Department for Work & Pensions

Call for Evidence Response

# Government response to ‘Pension trustee skills, capability and culture: a call for evidence’

22 November 2023

# Contents



## Ministerial Foreword

1. At Mansion House, the Chancellor reiterated the government's commitment to making the UK the most innovative and competitive financial centre in the world. We know that the pension landscape is evolving and becoming more complex. Maximising long term value for pension savers to improve their future retirement outcomes is at the core of the government's thinking. Investing in high growth businesses as part of a sensibly balanced portfolio can increase potential returns and diversify risk across different asset classes, while helping to ensure tomorrow's businesses get the investment they need.

2. Ensuring that all actors in the pension system are making balanced, thought-through, and well-advised decisions is essential to ensure good outcomes for savers. We know that the pensions landscape is evolving and becoming more complex. Pension trustees and those who advise them need to be properly equipped, supported, and regulated to meet the demands of this role.

3. We jointly published this Call for Evidence to broaden the evidence base on whether pension trustees work effectively and are supported to make decisions in the best interests of pension savers. We are grateful to all those within the industry who provided thoughtful and detailed responses to the Call for Evidence.

4. We are pleased to see responses to this Call for Evidence confirm that the majority of trustees are well-supported, knowledgeable, and hard-working.

5. However, it is clear there is space for action to ensure that all trustees are able to work effectively. Every saver deserves to know their pension is being well looked after, no matter how small the scheme. This is why DWP will support The Pensions Regulator (TPR) to develop and take forward a register of

trustees, which will enable targeting of those trustees and schemes who require additional support to fulfil their obligations. We also strongly encourage all professional trustees to seek accreditation and will consider whether legislation should be taken forward to mandate this in future, if required.

6. In addition, we believe there is space for additional support to ensure that trustees have a good understanding of all potential types of assets, enabling them to consider the fullest range of investment opportunities so as to deliver good outcomes for savers. TPR is already producing additional guidance on this area, and we also encourage all those who provide training to trustees to consider ensuring their coverage of alternative asset classes is sufficient.

7. We know there has been extensive focus on cost across the pensions industry. The Value for Money framework will shift that dial to best value, not simply low cost. However, it is not just trustees, schemes and advisors who must consider value. The role that employers play in selecting a pension scheme is a decisive one when it comes to the investment options trustees are then able to pursue. To complement the Value for Money framework, we will work with TPR to produce additional information for employers to help them select a scheme based on value, not just cost.

8. We hope this suite of measures will together continue to ensure that trustees and those who advise them continue to work to produce the best possible outcomes for pension savers.

**Paul Maynard MP**
**Minister for Pensions**

**Bim Afolami MP**
**Economic Secretary to the Treasury**

# Introduction

9. This document is the government response to the ‘Pension trustee skills, capability and culture’ call for evidence that was launched jointly by HMT and the Department for Work and Pensions (DWP) on 11 July 2023. It ran for 8 weeks, closing on 5 September 2023. The call for evidence sought to deepen our understanding around trustee capability and barriers to trustees doing their job in a way which is effective and results in the best outcomes for savers.

10. It focused on three areas:

- **Chapter 1: Trustee skills and capability,** seeking views on the current landscape of trustee skills and capability as well as gathering evidence to inform potential policy options around trustee registration, accreditation requirements, and professionalism.
- **Chapter 2: The role of advice**, seeking views on whether those who advise trustees are appropriately regulated, and suitably equipped to help trustees make informed decisions.
- **Chapter 3: Barriers to trustee effectiveness**, gathering evidence on whether the current framework in which trustees work, including the understanding of fiduciary duty, is a barrier to making investment decisions in the best long-term interest of savers.

11. We were particularly interested in whether trustees have the right knowledge and skills to consider investment in the full breadth of investment opportunities.

12. We received 81 responses to the call for evidence. These were made up of a range of stakeholders, including trustees (11), employers (5), legal advisors (10), consultants (17), trade associations (14), trade unions (3), pension scheme providers (7), and other interested parties (14).

13. DWP and HMT have undertaken a detailed analysis of responses, this document highlights the main feedback raised and it is not an exhaustive commentary on every response received. Please note that not all respondents made submissions to every question.

# Chapter 1: Trustee Skills and Capability Summary

14. In the call for evidence, we summarised the current expectations for trustees set out in the Pensions Act 2004 (sections 247-249), requiring trustees to have knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding of occupational pension schemes and the investment of scheme assets. Trustees are also required to be conversant with their own scheme's governing documentation.

15. Informed by evidence that suggests that some trustees may not be aware of these requirements, we asked how well these requirements are being fulfilled, and what could be done to improve the current state of trustee capability.

