The Pensions Powerbrokers

The people who control £1.2 trillion of pension assets - and what makes them tick

Executive Summary

There is growing interest within government in using pension assets to promote the growth of the UK economy. Although the new government has initially focused on consolidation of Defined Contribution pension schemes, the bulk of private sector workplace assets are sitting in Defined Benefit schemes – more than £1.2 trillion on latest estimates.

However, in all the discussion of reform in this space, remarkably little attention is given to the people who oversee this huge sum – pension scheme trustees.

This needs to change.

This report seeks to give policymakers and all with an interest in the DB pensions world a deeper understanding of these 'pensions powerbrokers' – the key people who decide what happens to vast amounts of DB pension wealth, built up over a period of decades.

We begin by summarising what we know about where DB pension scheme assets are held. Out of £1.2 trillion in assets held across more than 4,800 schemes, we calculate that half of all assets sit in just 50 schemes. The trustees of those schemes, who decide how that money is invested, number fewer than 500 people.

Yet the trustees we spoke to in conducting this research gave a consistent message that senior policymakers simply do not engage enough with them before formulating policy.

Unless policy makers understand who these people are, and what makes them tick, they may find that proposed reforms do not work in the way intended.

To better understand how trustees see their role, including their reaction to ideas around allowing 'surplus' DB funds to be extracted from schemes, we have undertaken interviews with:

- Professional trustees who work for professional trustee firms; such trustees often sit on multiple pension scheme boards.
- Independent professional trustees, who bring their individual expertise and experience but are not attached to a trustee firm.
- Member-nominated trustees - lay people elected from within the membership of the scheme.

The responses that we received came under two broad headings:

A. How DB trustee boards currently operate

Key themes included:

- The power and role of trustees is hugely scheme-specific, but in many cases, trustees really are 'pensions powerbrokers' taking key decisions about scheme strategy and how hundreds of billions of pounds of pension scheme assets are invested.

- Trustees vary considerably in their attitude to risk. Understanding how trustees view their duties with regard to securing member benefits will be crucial to any policy reform designed to make it easier for 'surplus' funds to be extracted.

- Consultants have a key role but as advisors, not decision-makers. There was no doubt that trustees valued the expert professional advice they received on things like investment, scheme funding and 'endgame' strategy, but they were clear that 'advisers advise, trustees decide'.

- The level and nature of company engagement with their pension scheme varies greatly, with some companies only really engaging at the time of a three-yearly valuation but others being much more 'hands-on'.

- Decision-making on trustee boards is overwhelmingly consensual, with split votes on key decisions being relatively rare.

B. What is needed for a successful trustee board

Our interviewees described how schemes currently work, giving examples of best practice, and also set out what needs to change for the work of trustees to be more effective. Key points were:

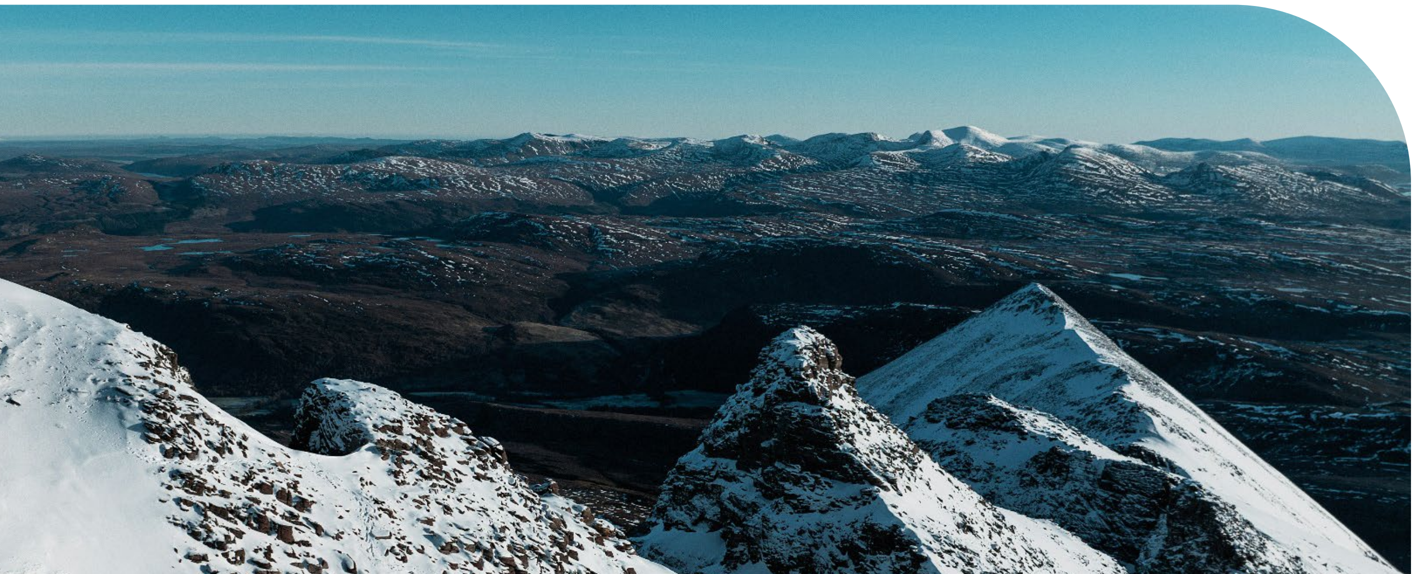
- Member trustees can add huge value, if properly used and supported. There was a consistent message from professional trustees of the significant added value which a lay trustee can provide, and a number of examples were given of how this contribution can be harnessed and maximised and can avoid 'groupthink', where a single, dominant view might otherwise prevail.

