

How to achieve diversity in pension schemes boards

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Diversity in pension schemes: practical steps for schemes to consider in 2021

As the smell of mince pies and over-cooked veg finally dissipates, it's at this point that we all start looking ahead and considering what our aims are for 2021.

For pension schemes, the issue of diversity is one that perhaps not many boards have at the top of their to-do lists, but it remains an industry hot topic. With the Pensions Regulator having set up an industry group that is working towards creating a clear definition of what is meant by diversity and inclusion, providing practical tips for schemes to improve their boards and case studies of those leading the way, ignoring the issue is unlikely to remain an option for much longer.

Why is diversity relevant to pension schemes?

Studies have shown – and TPR has made clear that it believes – that diverse groups make better decisions. This is key for trustees, who seek to take the best decisions they can, given that they are responsible for the pension savings of the entire scheme membership. To fully consider and seek to understand the range of needs of their members, it follows that a board should take steps to ensure it is properly representing them.

So, for pension schemes looking to take action in 2021, what are some practical steps trustees could consider when starting to ask whether they are as diverse as they could be in their make up and actions?

- Assess the composition of the board, and its potential

Being self-aware should be the first step in the process. Trustees should assess whether they are representative of the membership they intend to represent. This won't be the same for each board and may run broader than equality characteristics. Consider differentials such as job role, salary, and location as well as matters such as race, gender, disability and sexuality – all of which may impact attitude to and needs relating to retirement savings.

- Review your trustee appointment provisions

Trustees should review their member-nominated trustee (“MNT”) arrangements and communications to see if these are targeting a diverse range of potential applicants effectively. Often boards say they struggle with engagement; boards we work with that receive high levels of MNT applications employ tools such as selection by interview panel, ‘meet the trustees’ sessions, and place a focus on the benefits of being a trustee for an individual’s career rather than listing strict attainment criteria which may be unachievable for most (i.e. previous trustee experience).

- Look outside the board for engagement

But if your scheme really does struggle to attract MNT applicants, perhaps there are other ways to engage with scheme members. We have seen boards set up feedback panels directly with member representatives (beyond the trustees) to ensure they keep themselves aware of a broader range of member views on pensions issues.

- Review board conduct

Another key aspect is ensuring diversity of thought actually comes through in board meetings. A strong chair can be key here, to invite and encourage all voices to be heard, as can one-on-one reviews with the trustees alongside boards taking time to reflect on their decision-making and effectiveness, whether after every meeting or at a more formal review.

- Create a diversity policy

A diversity policy is a tool employers will be used to, but perhaps not trustees. Establishing a policy may help record and review actions trustees currently take and set out goals for what they wish to achieve. For elements that may require the involvement of the employer (i.e. selection of employer-nominated trustees) this may then be a helpful tool to raise and aid discussion on the subject of diversity requirements.

While there are many steps trustees can be taking to consider and address diversity, hopefully these are a few practical ones to bear in mind when putting diversity on the business plan for 2021.