> **Question 1:** Do trustees know what the knowledge and understanding standards expected of them are?

16. Whilst it was clear that knowledge and expertise varies between trustees, the majority of respondents agreed that trustees are aware of the knowledge and understanding requirements expected of them, as set out in The Pensions Regulator (TPR's) relevant Code of Practice.

17. Several responses suggested that awareness of knowledge and understanding requirements is generally higher among professional trustees. A small number of responses suggested that there are a significant number of trustees acting on behalf of small and micro DC schemes who have limited understanding of what is expected of them.

**Current levels of knowledge and understanding**

> **Question 2:** Do trustees currently meet the knowledge and understanding requirements expected of them? Are some types of trustee better than others?

18. There was consensus that collectively, most trustees meet the requirements expected of them. However, experience and capability can vary significantly between schemes and many respondents suggested that compliance tends to be higher in larger schemes such as Master Trusts, compared to smaller schemes.

19. When considering whether some types of trustee are better than others, respondents did not report that professional trustees are better than lay trustees, but it was acknowledged that knowledge and training can be less consistent amongst lay trustees. Small schemes governed only by lay

trustees may be less likely to meet the requirements expected of them and may require more support to fulfil their obligations.

20. Many responses suggested that the overall effectiveness of scheme governance is not dependent on individual knowledge, but rather on having a diverse board with a range of skills, experience, and expertise.

**Improving trustee capability**

21. In the call for evidence, we were interested in views on any barriers to improving trustee capability, as well as, if needed, suggestions for government intervention to ensure that trustees are meeting the standards.

> **Question 3:** What are the barriers to improving trustee capability? What do you think government should do to ensure that all trustees meet the standards expected of them? Does trustee liability put off potential trustees?

22. Most responses suggested the main barrier to improving trustee capability was capacity. There is a significant time commitment for trustees to review information and prepare for meetings and have the necessary access to advisors. It was also suggested by some respondents that trustees within smaller schemes with limited budgets face cost barriers to maintaining capability and being able to undertake relevant training.

23. Several responses did not agree that trustee capability needed to be improved, and therefore did not suggest there were barriers to doing so.

24. The majority of respondents did not believe that trustee liability disincentivised potential trustees. The small number of respondents did think that trustee liability could act as a disincentive to becoming a trustee, said this was usually due to a lack of understanding of the availability of liability insurance, which in many cases is provided by the trustee firm or the scheme sponsor. It was noted that liability insurance is becoming more expensive. To mitigate and reduce costs it was proposed that TPR could work with the insurance industry to develop a better understanding of the risk level for trustees.

> **Question 4:** Do trustees (including Master Trust trustees) have the right knowledge and understanding to invest in the full breadth of investment opportunities? If not, what can be done to improve this?

25. The majority of respondents thought that trustees' current knowledge and understanding was sufficient to invest in the full breadth of investment opportunities, including alternative assets.

26. Respondents did raise a number of factors other than trustee understanding, which may prevent consideration of some investment options. This included charging and fee structures, the funding position of the scheme and investment platform availability and compatibility.

27. The proposed Value for Money framework is designed to deliver the best possible value and long-term retirement outcomes for pension savers, and help schemes adopt a holistic assessment of value for money. In the meantime, the existing Value for Members Assessment will continue to be a key tool for trustees.

28. In DB schemes, where many trustees are employing de-risking strategies to prepare for or maximise opportunities for insurance buy out, responses suggested that in many cases, trustees do not need to know about the full breadth of investment opportunities, because some options are not attractive or appropriate for a scheme approaching buy out. Investment in alternative and illiquid assets can make a scheme more unattractive to the insurer and can result in the sponsor or employer facing higher costs.

**Question 5:** Is there enough understanding of advice around the consolidation of schemes?

29. Respondents stated that broadly there is a good understanding across DC schemes, as evidenced by smaller schemes moving into Master Trusts. Respondents welcomed the government and TPR's proposed approach on the Value for Money (VFM), framework and it was thought this will be a key factor for DC trustees considering whether consolidation would provide a better outcome for members in the future.

30. Some schemes are reliant upon external advisors to provide advice on whether consolidation would improve outcomes for their members. But the cost of advice can be prohibitive.

31. A potential barrier identified is that scheme consolidation could be seen as an admission of failure from the scheme sponsor and trustees drawing criticism from members.