- Corporate Sole trusteeship – a governance solution where a board is replaced with a group of trustees from the same trustee firm – can bring efficiencies, however it also brings a concentration of decision-making which needs to be managed carefully.

- Trustees require a range of skills to be effective. Respondents were clear that the role of a trustee has become more complex over time, with a wide range of financial, legal and regulatory issues to consider. Ongoing trustee training and access to clear, expert advice were seen as essential.

- Regulation should give trustees scope to act in the best interests of their members and not be reduced to a tick-box 'compliance culture'. A number of respondents said that too often regulation adds little value and can actually distract a trustee board from more worthwhile strategic thinking.

The over-riding message of this report is that the relatively small number of people who run Britain's DB pension schemes have a crucial role but feel that their voice is often not heard in the formulation of policy. If the Government's current plans for reform of DB funding are to succeed, this must change.



1. Introduction

For many years, Defined Benefit occupational pensions have been the mainstay of workplace pension provision in the UK. Although most such schemes are closed to new members, there are still nearly 10 million people in the UK who have rights under such schemes, most as either pensioners or as 'deferred' members who have yet to draw their pensions.

Whilst the advent of Automatic Enrolment into workplace pensions has generated a large growth in memberships of Defined Contribution pensions, the assets of those schemes will take time to grow, especially with relatively low levels of mandatory contributions under AE rules.

At present therefore, the majority of assets in private sector workplace pension schemes are held in DB pension arrangements – just over £1.2 trillion according to the latest estimates by the Pensions Regulator.

Given the focus of successive governments on ensuring that pension assets are used more 'productively' to help generate growth in the UK economy, it is crucial to understand how DB pension schemes make decisions about how and where to invest.

Central to those decisions are pension scheme trustees.

Ultimately it is trustee boards, usually comprising a mix of company nominees, member nominees and independent professional trustees, which make these key decisions.

Yet discussion of policy around 'productive finance' often pays remarkably little attention to this crucial group of people. Government round tables may include the insurance companies and Master Trusts who provide workplace DC pensions and/or the asset managers who manage funds on behalf of schemes, but rarely is the trustee voice heard or understood.

The purpose of this report is to change that.

We begin with an explanation of the different types of pension scheme trustee and then show how just a relatively small number of people are hugely influential in determining where hundreds of billions of pounds of pension scheme assets are invested.

From Section 4 onwards we then present the results of a series of interviews which were undertaken by LCP during the first quarter of 2025 where we spoke directly to trustees about their role and experiences. The interviewing focussed on three groups: trustees attached to professional trustee firms, 'solo' professional trustees not attached to a firm and member-nominated trustees. We have analysed many hours of interviews to pull together a set of key themes which provide insights into the mind of the trustee and how they make decisions. We are most grateful to all of the pension scheme trustees who generously shared their expertise to help inform this report.

We believe that this report should be required reading for government and regulators and anyone with an interest in how Defined Benefit pension schemes decide how to invest and how this could be changed in future.

2. The composition of trustee boards

In the UK, a Defined Benefit occupational pension scheme is typically set up as a Trust, overseen by a board of trustees. The board will include representatives of the company which sponsors the scheme and which is responsible for meeting any funding shortfalls.

