

Attitudes to increasing the proportion of member-nominated trustees: a qualitative study

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Background and research aims

Most occupational pension schemes in the UK are set up as trusts. Employers set up occupational pension schemes and they are then run and administered by a board of trustees. Trustees are responsible for ensuring that the pension scheme is run properly and that members' and beneficiaries' benefits are secure. Trustees appointed internally from a company are known as member-nominated trustees (MNTs) or employer-nominated trustees (ENTs). As the names suggest, MNTs are appointed by the members of a scheme, whereas ENTs are appointed by the employer(s).

Trust-based pension schemes are required to have at least one-third of the board of trustees as MNTs¹. This requirement was introduced in recognition of the fact that involving pension scheme members in the selection of trustees could help to ensure the successful running of the scheme in the interests of all scheme members. This was subsequently enshrined in the Pensions Act (2004). The Act also included provisions to increase member-nominated representation to 50 per cent, although these provisions have yet to be put into effect.

The Department for Work and Pensions (DWP) commissioned BMRB Social Research to undertake a piece of qualitative research to explore attitudes to increasing MNT representation on pension scheme trustee boards. The research aimed to explore views and experiences of MNTs and ENTs, employers

and trade union representatives around increasing MNT representation to 50 per cent. In particular, the aims of the research were to:

- consider current trustee arrangements and how well these are working;
- examine the practical issues associated with any change to 50 per cent MNT representation, such as trustee recruitment, training and support;
- explore the effect of moving to one-third MNT representation on scheme governance and the potential effect of moving to 50 per cent MNT;
- explore any perceived benefits and barriers to change; and
- explore views about the potential costs of moving to 50 per cent MNT representation.

Methodology

The study comprised 61 face-to-face depth interviews with employers, MNTs, ENTs and trade union representatives from across England, Wales and Scotland. These groups have key roles in the running of occupational pension schemes and interviewing representatives of these groups allowed for a full range of views and experiences to be explored. Respondents were sourced from Dun and Bradstreet's *D&B Database* and AP Information Services' *Pension Firms and their Advisers* database.

The following pension schemes were excluded from the research: pension schemes with 12 or fewer members, as the MNT rules do not apply; public and church sector schemes, as these do not have to comply with the legislation on MNTs in the same manner as required for private sector occupational schemes; contract-based DC schemes, as these schemes do not have

¹ Should a pension scheme be governed by a trustee company, one third of the directors of the company must be Member-Nominated Directors. For the purposes of this study only MNTs were interviewed.

trustee boards; pension schemes that were closed to new or existing members, frozen or in the process of being wound up; and, pension schemes where the sponsoring employer was in administration.

Respondents were selected according to the type of pension scheme adopted by their organisation – Defined Benefit (DB)² or Defined Contribution (DC)³, and the size of the pension scheme membership – 13-199 members; 200-999 members; and 1,000+ members.

The interviews were structured using topic guides for each type of respondent and were conducted between July and October 2009. The interviews were undertaken by fully trained qualitative researchers and took place within the respondent's workplace or at an alternative neutral venue. The interviews lasted around an hour each and were digitally recorded, with the respondents' permission, then transcribed verbatim for subsequent analysis.

Verbatim transcripts, produced from digital recordings, were subject to a rigorous content analysis which involved systematically sifting, summarising and sorting the verbatim material according to key issues and themes within a thematic framework. This framework formed the basis of the evidence outlined in the full report.

Key findings

Current trustee arrangements

The research highlighted that there were three levels of compliance in terms of organisations meeting the one-third MNT requirement: those meeting the requirement; those not meeting the requirement; and, those exceeding the requirement. The majority of organisations interviewed had met the one-third MNT requirement.

² DB pension schemes are a type of pension in which an employer promises a specified monthly benefit in retirement that is predetermined by a formula based on the employee's earnings history, length of service and age, rather than depending on investment returns.

³ In a DC pension scheme, contributions are paid into an individual account for each member. The contributions are invested and the returns are credited to the individual's account.

Reasons for moving to more than one-third (commonly 50 per cent or more) MNT representation included company tradition – i.e. that the pension scheme board had historically operated in this way; the balance of trustees on the board in terms of numbers of ENTs and MNTs; and, some organisations had sought to anticipate any change in the Pensions Act (2004) to require 50 per cent MNTs.

Trustee boards that had met or exceeded the one-third MNT requirement felt that arrangements were working well in terms of scheme governance. The exception to this sentiment was where MNT views and opinions were either ignored by the ENTs, over-ruled by a dominant character on the board, or where the employer had a casting vote on an issue or decision.

Issues facing trustee boards

MNT recruitment

Organisations recruited and selected MNTs as scheme trustees in a variety of ways, ranging from selection by a panel of existing trustees through to a democratic vote by members. In some cases it was felt that recruitment practices were shaped by employer concerns over ensuring the suitability of potential candidates. Some felt that this had led to recruitment procedures which failed to ensure that all eligible members were consulted or considered. The costs associated with the different recruitment methods were not described as being particularly prohibitive for any type or size of scheme.

Difficulties associated with the recruitment of new MNTs were widespread, both in terms of meeting the requirement for one-third MNT representation and any potential mandatory move to 50 per cent. Perceived issues in terms of recruitment included: the MNT role being perceived as 'boring' and technical by candidates; office politics; perceptions of personal liability; placing an employee in opposition to their employer should a dispute arise; the commitment involved in terms of time and effort; and, fears of a negative impact on an MNT's main job role.