32. It is the government's view that trustees must consider whether consolidation will improve outcomes for members.

33. The proposed VFM framework will require DC schemes to provide standard metrics and follow a consistent VFM assessment approach that will help improve performance and saver outcomes. Underperforming schemes will be required to take immediate action to improve the value they provide to savers or consolidate where this is in savers best interests if they are not providing value for money. The VFM framework has been designed to support and accelerate the consolidation of underperforming schemes in the UK pension sector, where schemes cannot improve their VFM, wind up and consolidation is expected. The VFM framework proposes to give regulators the necessary

powers to intervene, removing persistently poor performing schemes from the DC pensions market.

**Registration**

34. In other sectors, such as the charity sector, those who act as trustees must be registered with the appropriate regulator. However, TPR does not currently hold a register of all trustees.

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| **Question 6:** Do you think that the government should require all trustees to provide information to enable TPR to keep a register of all trustees? |

35. The majority of respondents strongly supported the view of government requiring all trustees to provide information to enable TPR to hold a register. There was some surprise from respondents that a register did not already exist in the way that it does for Master Trusts under the supervisory authorisation regime.  Respondents believed this would improve oversight, accountability and allow for more focused and targeted communications to trustees, especially for less engaged schemes. In addition, a register could be used to track and monitor compliance of TPR’s knowledge and understanding requirements. Collection of this information would provide TPR with further opportunities to assess and respond to trustee capability in the future.

36. Respondents queried whether or not the intention for the register was to be made public and if this was the case concerns were raised that this could discourage and inhibit individuals from becoming a trustee and could cause an issue with future retention and recruitment.

37. Respondents highlighted that a register would be particularly useful to engage orphaned schemes where little or no trustee data is currently held.

38. A minority of responses suggested that they were unsure about the benefit of TPR holding a register without clarity around the purpose of such an exercise and suggested that a consultation around the implementation of a register would be welcomed. It was highlighted that data minimisation obligations under General Data Protection Regulations (GDPR) will need to be considered and whether implementation should be a phased approach.

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| **Question 7:** If the government were to require this information, would it be best achieved through the scheme return or through a separate trustee return? |

39. Respondents clearly advocated for registration to be undertaken by the annual scheme return and did not want to increase administration costs or burdens through a separate data collection process. Some respondents pointed to the FCA register as an example of good practice.

**Accreditation and Training**

40. There are many different types of training that pension trustees can undertake, and TPR provides free resources to help trustees identify gaps in their knowledge. Trustees can also complete additional industry qualifications and undergo accreditation. While currently voluntary, TPR makes it clear that they expect professional trustees to be accredited.

**Question 8:** Do current accreditation frameworks provide a high enough bar to equip trustees who become accredited to properly fulfil their role, including in making investment decisions?

41. Views were somewhat polarised, depending on the size and complexity of the scheme. Some respondents commented that current accreditation frameworks do not provide a high enough bar and should be strengthened.

42. Other responses suggested that current frameworks are fit for purpose and raising their difficulty would make them unachievable for the majority of trustees.

43. It was acknowledged that accreditation within itself did not solely determine trustee capability, as other factors such as qualifications and previous employment experience (lawyer, consultant, actuary) can provide trustees with the necessary knowledge and experience. Some respondents stated that the role of investment consultants was more significant in terms of making investment decisions, as the trustee role is to make decisions based on advice, not to be an expert.

**Question 9:** What proportion of your trustee board are accredited trustees?

44. This varied significantly between schemes. Boards that included an accredited trustee tended to be those that had appointed a professional trustee. This is not surprising, given the low take-up of accreditation amongst lay trustees.

**Question 10:** If we required each scheme to have a certain proportion of accredited trustees, where should this bar be set? Should Master Trusts be required to have a greater proportion of accredited trustees than single-employer schemes?

45. The majority of respondents were strongly opposed to mandating a certain proportion of accredited trustees to be appointed to trustee boards. Whilst many trustees will take up the offer of accreditation, an accredited trustee does not necessarily mean that they hold the skills and expertise required for every trustee board.

46. Many respondents expressed some concern that setting a requirement for each scheme to have one or more accredited trustees could be of significant detriment to lay and member-nominated trustees, leading to less diverse trustee boards. The trustee market in both DB and DC currently has a limited number of accredited trustees and mandating could create unintended problems with retention and recruitment.

47.Where respondents did agree a certain proportion, the average suggested was for a minimum of one accredited trustee on every board. Further suggestions made by respondents included: that 100% of professional trustees should be accredited within 12 months, as a minimum the Chair of the trustee board should be accredited, a third of board members should be accredited and schemes with assets over £100m should have as a minimum an accredited trustee on the board. Overall, the consensus was that the number of accredited trustees that sit on the board should be dependent upon the size of the scheme and a sufficient lead in time should be agreed to ensure qualifications can be obtained.

