

21st Century Trustee: Role and Responsibilities

October 2017

1. What TPR said

The main points of TPR's guidance on Roles and Responsibilities are:

- As a trustee or scheme manager you are accountable for all scheme activities even if you delegate some of the day-to-day functions. You need to monitor and oversee how your scheme is run.
- Make sure you are clear on the roles and responsibilities of all the main participants involved in running your scheme and on decision-making, governance structures and processes. Document them clearly.
- Act in the best interests of all beneficiaries, ensuring good governance and delivering good outcomes.

More specifically, TPR wants you as Trustees to:

- Be clear on your objectives and to focus your time on the areas that have the biggest impact on achieving those objectives.
- Agree matters reserved for the Trustee Board.
- Focus on strategic issues and delegate day-to-day activities and decision-making.
- Decide the appropriate governance structure for the scheme, proportionate to your scheme's risk and complexity.
- Decide how best to delegate and to whom; sub-committees, working groups, Trustee executive and clearly document those delegations.
- Document how decisions are made and escalated and who does this.
- Decide what should be reported to the board, who does this and how.
- Have clear contractual terms (where appropriate), terms of reference, tables of accountabilities and delegated responsibilities, and service level agreements.

So that you can:

- Help everyone understand what their role is and ensure the efficient flow of information between key players.
- Respond to important issues and make decisions effectively.
- Operate efficiently and free up time to focus on strategic priorities.
- Monitor and oversee the main scheme activities effectively, including those delivered by third parties such as risk management, administration, investment and member communication.

2. What we think

TPR's latest 21st Century Trustee Board guidance is on roles and responsibilities – it makes sense for TPR to start with this.

We think trustees need to be looking at roles and responsibilities in the round, based on our practical work with clients. Here we share ideas of what we mean.

Clarity on the role of the trustee board, its powers and responsibilities, and the roles and responsibilities that are delegated is vital. This also assumes each trustee, and each delegate, understands their own role.

Thoughtful, written role descriptions are needed, backed up by training and individual discussion. But these can only go so far. The foundations can be cemented through trustee board discussion, through mentoring, and through clarity on what's expected – flagged well in trustee papers, signposted again in meetings, and highlighted with real examples as work progresses.

The trustee chair needs to lead on this and will need good support. How is the chair appointed and do they have the necessary skills? Does the chair ensure the trustee board understands its powers and knows how to do a good job, collectively? Is the chair confident that each trustee understands and can fulfil their own role? Does the chair lead and exemplify the trustee culture?

Board discussion of roles, values and motivations for the role builds trust and helps recognise diversity of view and experience. A good chair can add a lot of value by openly exploring what makes the board tick.

Next, the trustee board at work. To behave as a confident but essentially non-executive body, trustees need to focus time on what is most important. Is the strategy clear and well understood? Does the business plan reflect the right objectives? Do meeting papers help or hinder their ability to make the progress needed?

"There is no such thing as a dumb question". Asking what is essential for the trustees to understand and do, and to what level of detail, is not a dumb question. Nor is questioning how board papers can make it easier. Having a 'questions on the papers' call with the Secretary ahead of meetings can work wonders.

The trustees need to think regularly about what support and time they need. And to review whether the governance structure is right, with clear delegations and reporting. Who needs to do what? What is different from the past way of doing things? Have we got the right committee structure and resources involved in supporting these?

Turning to trustee resources. They are the executive element of the board's operations, both supporting and driving the functioning of the trustee. Are resources in an in-house team? Are they outsourced to a provider, maybe to more than one firm? A mixture? How are they accountable and to what extent are their responsibilities defined? Is this accountability understood, documented and followed through?

The way in which the trustee's resources 'lead' work with advisers and providers is critical. Often, the team takes on an oversight, contract management and governance role whilst the bulk of delivery falls with the actuary, administrator and so on. Arrangements need to be tightly defined and monitored.

A potentially sensitive role issue is the inherent conflict of interest if the pension manager wears both a sponsor and trustee hat. The trustee needs to ensure the right advisers and contingencies are available.

So, the number of people circling a trustee board and inputting into the strategy, day-to-day management and operation of a pension scheme is a complex matrix. You can paint a cast of characters across a DB or DC canvas.

