



Time for a tune-up?

Summary

- Just over half of trustee boards monitor their performance. Those managing larger schemes are more likely to do so.
- Being clear as to the benefits of reviewing trustee boards' performance, and having clear actions to take after the result, is recommended.
- The number of boards assessing their performance is set to increase, due to enhanced regulatory focus.

Laura Blows considers the reasons why a trustee board should conduct a review of its own processes

A trustee board is the driving force behind the pension scheme, steering it on the journey towards providing its members with an income in retirement. But even the best cars can benefit from receiving a tune-up.

The same is true for trustee boards. While The Pensions Regulator (TPR)'s

rules may work as an 'MOT' to ensure the scheme is 'road worthy', regularly assessing the performance of the board can act as the 'service', improving its ability to drive along.

As KPMG pensions director, Claire Whittaker, says, the trustee board needs to be the "right vehicle" to help the pension scheme on its journey to its

long-term objectives.

"This means putting the appropriate structures, policies and processes in place, and the right people driving it. That's about bringing in the right people who can work together to make decisions," she explains.

In the garage

To assess the performance of the board, all the "nuts and bolts" should be reviewed, Whittaker recommends.

"That includes administration, record keeping and data, communications, funding and investment. Furthermore, it is important to understand the risks the scheme is running, and to consider what would happen if things go wrong. Contingency planning is an area that is often overlooked," she adds.

For Muse Advisory senior adviser, Julia Land, there are many parts that may need oiling up to run smoothly. There's the quality of the board, such as chairing, trusteeship and other skills, diversity, availability, refreshing of trustees, setting the culture and tone from the top. How effectively the board engages with the sponsor and with members is also important, she adds, which fits with the quality of the board's work on strategy, risk and objectives.

According to Land, good quality advice, trustee resources, clear delegations and a good risk management framework are vital. A skilled use of board time and challenge, with proper induction, excellent packs and training and clear decisions made via a consensual and well-chaired meeting process is also important, she states.

"Monitoring effectiveness can help the board be confident it is working efficiently, meeting objectives and managing the main scheme risks well. It provides confidence to the sponsoring employer and to members that required outcomes are being delivered, costs are being managed and that there is a sensible trustee strategy for the scheme. This is also important for TPR," Land states.

For those on the board, a scheme review is an opportunity for reflection, honest self-appraisal and to identify areas to improve on, Stephenson Harwood pensions partner, and chair of its pension scheme, Stephen Richards, says.

However, "it will only make a difference if the outcome of the review is a list of actions to implement".

Whittaker agrees that while the effectiveness of the board needs to be 'measured', the score has limited value on its own. "The focus should be on developing a plan of tangible actions and changes that will improve performance."

Following a trustee board review, some common areas of focus emerge, including the requirement for more focused training, adjusting meeting

agendas or timings, greater focus on strategy in meetings, and increased delegation. A lack of contingency planning, or lack of understanding of the business continuity plans of providers, may often be found, along with insufficient attention to administration and data issues, and a lack of a thorough approach to value for members assessments in DC schemes.

"However, the most transformative piece is often not so specific," Whittaker says. "I get a lot of thanks when I use the effectiveness assessment to get trustees to really focus on their long-term objectives and challenge whether their plans will get them there.

"Even the most motivated and skilled trustees can sometimes get bogged down in the day-to-day issues, or this month's latest crisis. Regularly checking in how well you are doing can help make sure you don't get pulled too far off track and focus on what really matters – good outcomes for members."

How beneficial a performance review is depends on what it is being monitored and how the results are utilised.

Richards considers the key elements of a review to be structure, including the number of trustees, frequency of meetings, use of sub-committees, and processes for execution of tasks, assessing skills, such as the strength and breadth of trustee skillsets, diversity, the effectiveness of the chair, recruitment processes and quality of debate, and then the use real-life scenarios to assess effectiveness, for instance, what happened when the trustees had to deal with a tough decision, when something went wrong, or when there was a disagreement.

"Effectiveness is not about measuring outcomes, such as investment performance, where there is an element of chance involved," he explains.

"Effectiveness is about having the proper processes in place to give trustees the best chance of obtaining good outcomes. There is therefore an element of

subjective assessment in an effectiveness review. However, there's still some cold, hard data that trustees can use to assess whether good processes are in place, including: meeting attendance figures, results from trustee surveys, and trustee profile demographics."

According to Land, measurement can be linked to the board's own strategic objectives, business plan and progress made. "How has the board done on these? If progress is slow, what are causes that link to effectiveness?", she asks.

It is also important to consider the purpose of the review and set objectives for it, Land adds. "This helps make sure the review is forward looking – what will the trustee board need, to be effective for the scheme for the next period?"