**Professional Trustees**

48.In the call for evidence, we presented the challenges surrounding a requirement for a professional trustee to sit on each trustee board, including supply and cost concerns. We believe that in a more consolidated market, having a professional trustee on each board would be an effective means of ensuring high standards of governance. Our long-term vision is to have a smaller number of schemes, each with a professional trustee. As an initial step toward this vision, we asked whether any additional or more rigorous requirements should be put in place for professional trustees.

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| **Question 11:** Should there be more rigorous requirements for those acting in the capacity of a professional trustee? What sort of requirements/standards should professional trustees be meeting? Should there be mandatory accreditation? |

49.The majority of respondents welcomed an improvement in standards for professional trustees and favoured mandatory accreditation for professional trustees. Most thought that this should be a phased approach to ensure trustees have sufficient time to obtain the knowledge and skills required.

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| **Question 12:** How would you define a professional trustee for the purposes of legislating for all professional trustees to be accredited? |

50.There was broad consensus from respondents that TPR's definition of a professional trustee was fit for purpose.

# Chapter 2: The Role of Advice Summary

51.In Chapter 2, we aimed to understand how trustees use advisors to identify and calculate risk when their investment strategies are formulated and enacted. In particular, we sought insight into whether and how the advice and support provided to trustees impacts deciding whether to invest in unlisted equities. We welcomed evidence from all pension market professionals, including trustees or former trustees.

**Question 13:** What are your observations on the external support trustees are given to make investment decisions, particularly in relation to unlisted equities?

52. For trustees to enact their investment governance effectively and in accordance with their trustee and fiduciary duties, they are required to be supported by ancillary professions such as the scheme actuary and scheme auditor. Trustees also call upon the advice of fund managers, investment consultants and legal advisors. We sought to further understand whether this external support is effective, particularly in relation to investing in unlisted equities.

53. Some respondents did report barriers to investment consultants supporting investment in unlisted equities. Some respondents suggested that investment consultants can provide this support, but few do. This is because the provision of advice in the DC market is often subject to a limited or fixed budget that does not allow for supporting difficult investment decisions.

*"There are currently very few products in existence (although more LTAFs are coming to market) that offer a viable route to invest into unlisted equities so the development of advice and services in this space is behind the DB market."* **Willis Tower Watson**

**Question 14:** What changes could be made, including to the regulatory environment, to improve trustee support in relation to unlisted equities?

54. In addition to the support trustees receive, the call for evidence aimed to understand some of the wider regulatory factors that impact trustees' investment decision-making. Beyond support services from advisors, trustees will pay attention to a variety of other regulatory factors that influence investment decisions.

55. Some respondents stated that no changes should be made to the regulatory environment. They reported that there are a few regulatory hurdles, and instead the problem comes from wider, non-regulatory barriers to investing in unlisted equities such as cost effectiveness and trustee risk/return objectives. Increased training and guidance were cited as a key change which could be made to further support trustees to invest in unlisted equities.

56. In addition to guidance for trustees, some respondents also suggested guidance for investment consultants on the range of asset classes they should explore with trustees could be helpful.

**Question 15:** To trustees. To what extent do trustees use investment consultants to support decisions around allocations to unlisted equities? Did they subsequently increase? Is there a deficiency of knowledge or expertise by investment consultants of these types of investments?

57. Investment consultants provide advice in relation to strategic asset allocation, the selection of investment managers, and fiduciary management. Their advice helps trustees to formulate their statement of investment principles. They also provide appropriate guidance to asset managers in the allocation of pension scheme assets. Advice factors in the pension scheme's risk appetite and the requirements of its members. They may also assist in the interpretation of guidance and legislation.

58. This question sought views on whether trustees use investment consultants to support decisions around allocations to unlisted equities, the effects of these decisions and the knowledge investment consultants have in relation to these types of investments.

59. A significant number of respondents stated that trustees do significantly rely on investment consultants when making decisions surrounding investing, including in unlisted equities. Multiple respondents reported trustees are 'completely reliant' on the advice of investment consultants.

60. However, a smaller number of respondents also reported that while trustees do consult investment consultants in investment decision making trustees will consider this within the context of the products available, the risks involved and how this fits with their overall strategy.

61. Some respondents said there is extensive knowledge and expertise amongst investment consultants, with a significant amount of respondents citing other barriers such as a perceived increased risk to be the reason for a lack of investment in unlisted equities.

*"The investment consultancy industry is well resourced with considerable expertise in a wide range of asset classes, including unlisted equity. In our experience, it is not a lack of support or knowledge that has driven low allocations to unlisted equities historically."* **HSBC Bank Pension Trust (UK) Limited**

62. Other respondents reported that knowledge amongst investment consultants is more variable. Whilst some investment consultants are well-equipped to

provide advice on a wide range of assets, others lack knowledge, particularly in relation to unlisted equities.