The issues associated with recruitment and the attributes a desirable MNT candidate possessed

led some employers to express concern that they would struggle to recruit sufficient MNTs to make up 50 per cent of their board.

MNT retention

Retaining existing MNTs was considered extremely important in the light of the recruitment difficulties highlighted by respondents. This commonly led boards to request that people did not step down, if at all possible. There were several reported reasons for MNTs stepping down from their trustee role, including: MNTs wanting to step down after making a significant contribution; MNTs leaving the employing organisation; reaching the maximum term of office fixed by the scheme; concerns over scheme governance disputes between MNT and employer impacting negatively on future career plans; and, the lack of support or training.

MNT training and support

Training and support provisions were considered to be an essential part of the process of a new MNT becoming effective in their role. The costs of training and supporting MNTs were not seen as a prohibitive aspect of the one-third or 50 per cent requirements mainly due to these provisions already being in place and the relatively low cost of them in comparison to the cost of maintaining the pension scheme itself.

Employers suggested that there were certain desirable skills that a potential MNT would possess. In addition to having a genuine interest in pensions and a basic understanding of scheme governance and investment decisions, other desirable attributes included confidence to speak during board meetings; honesty; integrity; and, an ability to balance their MNT duties with their day to day responsibilities.

The effect of MNT representation

There was an overall sense that MNT representation, either at one-third or 50 per cent would have limited effects on a pension scheme, particularly in terms of a scheme's governance. Respondents suggested that providing MNTs contributed effectively in board meetings, there was little difference in the running of the scheme regardless of the make up of the board's trustees. Respondents did,

however, highlight that having 50 per cent MNT representation on a board would facilitate a 'balance of power' amongst trustees, in that it would enable members' voices to be heard and taken into greater consideration by the board. 'Family run' firms, though, were concerned about the loss of control they would have over pension scheme governance following an increase in the required proportion of MNTs on a scheme board and may consider changing the nature of their scheme or close it down altogether. There was also a sense that a 50 per cent MNT requirement could result in communication between board members becoming more difficult due to the greater number of board members to contact. Moreover, employers were concerned about a loss of expertise on a board, due to MNTs replacing more experienced ENTs as board members in order to be compliant with any change in legislation.

Having one-third or particularly 50 per cent MNT representation was perceived to impact positively on members. Effects on members were mainly suggested as being based around increasing member confidence in the security of their pension scheme and a greater transparency in regards to decision-making and scheme governance between the scheme sponsors and the members.

Having a required proportion of MNTs, either at one-third or 50 per cent, was not felt to have any great impact on costs for any respondents. Where costs were known to occur, these were small and were largely based on administrative costs in areas such as MNT recruitment and training. Marginal costs were also acknowledged in terms of the time MNTs spent away from their day job conducting trustee duties.

Conclusions and implications

A move to 50 per cent MNT representation was broadly welcomed by respondents representing the interests of employees and members – MNTs and trade union representatives. There was less support for such a move from ENTs and employers themselves. Where employers and ENTs held reservations about a proposed move to 50 per cent MNT representation, this was mainly due to a feeling that further change

was unnecessary and that scheme governance could be undermined if experienced ENTs were replaced by inexperienced MNTs. Underlying these objections was a clear concern about a shift in the balance of power on the trustee board. Additionally, 'family-run' firms were also concerned about the loss of control they would have over pension scheme governance following an increase in the required proportion of MNTs on a scheme board.

The issue of MNT recruitment was mentioned throughout the research as being a challenging task and was raised by all respondents. Although recruitment had been difficult for most trustee boards, and proved impossible for some, overall trustee boards has succeeded in meeting the one-third requirement. It was felt that if a 50 per cent MNT requirement was to be introduced, although this would be burdensome and somewhat of a struggle, they would probably be able to meet that requirement too. The reasons behind this were that on the whole, respondents were keen to be compliant with any trustee requirements and accepted that they would try to install 50 per cent MNTs to be compliant with legislation. Employers from manufacturing or 'blue-collar' industries were the most concerned about finding suitable candidates to become MNTs in this study due to a sense that members from these industries would have little knowledge of, or interest in the governance of the pension scheme.

Trustee boards that had already met, or exceeded, 50 per cent MNT representation were generally pleased with how the trustee board operated and felt that scheme governance was enhanced; although this did depend on whether the Chair had a casting vote. In the latter case there was a strongly held view that the views of MNTs could – and were – simply over-ruled; this was felt to completely undermine the principle of 50 per cent MNT representation.

The implications of these findings are five fold:

- some employers may find it extremely difficult to recruit additional MNTs, especially those in manufacturing industries;
- employers, such as those operating 'family-run' businesses that expressed resistance to MNT representation on trustee boards, may respond by changing the nature of their pension scheme, or closing it down altogether;
- respondents expressed concerns that it would be possible that 50 per cent MNT representation would only work effectively if the board made decisions by consensus, and not by a vote where the chair often had the casting vote;
- 50 per cent MNT representation was felt by those who had experienced this level of representation to work effectively only where the trustees selected were genuinely reflecting the interests of the membership as a whole and not specifically aiming to reflect either the member's or the employer's interests. Furthermore, it was felt that 50 per cent representation was valuable to the scheme, providing all trustees contributed in meetings;
- pension scheme boards may wish to carefully consider the suitability and skills of additional MNTs before appointing candidates to the role. This would be necessary to ensure that MNTs fully understand the role and operate in the interests of the scheme as a whole, rather than any particular group of members.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 789 1. Research Report 670. July 2010).

You can download the full report free from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

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