governing, investment and funding documents, having a working knowledge of relevant documents so that they can use them effectively. If the scheme rules are old and unwieldy, this may seem an impossible task. Schemes could consider a formal rewrite of their rules into plain English, although for many schemes this is likely to be disproportionately expensive. Alternative documents trustees can use to help ensure that they are familiar with the key provisions of their scheme rules include a balance of powers table, noting each of the key powers in the scheme rules, who holds that power and in what circumstances it can be exercised.

Another helpful tool is a trustee handbook, pulling together the main governance documents for the scheme. Typically, a handbook provides a short summary of the key provisions in the scheme rules along with the relevant legislation and guidance. It can be expanded to note important trustee decisions, advice and administrative practice, and could also include governance policies, such as those on whistleblowing or notifiable events and the risk register. The handbook will then be given to new trustees on appointment as part of the induction process.



## Clear roles and responsibilities

Pension schemes are increasingly complex. Trustees usually delegate responsibility for certain day-to-day functions to in-house teams or third party providers such as scheme administrators. However, as trustees remain accountable for all scheme activities, it's important for them to be on top of their delegations.

A table recording to whom the trustees have delegated their powers, and on what terms, is useful here. This should be a living document, which the trustees review periodically to determine whether the delegation and its agreed parameters remain appropriate. For delegations to sub-committees of the board, clear terms of reference should be in place, setting out the committee's remit, the extent of their authority and the circumstances in which matters should be referred to the board.



## Ongoing obligation

With TPR's recent announcement in its 2019-2022 Corporate Plan that it will now launch phase two of its 21st Century Trustee programme (focussing on the make up of trustee boards, competency standards and accreditation for professional trustees), governance needs to stay high on trustees' agendas.

TPR is clear that it will intensify its focus on and take action against schemes with governance failings. There is no denying that good governance will cost time and money – but as TPR points out, 'investing in good governance is likely to save you in the long run'.