These people all have different roles. They may have different expectations, cultures. Trustees must aim to align these in setting the scheme of delegations and in marrying it successfully with ways of working.

Clarity of roles and responsibilities with a shared understanding of how all involved are expected to work together makes life better.

For the trustee board it underpins delivery of the scheme strategy, excellent engagement and robust decision-making.

For beneficiaries it makes the difference between good, unsatisfactory and poor scheme outcomes.

3. What do others do?

Clear roles and responsibilities

We worked with the chairman and pensions team of this scheme to help a board that was entrenched in outdated views and ways of working to develop into a more strategic-focused and nimble board making decisions more smoothly.

To help align all trustees to new ways of working, a trustee charter and trustee role profiles were developed which focus on the trustee's responsibilities, particularly in respect of decision making. Annual trustee 1-1s have been built into the business plan to review trustee performance against the role profile and discuss development expectations. Training or "best practice" sessions relevant to the upcoming workplan have been brought in, to help the trustees focus on milestones to reach strategic outcomes.

Trustee behaviours and good chairing

This was a sensitive assignment with a trustee board that had experienced a difficult set of circumstances and was not working well together. There was a need to clarify roles, rebuild trust and decide what kind of chair was needed for the future.

One of the powerful ways the trustees did this was through a series of workshops which we facilitated for them. 'Difficult issues' were surfaced and discussed non-judgmentally to enable all trustees to be heard.

Outcomes of this work included skills development and a code of conduct, clearer role profiles and an improved training plan. The soft skills ideally needed in the next chair were recognised and a robust search and shortlisting process was undertaken to achieve that appointment. A revised trustee remuneration policy was also researched and implemented.

Testing the Trustee delegations

Muse has worked with many trustee boards to help them test and update the responsibilities of all people involved in governing, managing and operating their schemes. Recently clients have wanted to check their scheme governance structure and delegations are right for what they need, and any changes to help the trustee board focus on its strategy and bring decisions through more easily.

Clearer responsibilities, terms of reference and service levels typically result, which can also have a valuable effect on the costs of running the scheme and/or the value of what people are doing.

Clients have said their updated framework is their reference check on what's expected. It's an oversight tool to test if delegations are still working effectively and on key risks. It's a practical day-to-day guide for each trustee and the pensions team. And a vital source of induction for trustees and the pensions team.

4. What should you do?

- **Discuss role profiles** – are they up-to-date? Do they capture the trustee role for your board based on work you need to do? Do you behave in ways that help you do the role well? If you are the chair, use them for a board conversation about the role and what's changing, and follow up individually.
- **Check the balance of work** between the trustee board, committees and the executive/ pension team – is the board focusing on priorities or getting into detail on less important issues?
- **Ask yourselves** are all those involved in managing/ running the scheme pulling in the same direction?
- **Check delegations** – do you have a roles and responsibilities framework? Is it clear who does what, who makes decisions, what the reporting requirements to the Trustee Board are, who escalates risk, how and to whom, how performance is measured and monitored?
- **Review SLAs and terms of reference** to ensure they meet the Trustee's requirements and expectations in the context of its broader strategic vision, risk appetite and ways of working. Do the terms of reference accurately reflect committee roles and responsibilities? Are these responsibilities aligned to the board's overall strategy and objectives?
- **Review Trustee effectiveness** giving each trustee, the executive/ pension team, advisers and company representatives the opportunity to reflect on their role and responsibilities, to help the board improve/ sustain its governance structure, strategic focus, balance of skills, ways of working, decision making, delegations, risk management, use of advisers, values and behaviours.
- **Test the Trustee's oversight of its providers** – How do you know that what is been done is right and that opportunities aren't being missed? How clearly do you oversee your administrator? Does the executive/ pension team work to defined service levels and KPIs? How robust is investment governance?
- **Have a conversation with your advisers** about how they think the trustees can improve and how they can improve the way they deliver their advice.
- **Give regular candid feedback** to enable trustees, the executive/ pension team and advisers to pinpoint what is working well and where improvements could be made in clarifying and fulfilling responsibilities.