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| **Question 16:** What changes could be made to investment management to support pension scheme investment decision-making? |

63. The government is keen to understand the role of investment management in decision making for trustees, particularly regarding investing in unlisted equities. This question aimed to understand what changes, if any, could be made to investment management in order to support pension scheme decision making.

64. Most respondents suggested no change was needed in this area as investment managers are currently able to provide the necessary support for trustees where required.

65. However, a small number of respondents suggested better monitoring of both past and expected performance would be beneficial, and an increased amount of engagement directly between investment managers and trustees could be helpful for providing additional points of view. Respondents also suggested that changes in the management styles used within investment management and decision making was needed, specifically citing that within DC schemes, an increased use of delegated management or combined delegated model should be considered.

*"A more collaborative relationship with investment managers might bring in more independent viewpoints. This is difficult for trustees to achieve as investment consultants are often the gatekeepers to investment managers and can discourage direct dialogue between managers and trustees."* **The Society of Pension Professionals**

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| **Question 17:** To trustees. How does legal advice impact on your investment decisions? What is an acceptable level of tolerance for investment risk? Is there a culture of risk aversion? |

66. The call for evidence provided the opportunity to test how trustees use legal advice to make decisions, and whether the current approach to risk across the pensions market is optimal. A distinction was made by the respondents on the quality of trustees based on overall scheme size and their tolerance for risk aversion based on the type of scheme. Larger schemes including master trusts are more likely to have a full set of skills, including tolerance for riskier investments as part of a broad and balanced portfolio. This is largely due to

the ability to afford good investment and legal advice and also access to a range of expertise.

67. Respondents felt legal advisers had very little or no impact on the investment decisions trustees make. A minority of respondents however, felt that trustees rely too much upon legal advice when making investment decisions.

68. Regarding an acceptable level of tolerance for investment risk, a significant amount of respondents said that what was acceptable was based upon specific circumstances. Respondents cited factors such as:

- The scheme's objectives, and the ultimate end-game target for the scheme such as DB insurance buy out.
- Maturity of the scheme and the strength of the employer covenant backing the scheme (DB); and
- Member age and members' individual risk profile (DC) – noting that this changes over time.

69. Finally, regarding a culture of risk aversion, views were polarised, and depended on whether respondents were focused on DB or DC investment. Similar numbers of respondents suggested that trustees were risk averse to those who suggested that they are not.

# Chapter 3: Barriers to Trustee Effectiveness Summary

**Fiduciary duties and long-term factors**

70. We were interested in understanding what other potential barriers trustees faced and whether these were different amongst DB and DC schemes. In particular, we sought views on the understanding and application of trustee obligations under fiduciary duties and whether this created or encouraged a culture of risk aversion.

**Question 18:** Is fiduciary duty a well-understood concept? Do current regulations and guidance support trustees to make investment decisions which seek higher returns for members? If not, what changes would be useful?

71. The majority of respondents agreed that fiduciary duties are a well-established and well-understood concept by both professional and lay trustees, and that

any policy intervention from government to change fiduciary duty would be undesirable.

72. It appears that understanding does vary between trustees and there can be some inconsistency in interpretation. In particular, respondents suggested there is a lack of clarity around how fiduciary duty interacts with sustainability and climate change considerations.

73. Respondents commented that the current regulations and guidance are generally fit for purpose, and that trustees are not prevented from making investment decisions which seek higher returns for members. However, trustees must balance both risk and return when making investment decisions.

74. Many respondents also cautioned that that it would not be appropriate for all schemes to be considering alternative and illiquid asset classes. Many respondents found that current regulation for DB schemes has resulted in trustee investment strategy which is focused on de-risking into bonds/gilts with a longer-term goal of insurance buy out.

75. In relation to any potential changes to guidance and regulation, some respondents suggested that they would welcome further guidance in relation to alternative assets. Some also suggested that additional information on how the risk and return characteristics of an investment should be assessed when making a decision would be helpful.

76. Some respondents also called for greater clarity and further guidance from TPR on how trustees should take account of long term Environmental, Social and Governance (ESG) factors when developing investment strategies for their scheme.

**Investing in the long-term interest of savers**

77. To ensure that savers get the best possible outcomes, it’s important that trustees in DC schemes move away from a short-term focus on cost to one that focuses on delivering long-term, holistic value for savers.

78. We were interested in hearing about any barriers that could prevent trustees from fulfilling their roles effectively, particularly in the context of making investment decisions.