In addition, since the implementation of the 1995 Pensions Act, it has been a legal requirement for trustee boards to comprise at least one third member-nominated trustees. The purpose of this rule is to help to ensure that the perspective of scheme members is given proper weight when decisions are made. Once appointed, the member-nominated trustee has the same status as all other trustees.

Trustee boards also have the power to appoint independent third parties such as professional trustees to help improve decision-making. Today, these are of two types:

- Someone working for a firm of professional trustees
- Someone who is a paid trustee but not attached to a trustee firm. In this report we refer to this group as 'solo' professional trustees.

In both cases, professional trustees may serve on more than one scheme as a trustee.

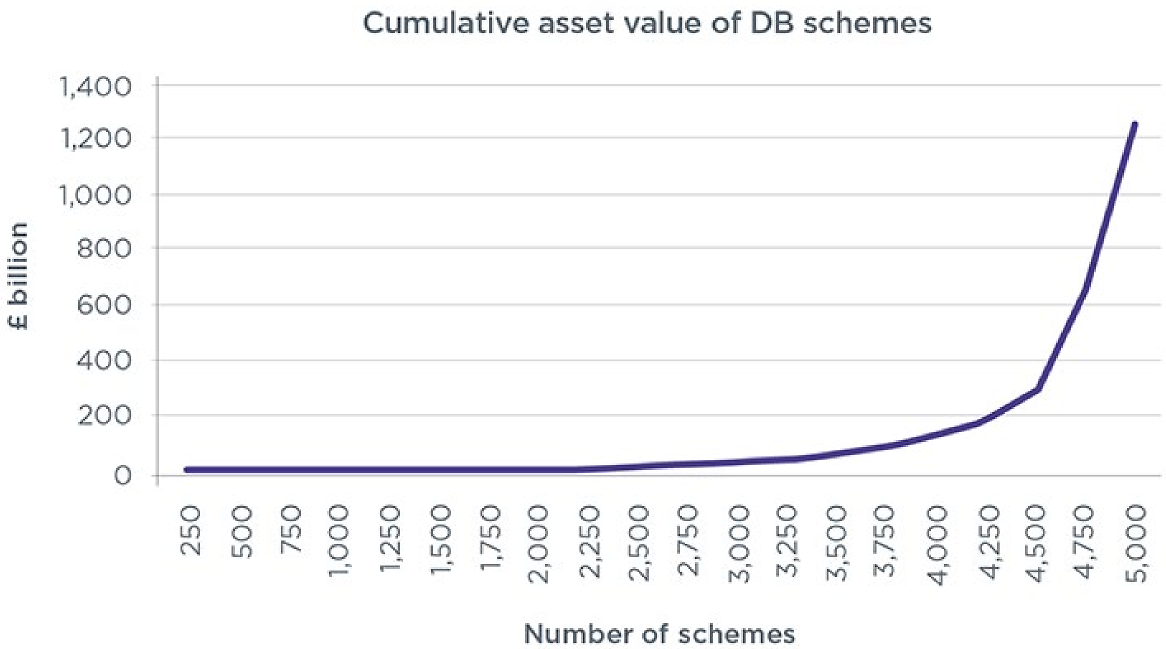
All trustees are bound to follow the rules and deeds of the scheme and have a fiduciary duty to the beneficiaries of the trust.

A more recent trend has been to replace the Board of Trustees with a 'corporate sole trustee', usually provided by a professional trustee firm. More information about corporate sole trustees and about the professional trustee market in general can be found in LCP's annual 'Sole Mates' report[1].

[1] Sole mates

3. The Defined Benefit pensions landscape

The latest analysis[2] from the Pensions Regulator (TPR), published in January 2025, shows that there are now 4,818 Defined Benefit pension schemes in the UK. However, there are huge disparities in the size and economic significance of different schemes. As the chart below shows, a very high proportion of overall scheme assets is held by a small minority of schemes.



Source: Estimated DB scheme universe funding splits and assets under management | The Pensions Regulator

From the data which underlies this chart we can see that the smallest 4,500 out of the universe of 4,818 schemes have combined assets of around £300bn, whereas, at the other end of the scale, the top 50 schemes hold a little over £600bn – nearly half of all pension scheme assets.

It follows from this analysis that if we are interested in how DB pension money is invested, we can largely ignore most pension schemes. If the top 50 schemes hold half of all DB assets, then if policy makers properly understand the decision-making process in just those small number of schemes, they will have the chance to make a real impact.

