

The weight on trustees

Current and future regulatory activity and the new Pension Schemes Bill all focus on the need to keep improving standards of DB scheme trusteeship and governance. David Adams looks at how being a DB trustee is changing

The Department for Work and Pensions (DWP) ended the last year with a new consultation on pension scheme trustees and governance. The document outlines the government's vision of fewer, larger schemes "overseen by highly skilled trustees operating independently, applying good governance, and focussed on delivering the best outcomes for savers without risk of conflict of interest".

It also acknowledges the need for members' voices to be heard at board level, and for lay trustees to get all the support they need to complete their duties effectively. The consultation runs until March, while The Pensions Regulator (TPR) is also working on improving standards of trusteeship.

This is a particularly challenging time to be a defined benefit (DB) scheme trustee. Strategic decisions have become even more complicated, and regulatory requirements more onerous. In that environment, how will policymakers' intentions translate into reality within the many and varied DB schemes across the UK?

Association of Member-Nominated Trusts (AMNT) co-chair, Maggie Rodger, challenges the assumption that simply trying to force trustees to endlessly increase technical knowledge will mean they perform more effectively.

"Trustees are supposed to listen to their advisers and then make decisions," she points out. "No-one expects us to be actuarial experts, and it's for our investment advisers to advise us about new types of investments." She believes

that what TPR really wants from DB trustees today is proof that trustees have done all they can to ensure that strategic decisions align with their fiduciary duty to scheme members: "The regulator wants evidence of strategic discussions, not technical acumen."

TPR's updated DB Funding Code, in force since September 2024, also compels trustees to create stronger, better documented links between investment strategies and endgame planning. Pensions Management Institute (PMI) chief strategy officer, Helen Forrest Hall, says the updated Code has helped to define the higher expectations now demanded of DB trustees. She suggests it may also help schemes improve their management of scheme data, which would be useful in other ways – poor data can delay, distort the premium for, or even derail de-risking transactions.

Superfunds and surpluses

The Pension Schemes Bill (PSB) will have a significant impact on DB trusteeship and governance. It opens alternative endgame options, by introducing regulation for superfund bulk transfers, and altering the 'gateway tests' determining whether a scheme should be transferred into a superfund.

It should also give trustees of better funded schemes the ability to change a scheme's governing documents to make payments of surplus funds to sponsoring employers. Trustees would be able to decide whether to pay surplus to a sponsor based on a consideration of the

trustees' "overarching duties to scheme beneficiaries". Where scheme rules allow, a surplus might be used for other purposes, including supporting DB or defined contribution (DC) arrangements managed by the same trust, enhancing benefits, or hedging.

"What to do with the surplus is a challenge for trustees," says Pensions UK head of DB, LGPS and investment, Tiffany Tsang. "They could do what the government wants them to do, which is to invest it in UK employers to support the growth agenda. It could go back to the sponsors, or could be used to uplift DB benefits, or could be used to support DC scheme members. Trustees will have to navigate this quite carefully."

"As a trustee you've got to look at your fiduciary duty and doing your best for members' interests," says Pi Partnership head of trusteeship, Joanne Holden. "But you also have to bear in mind the sponsor, which may need the surplus to keep their business running. This is when it gets very scheme-specific. What is the sponsor going to use the surplus for?"

"There needs to be an education piece for the trustees, helping them to understand what the implications are and where their responsibilities lie," says Pi Partnership head of trustee executive services, Lisa Riordan.

Trustees will also be affected by the government's decision to develop statutory guidance to clarify how trustees can comply with their existing duties when considering their interaction with other factors, such as climate risk.



Summary

- The duties and responsibilities of DB scheme trustees are an important focus in new legislation and regulation; and in the new DWP consultation on scheme trusteeship and governance.
- DB scheme trusteeship and governance is becoming more complex as new options appear for some schemes around running on and using a surplus, or consolidation into superfunds, as well as insurance de-risking bulk transfer transactions.
- Many DB schemes, particularly smaller schemes, continue to find it difficult to recruit new lay and member-nominated trustees.
- Both the DWP and The Pensions Regulator will be focusing on ensuring use of professional and sole trustees in DB schemes is in members' interests.
- Policymakers acknowledge the need to maintain support for DB trustees in the longer term – while many smaller DB schemes will disappear during the next few years many larger schemes will still require excellent governance for decades to come.

“I know there have been some healthy debates about what fiduciary duty means, but we feel it's for trustees to consider what it means in the context of their scheme,” says Forrest Hall. “We are nervous of any codifying of what fiduciary duty is or isn't. When you define something in legislation you risk sending people down narrow paths. One of the nice things about the PSB is that it's about removing barriers stopping trustees making decisions in line with their fiduciary duty.”

The overall impact of new and proposed guidance, regulation, and legislation on the governance of DB schemes is broadly positive, says Vidett client director and head of governance, Claire Barnes.

“We've gone from focusing on deficits and de-risking to concentrating more on journey planning and where we are heading,” she explains. “These are all very beneficial conversations for the trustees.”

Recruitment problems

But who will be having those discussions? Many DB schemes struggle to find new trustees, particularly new member-nominated or other lay trustees. Appointing a professional or sole trustee may be a useful option, particularly for smaller schemes working towards a buyout. By July 2025, 42 per cent of

professional trustee appointments to DB schemes were sole trustees, up from 37 per cent a year earlier, according to figures compiled by Hymans Robertson. Most were for small schemes: 75 per cent had fewer than 500 members, and 40 per cent fewer than 100.

But hiring a professional or sole trustee is not always possible, and not always the best course of action. Concerns have been raised about potential conflicts of interest if a professional trustee firm also provides advisory services. The DWP consultation asks respondents to describe potential or actual conflicts of interest of this kind, and whether additional safeguards are needed to manage them.

“I have heard stories about it being sold to employers as a cheap way to run the scheme, not as the best way to run the scheme,” says Rodger. “There are times where it is being implied to sponsors that they will have more control over the money with a sole trustee and no pesky members asking for things.” The DWP consultation includes a question asking if further controls or safeguards are needed in relation to the appointment of trustees to ensure that decisions are always made in members' interests.

While every decent professional trustee will understand the fact that every scheme is different, if they are

simultaneously working on multiple schemes it is easy to see how and why they might be taking very similar approaches at more than one of them. The consultation highlights the need for more diversity on boards, in terms of approach and background. It asks if there should be restrictions on the number of trustee appointments an individual professional trustee holds; and what might be included in an enhanced code of practice for sole trustees.

Whoever a trustee is, they will need to acquire, update and prove their competence. The consultation's questions include asking whether it would be appropriate to set higher standards for professional trustees, what support and continuous professional development (CPD) lay trustees need; and whether all trustees should be accredited.

DB trusteeship will certainly not be getting easier, but trustee competence is of paramount importance, says Forrest Hall. “Endgame is not simple: you need people who know what they're doing,” she says. She says the PMI will be announcing enhancements to its Trustee Accelerator Programme (TAP) in the new year, aligned with evolving DWP and TPR requirements for both professional and lay trustees.

All of this activity underlines the fact that the need for well-trained DB trustees able to provide excellent scheme governance will remain very important for a while yet. While many smaller schemes may disappear in the years ahead, including through buyout or consolidation, many others will be with us for many more decades. As Holden puts it: “There's a lot more work to come for DB schemes.”

Every part of the industry will need to contribute to finding and supporting the trustees who will do that work, and define DB trusteeship and governance fit for the 21st century.

Written by David Adams, a freelance journalist