> **Question 19:** Do trustees currently make investment decisions in the long-term interests of pension savers? If not, what barriers are there to trustees making investment decisions in the long-term interests of savers?

79. The majority of respondents stated that trustees do make investment decisions in the long-term investment interests of pension savers. Although there was broad consensus, some respondents commented that TPR could go further and establish explicit regulatory guidance for trustees to focus on

long-term decision making. Due to the competitive nature of the DC market, evidence suggests that some trustees are more comfortable with and are influenced by short term performance metrics and minimising costs and charges. In DC schemes, trustees will need to take account of the age profile of their membership and liquidity requirements at that point in time when making investment decisions. Risks over various investment time horizons therefore require different management approaches.

80. Some respondents indicated that the default fund charge cap could act as a barrier when looking to invest in alternative assets but acknowledged that the cap had been successful in protecting members from high charges and therefore maximising returns. Government will continue to find ways to enable pension schemes to consider a broader range of assets. Illiquid investments, venture capital start-up companies and infrastructure projects as part of a blended portfolio have the potential to achieve positive long-term returns, reduce the impact of market volatility and support economic growth. New legislation that came into force in April 2023 will give schemes the option to remove performance-based fees, which come with certain illiquid assets, from their charge cap calculations if they see this being in the members' interest. Some respondents advised that the market does not have sufficient suitable products and the technology platforms for trustees to consider, especially in smaller schemes.

**Question 20:** How do trustees balance investment returns, costs and charges, and services when making decisions in the long-term interests of savers?

81. Trustees obtain advice from investment consultants, legal advisors, and actuaries to inform their decision making. There is a particular emphasis on costs and charges in DC schemes. During stakeholder engagement sessions held during the call for evidence respondents highlighted that a focus on cost is to the detriment of long-term member outcomes. The proposed VFM framework was welcomed by respondents. Investment platforms available to schemes may prohibit the range of investments that can be considered. Some respondents have commented that the market needs to develop to create competitive products that schemes can invest in. Higher investment risk strategies involve higher fees and trustees therefore expect higher returns for the level of risk when compared to more passive investment strategies.

**Question 21:** Do trustees' fiduciary duties discourage investment in alternative asset classes? If so, please explain with examples.

**Question 22:** Is the way in which trustees exercise their fiduciary duties preventing trustees from seeking the best returns for pension savers? If so, what is causing this?

82. The vast majority of respondents stated that they did not agree that trustees' fiduciary duties discourage investment in alternative assets, or that trustees are preventing from seeking the best returns for savers.

83. Some responses added that whilst fiduciary duties don't outright prevent investment in alternative assets, they rightly do prevent investments that are inappropriate for the scheme after considering a range of factors including liquidity requirements, projected returns, and associated risks.

**Question 23:** Do those actors who have most influence on advice to trustees on long-term investment decisions experience any challenges or barriers in provision of their advice on illiquid assets? If so, what would unblock this?

84. The majority of respondents stated that they were content with the investment advice received. Investment consultants, legal advisors and actuaries play an important role in advising trustees to ensure effective decisions are made on a wide range of investments. The trustee needs to be able to understand the balance or risk, return and charges when considering advice given. Not all types of investment are appropriate for all schemes and investment decisions are made on their own merit based on these factors. Member requirements may also mean that some investments are not appropriate at that time but may be in the future.

**Question 24:** Would trustees find it helpful if they received more direction from regulators when assessing their investment decision making? In addition to our work on Value for Money we are also interested in whether the advice for trustees provided by regulators via training and guidance supports our objective to shift the focus from cost to value?

85. The majority of respondents believed that the current TPR guidance on investments does support trustees to set and manage investment strategies for their scheme. Trustees are aware of the importance of value for members in addition to other factors such as cost.

86. Trustees would welcome further principles-based guidance and support from TPR on the topics of long-term investing and alternative assets. This will help trustees to be informed to challenge and interrogate advice received from their investment consultants and legal advisors and hold them to account.

### Time off and employer support for trustee duties and training

87. We are aware of the voluntary nature of the role of many trustees, and that it can be a difficult to balance in addition to other responsibilities, such as employment. We presented research that shows the difficulties trustees are faced with due to the amount of information to review and prepare for meetings[1].

[1] Pension Trustee Decision Making Research Report_0.pdf (actuaries.org.uk)

**Question 25:** Do lay trustees have enough time and support to perform their duties effectively? Do professional trustees? If not, what changes would support this?