We have therefore undertaken additional analysis to look at the make-up of the trustee boards of these largest schemes to see what sorts of people – and how many people – are making these key decisions.

[2] Estimated DB scheme universe funding splits and assets under management | The Pensions Regulator

Our findings are dramatic.

Across the 50 schemes with collective assets of over £600bn – roughly half of all DB assets – fewer than 500 people control how the money is invested. Around 60% of these schemes employ the services of a professional trustee firm, whilst most of the rest use an independent professional trustee. Over 150 of these trustees are lay members of their scheme, elected to ensure that the voice of the member is heard in trustee decision-making.

This small population of people are truly ‘pensions powerbrokers’, and an understanding of their perspectives, motivations and attitudes is essential if the government is to achieve significant reform to the way DB schemes invest and in the extent to which surplus funds are extracted from schemes.

The remainder of this report provides in-depth insights into the world of DB scheme trustees and aims to shed light on this unsung but vital group of people.

4. Brief description of how we did the research

To better understand how trustees see their role we undertook a series of video interviews with different groups of trustees. This included:

- 9 interviews with representatives of major firms of professional trustees; we also undertook a separate interview with the chair of the Association of Professional Pension Trustees;

- 5 interviews with 'solo' professional trustees, all of whom serve or have served on multiple trustee boards

- An extended interview with the Association of Member Nominated Trustees

The interviews typically lasted around 30 minutes and gave the trustees opportunity to describe their role and the type of schemes that they (and their firm, where applicable) were involved in. The interviews were 'semi-structured', with standard questions around the extent to which they as trustees saw themselves as key decision-makers, the role of advisers, their views on the contribution of member-nominated trustees and their experience of the role of sponsors in trustee decision-making. There was also opportunity to raise additional topics where the interviewee had particular experience or wanted to raise particular issues.

All interviews were recorded and transcribed, with the understanding that the initial interview was to provide background information and to help identify common themes. Where direct quotation from the interview seemed appropriate, separate permission was sought.

We are most grateful to all of those who gave up their time to assist with this research.

5. Key themes

Over more than eight hours of interviews with leading pension scheme trustees a large range of topics was covered. However, the responses received can be grouped under two main headings:

A. How DB pension schemes and trustee boards currently operate

B. What is needed for a successful trustee board

In this section we summarise the main points made under each of those headings.

A. How DB pension schemes and trustee boards currently operate

1. The power and role of trustees is hugely scheme-specific

The trustees interviewed for this research sit on a wide variety of pension scheme boards, ranging from large multi-billion-pound schemes to relatively small schemes. Many of them, particularly those working for professional trustee firms or working independently as professional trustees, serve on multiple schemes.

There is no doubt that the trustee model has many strengths, and scheme members typically benefit greatly from the experience and expertise which both lay and professional trustees exercise on their behalf.

A consistent theme across the interviews was that the power and role of the trustee can vary greatly from scheme to scheme.

In some cases, trustees are key drivers of the strategy of the scheme, are key influencers and decision-makers and are very much, to quote from the title of this report, ‘Pension Powerbrokers’, deciding on the allocation of billions of pounds of pension scheme assets.

But interviewees also told us that sometimes the role of the trustee is much more constrained. In some cases, this can be because the regulatory framework around scheme funding leaves the scheme with few options or because a dominant corporate sponsor provides severe constraints on the trustees’ freedom of decision making.

I think that as with all these things, it's not one or the other. I think there's a bit of a mixture of both going on, somewhat circumstance driven by the scheme that you're working on and some of the histories with those schemes or the personalities involved, including the CFO of the business and how involved they want to be in the running of the DB scheme.

Mike Roberts
Pan Trustees

Trustees will usually look to work with the sponsor, recognising the support of the sponsor is necessary to provide security to their members and for the scheme to continue. So the idea that trustees operate in a vacuum without regard to this bigger picture is very rarely true. Of course, there are a number of areas where Trustees do have significant power and influence. Although there is a requirement to consult, setting investment strategy is an example of one such area. However, decisions will always be made after taking appropriate advice and usually working collaboratively with other stakeholders.

Vicky Paramour
Independent Professional Trustee

Key factors which shape how powerful trustees are include:

- The specific rules of the individual scheme: For example, in some cases the scheme rules give the trustees a unilateral power to award discretionary increases in pensions.