Having the chair be engaged with the review can make a significant difference, Land suggests, as "otherwise it may not have proper buy in from the board other than as a tick in the box. The chair needs to set a positive tone for the review and in working with the findings."

For Richards, the tone of the review is vital. "Get it wrong and it can become overly critical, leading to a negative impact on morale and board performance. The review should be about areas for improvement and growth and should be seen as a positive by trustees."

Whittaker agrees that sometimes "individuals or boards can be wary that their hard work is about to be judged". Therefore, she recommends that the review focuses on the tangible actions agreed as a result of the assessment rather than any 'score'.

It is important to make sure there are actions to implement following the review, Richards adds. "This should not be an academic exercise."

To conduct the review, Whittaker recommends starting with a self-assessment questionnaire on the trustees' understanding of their governance.

"It is equally important to measure the effectiveness of the people, which can be done through observing board

meetings, or a more in-depth review of how they are performing as a team,” she adds. “You may also wish to look at individual performance, through one-to-one or 360 assessments.”

According to Punter Southall’s 2019 survey, *The effectiveness of pension trustee boards*, when assessing their performance, 49 per cent of trustee boards do so using collective board appraisals, 47 per cent use individual trustee appraisals and 4 per cent conduct one-on-ones with the trustee chair, or offer self-assessment.

Thirty-eight per cent assess trustee board performance via an internal review, while 27 per cent implement an external review. Small-sized schemes are more likely to keep the review process internal (60 per cent), while those trustee boards responsible for very large schemes are more likely to go outside for an independent review (35 per cent, compared to the 27 per cent overall).

“I’m a firm believer that all schemes should have an independently-facilitated review from time to time,” Whittaker states. “Typically, I recommend that boards do an external review at least once every three years.”

However, while acknowledging that one of the benefits of using an external body is the neutrality they bring, along with being a useful to guide the process and formulate improvement actions, it is absolutely not a requirement to use one, Richards says. “There is nothing more effective for achieving improvement than making an honest self-assessment. When we help trustees conduct reviews often they already know the areas they need to improve on. We help them to consider those areas properly and put in place actions to address them.”

Which vehicles?

Be it through the use of external bodies or self-assessment, which type of trustee boards are actually in the habit of reviewing performance?

According to Punter Southall’s



survey, only 56 per cent of trustee boards currently assess their performance; 22 per cent of small schemes do so, compared to 79 per cent of very large schemes. Within this, only 31 per cent feel their review process is very effective.

“We see [assessment reviews] a lot with trustees of larger DB pension schemes and DC master trusts who often conduct a regular review, whether formal or informal,” Richards says. “The high-quality trustee boards often make self-assessment and development an ongoing process. More work needs to be done at the smaller and mid-size scheme end of the market where trustees can sometimes struggle to go beyond business-as-usual activities. Building self-assessment into the regular agenda or into the trustee business plan can help trustees to fit in an effectiveness review.”

Larger schemes may be more likely to conduct a trustee board effectiveness review, but even then, there are still many large schemes that do not. After all, Punter Southall’s research found that 21 per cent of very large schemes do not assess trustee board performance.

And that’s not because a review isn’t necessarily required. For instance, in July 2019, TPR research found that only half of locally-administered pension schemes had had four or more board meetings in the past 12 months. The report stated that: “We are concerned that irregular meetings may be an indicator of poorly-governed schemes.”

Later in the year, August 2019, TPR published research regarding the ‘unacceptable’ scale of under-performance in small DC pension schemes, with only 4 per cent of micro schemes (between two and 11 members)

and 1 per cent of small schemes (with 12 to 99 members) meeting all the regulator’s expected standards.

Stepping up a gear

But these numbers are likely to change in the near future.

“There has been a definite increase in the number of boards assessing performance, and I expect to see many more in the next year or so,” Whittaker states. “However it is not as many as I would like. TPR says that all boards should review their performance and effectiveness annually, referring to the objectives in their business plan. Therefore, monitoring will likely increase.”

Land also thinks the number of reviews will increase, “as trustee experience is proving it is worthwhile, and increasingly it is expected”.

“TPR is rightly encouraging regular reviews, with external review as part of a cyclical approach,” she adds. “The *Corporate Governance Code* has been a marker on this for TPR. We expect TPR’s unitary code of governance to set out clear expectations in 2020.”

Also, trustee regulation is at an all-time high, Richards notes, meaning that trustees understand their obligations and want to put themselves in the best position possible to meet their obligations to members and under the law. “In addition, companies increasingly understand the importance of a trustee board with good skillsets when it comes to running what is often the largest liability the company carries. As corporate board reviews are now fairly standard, companies will expect their trustees to take a similar approach.”

With regulatory pressure, company expectations, and trustee experience all driving the number of trustee boards conducting reviews, it seems there’s only one clear road ahead.

Written by Laura Blows