



Where now for trusteeship?

I have a lot of admiration for the people who have elected to become trustees on an unpaid basis to look after the pension affairs of their colleagues and employees. They have put in long hours of difficult work with the highest of motives without any remuneration. This model has worked very efficiently in the past for the sponsors of defined benefit arrangements and works well for trustees if the risks associated with trusteeship are indemnified by an employer with a strong covenant.

However, the situation for both sponsors and trustees is changing at a pace and it is useful to examine whether the old model is still satisfactory with the prevalence of defined contribution arrangements and the general weakening of the employer covenant.

I will list what I see are the main qualities that a trustee can bring to the table and would argue that in the new world of defined contribution arrangements that an Independent Broker can perform many of the trustee's roles more effectively.

Independence

The argument goes that an independent trustee can, for example, decide that the service or investment performance given by a provider is not up-to-scratch and therefore, the scheme should change providers. But in reality it is the Independent Broker who will have the knowledge of competing levels of service and investment performance offered in the market, and in most cases will guide the non-professional trustee on making any decision.

Investment Choice

Increasingly defined contribution plans have multiple fund choice and one of the main duties of trustees is to decide how much choice should be given to members and how default investment strategies might be designed to give appropriate risk and return. The typical non-professional trustee only encounters these grand design issues at the inception of the scheme and it is unlikely that such trustees will ever become experts in scheme design.

Once a scheme is up and running there is very little to be done except to occasionally meet investment managers to see if their returns are in line with expectations. The process of monitoring investment performance is best handled by the Independent Broker working in conjunction with the employer and employees to get the best possible investment outcome.

Settling Benefits

It is the trustee's role to make sure that the correct benefits are paid to people at maturity and in the unfortunate case of premature death. For defined contribution arrangements maturities are relatively straightforward and handled with ease by the administrator with little input from the trustee. Death benefits are complex and involve establishing the rights of dependants. For the typical defined contribution arrangements, deaths are relatively rare and it will be hard for the non-professional trustee to build sufficient expertise to add value. Again in most

cases, the employer in conjunction with the Independent Broker and provider will ensure that the process is handled correctly.

Governance

This last aspect of the trustee's role has always been the most important function of a trustee but arguably one that many trustees have not been sufficiently focused on. It is the trustee's job to protect the assets of the members and to ensure that proper procedures are in place for the correct administration of benefits. I believe that if non-professional trustees fully recognised the potential personal liability that trusteeship involves they would steer clear from taking on the role.

There are other ways members can get involved with the running of the scheme without taking on legal liability of that of a trustee, e.g. participation in a Works Forum. There have not been many cases in Ireland of trustees being sued before the courts for breach of trust but the job of a trustee is a real and serious one and if something does go wrong they could find themselves on a hook with only the indemnities of a potentially insolvent employer to protect them. The increasingly litigious nature of society and the present economic difficulties are clear indicators that the risks for trustees are increasing.

The Way Ahead

Good governance is the crucial issue in deciding who should be the trustee of a pension scheme and I believe that providers with financial strength and extensive pension expertise are best placed to provide trusteeship. Such an arrangement is both effective and bolstered by resources. The argument around independence is increasingly unimportant as good providers will have a comprehensive range of funds in which to invest and I would argue that the true strength of independence comes from the advice of Independent Brokers who will ensure that the scheme is properly set up and can, if needed, be transferred to an alternative provider.



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**...Brendan Johnston,
Pensions Director, Zurich Life**