88. This varied by the size of the scheme, with the trustees of larger schemes spending more time on their duties. Whilst this varies considerably between schemes 27 respondents, the majority of which were lay trustees, stated that they did not have sufficient time or the desired time to undertake the duties required of them. Factors included commitment from the employer, the frequency of board meetings, changes in legislation and regulations and time dedicated to training and continuous improvement. Some respondents suggested that the government should legislate to require employers to grant lay trustees reasonable time off from work to undertake training and fulfil their pension scheme duties in addition to board meeting attendance. It was also suggested that TPR should set minimum standards of understanding on ESG factors and climate risk. It is accepted that consolidation of smaller schemes will improve and increase general experience of trustee boards. Respondents agreed that professional trustees are more likely to have dedicated time to carry out their duties effectively as this is their primary role for which they are obligated. Employers should be required to pay for training and accreditation for lay trustees.

89. Trustee board time is finite, and support from the employer can vary significantly between schemes resulting in capacity acting as a barrier. Respondents said time commitment requirements should be clearly articulated by the employer when advertising and making trustee appointments. Lay trustees are typically focused on meeting attendance rather than developing ongoing skills and knowledge. A strong chair can help trustees prepare for meetings and provide focus on the necessary governance requirements at the right time and challenge the employer on behalf of members where appropriate.

90. The role and impact of the sponsor is more prevalent in DB schemes. To ensure trustee effectiveness, sufficient time must be given to trustees to fulfil their obligations.

# Conclusion and Next Steps

91. We thank all those who have participated and provided views to the call for evidence. It is very positive that responses to this Call for Evidence suggest that the majority of trustees are well-supported, knowledgeable, and hard-working. However, it is clear there is space for action to ensure that all trustees are able to work effectively, and that others who make key decisions

for pension savers do so based on the best possible long-term outcomes for savers.

92. Based on what we have learned from respondents, we believe trustees and others would benefit from more support, guidance and training.

93. However, it has also become clear in the responses to this call for evidence that one of the key barriers to achieving better long-term outcomes for pension savers is a damaging and continual focus on cost and minimising all risks throughout the pensions industry.

94. In addition to ensuring trustees have the right support in place to consider investment decisions effectively, we must ensure that there is a mindset shift for trustees, advisors, and employers that achieving the best outcomes for pension savers should be at the forefront of their decision-making including a holistic consideration of value. The Value for Money framework, once implemented, will help to shift this focus, but trustees, advisors, and employers should be taking action now to ensure that they are not focusing on cost at the expense of value.

95. There are a number of areas where we will take forward immediate actions to address the issues raised by respondents in the call for evidence.

96. These include the following areas:

- Supporting TPR to put in place a trustee register;
- Accreditation of professional trustees;
- Updates to TPR’s investment guidance and trustee understanding of alternative investments; and
- Engaging with employers selecting a pension scheme

**Supporting TPR to put into place a trustee register**

97. As outlined above, there was widespread support for a trustee register. DWP will support TPR to take this option forward. This will help enable TPR to regulate trustees more effectively and improve the communication of information and guidance to trustees, including relating to the proposed VFM framework once it is introduced. This will also assist TPR to target their focus towards harder-to-reach schemes.

98. The register will enable TPR to collect information to assess whether knowledge and understanding requirements are being met and can be used to target those trustees and schemes that require additional support to fulfil their obligations.

99. DWP will continue to work with TPR to develop and take forward this proposal and determine next steps.

**Accreditation of professional trustees**

100. The two main providers of professional trustee accreditation are the Pensions Management Institute (PMI) and the Association of Professional Pension Trustees (APPT). We understand that most professional trustees are already accredited through one of these frameworks. DWP strongly encourages all those acting as a professional trustee to gain accreditation. We will continue to review whether legislative changes to mandate accreditation may be needed in future. [TPR's new General Code, once laid, will set accreditation for professional trustees as an expectation.]

**Updates to TPR investment guidance and trustee understanding of alternative investments.**

101. The TPR toolkit is currently being reviewed by TPR to align with their codes of practice and guidance. We welcome the update to this toolkit and encourage all trustees to complete it on an annual basis to ensure their baseline understanding remains up to date.

102. As set out above, most respondents did not believe that trustees lacked understanding of alternative assets. However, some responses did suggest that insufficient learning material is available for trustees. Some responses also suggested that additional guidance from TPR in relation to investment decisions and alternative assets would be welcomed. TPR is currently taking forward this work, and additional guidance is expected to be published by the end of the year.

103. We strongly encourage those who provide trustee training, resources, and accreditation to consider expanding their provision of material to ensure it thoroughly covers the full range of assets which trustees are able to invest in. We believe that ensuring all trustees have a minimum level of understanding of all asset types will enable them to make the most appropriate investment decisions for their scheme's specific circumstances, whilst acknowledging that, at a board level, not every trustee needs to be an expert in all matters.

**Engaging with employers selecting a pension scheme**

104. To fulfil their duties under automatic enrolment, employers have the freedom to select a pension scheme that provides a suitable service for their needs. The current known emphasis on low costs and fees will result in long term sub-optimal outcomes for pension savers. It is the government's intent to challenge this and create a better functioning pension market. We believe that employers should consider cost, value and service in balance when making a decision. The proposed VFM framework is aimed at the professional

audience, including employers, and it will require DC schemes to provide standard metrics and follow a consistent VFM assessment approach, improving standardisation and transparency in industry and consequently saver outcomes.

105. Alongside the proposed VFM framework we believe it would be helpful to provide some further information for employers on what factors should be assessed when they are selecting a pension scheme. This will focus on the key message that when selecting a pension scheme, employers should be considering the best value and long-term outcomes for those they enrol in a scheme, rather than focusing on the single metric of costs and charges. We will work with TPR to take this forward.

106. The government remains committed to ensuring all aspects of the pensions industry play their part to support best outcomes for savers. The government will keep this under review and engage with industry where necessary to consider any further steps required, including how to shift employer incentives away from low fees towards long-term pension investment performance and better outcomes from their employees.

# Annex 1: List of respondents to the Pension Trustee Skills, capability and culture Call for Evidence

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| ABInBev UK Pension Plan |
| Adnams PLC |
| Age Wage |
| Allen & Overy LLP |
| Aon |
| Association of British Insurers (ABI) |
| Association of Consulting Actuaries (ACA) |
| Association of Investment Companies (AIC) |
| Association of Member Nominated Trustees (AMNT) |
| Association of Pension Lawyers (APL) |
| Association of Pension Professional Trustees (APPT) |
| Aviva |
| Barnett Waddingham LLP |
| Better Business Act (BBA) |
| Bob Compton – ARC Benefits Ltd |
| Border to Coast Pensions Partnership |
| British Airways Pensions |
| British Private Equity & Venture Capital Association (BVCA) |
| Broadstone |
| Buck |
| Byron McKeeby |
| Cardano |

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| CFA Society of the United Kingdom |
| CMS Cameron McKenna Nabarro Olswang LLP |
| Confederation of British Industry (CBI) |
| C-Suite Pension Strategies |
| Daniel Godfrey |
| David Watts |
| Derek Benstead |
| Derek Scott |
| Employer Covenant Practitioners Association (EPCA) |
| Ernst & Young LLP |
| Eversheds Sutherland (International) LLP |
| Finance Innovation Lab |
| Financial Services Consumer Panel (FSCP) |
| Gowling WLG (UK) LLP |
| Hargreaves Lansdown |
| HSBC Bank Pension Trust (UK) Limited |
| Hymans Robertson LLP |
| Impact Investing Institute and Share Action |
| Independent Governance Group (IGG) |
| Insight Investment |
| Isio Ltd |
| Jonathan Pickering |
| Lane Clark and Peacock LLP |
| Law Debenture Pension Trust Corporation PLC |
| Legal and General (L&G) |
| |
| Make My Money Matter |

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| Mercer |
| Muse Advisory Limited |
| National Employment Savings Trust (NEST) |
| Paul Hinton |
| Pensions Lifetime Savings Association (PLSA) |
| Pensions Management Institute (PMI) |
| People’s Partnership |
| Phoenix Group |
| Principles for Responsible Investment (PRI) |
| Railpen |
| Sackers and Partners LLP |
| Smart Pension |
| SME Alliance Ltd |
| Squire Patton Boggs (UK) LLP |
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| Superannuation Arrangements of the University of London (SAUL) |
| The Institute of Chartered Accountants in England and Wales (ICAEW) |
| The Investment Association (IA) |
| The Scale Up Institute (SUI) |
| The Society of Pension Professionals |
| Thomas Da Costa Vieira (London School of Economics), Neil Davies (University College London), Lindsey Pike (University of Bristol) and Ewan McGaughey (King’s College London) |
| TLT LLP |
| TPT Retirement Solutions |
| Trades Union Congress (TUC) |
| Tumelo |
| UK Government’s Life Sciences Investment Envoy |

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| UK Sustainable Investment and Finance Association (UKSIF) |
| UNISON Staff Pension Scheme |
| Unite the Union |
| Universities Superannuation Scheme (USS) |
| Winterbourne Trustee Services Limited |
| Willis Towers Watson (WTW) |
| XPS Pensions Group |
| Zurich Financial Services UK Pension Scheme |