- The funding position of the scheme: A well-funded scheme may have more options as it matures, including potentially buying out liabilities with an insurer, moving to a DB consolidator / superfund or running the scheme on, perhaps with low reliance on the sponsor; this increasing range of options (coupled with the potential for relaxation of rules around extraction of surplus funds) gives considerable power to trustees to choose the right course for their particular scheme[3];

[3] The issue of 'endgame' planning is discussed more fully in LCP's 'Chart Your Own Course' report: Chart your own course: Taking control of your journey

However, trustees told us that they feel that their collective voice is not given the weight in public policy making that it should be. Although there is an Association of Professional Pension Trustees (APPT) and an Association of Member Nominated Trustees (AMNT), both organisations felt that ministers and regulators were more accustomed to listening to trade bodies representing schemes and providers than listening directly to trustees.

2. Trustees can vary considerably in their attitude to risk

It might be supposed that trustees have a clearly defined fiduciary responsibility to the beneficiaries of the trust and therefore the impact of their individual preferences and attitudes might be limited. But interviewees told us that the 'attitude to risk' of trustees is key and can vary considerably from trustee to trustee.

We heard from several interviewees that there are clearly reasons to expect trustees to 'err on the side of caution' when approaching issues such as endgame strategy or investment approach. These include:

- Concerns over potential legal challenge if pensions are not paid in full, especially if the scheme had reached the funding level needed for a full buyout with an insurer – an issue described as 'regret risk' in one interview.

- Possible criminal sanctions (including imprisonment) under the terms of the Pension Schemes Act 2021 where trustees (and others) knowingly take actions which undermine member benefits.

- The requirement for "prudence": The concept of 'prudence' is baked into the funding approach set out by regulators under the Pension Schemes Act 2004; more generally, case law around the actions of trustees often invokes the 'prudent [person]' test, which includes factors such acting within your powers, acting for a proper purpose, avoiding conflicts of interest and complying with legislation[4].

- Personality – one interviewee told us that 'we are naturally a pretty cautious bunch', and it may be that the sort of person who is drawn to acting as a trustee tends on the whole to be uncomfortable with significant levels of risk-taking.

[4] See for example: Prudence-test-for-trustees-in-pension-scheme-investment-2021-34-TLI-215.pdf

- Lack of upside – whereas in a Defined Contribution (DC) pension arrangement, taking more investment risk can potentially generate the upside of a larger pension pot, in the DB world, trustees may be far more concerned about the downside risk (that pensions are not paid in full) than any potential upside, which will often be capped simply at the pension rights set out in the DB scheme rules.

I think trustees can be naturally a cautious bunch. The old phrase we used to use was the "prudent man" test. I think you're driven by your backgrounds and certain professions mean that you're slightly more cautious or risk averse. Every single trustee I suspect has that thought about what they would say if someone comes knocking in six years' time under the Pension Schemes Act and when the Act first came out, "am I going to jail for seven years"? I do think that plays on the mind of trustees when making decisions.

Shehzad Ahmed
Dalriada Trustees

You need to have very clear agreements with your corporate about who carries the risk if things don't go to plan. Some of our trustees will say, 'why would I entertain running on having reached buyout funding level', because there is a clear potential for regret risk. It's quite a mindset change for policy makers to now convince the sponsor and trustees to stay in the game. I think for the majority of trustees that's not going to happen, especially not for the smaller schemes, since the cost of running a scheme will be disproportionate to the potential gains and risks.

Simone Lavelle
Pi Partnership

However, it is possible to overstate the extent to which trustees are uniformly risk-averse, as the following comments show:

Sometimes it's better to get some improvements now for the members and give something back to the company if you can. And the new governmental initiative about potentially extracting monies is of interest.

Mike Roberts
Pan Trustees

I'm risk averse, but not extremely risk averse.

Jane Beverley
Law Debenture

I'm hugely positive about relaxing the restrictions on use of surplus and making it easier to change scheme rules. But I need to be sure I'm not undermining the security of member benefits.

Huw Evans
BESTrustees

For example, the strength of the employer standing behind the pension scheme – the employer 'covenant' – can have a big impact on the willingness of trustees to take on investment risk. Provided that the company is highly likely to be around in years to come and can provide a fallback if things go wrong, trustees may be comfortable with a higher level of investment risk or lower level of company contributions.

Another interviewee pointed out that there may be a range of ways in which member benefits can be secured / underpinned, and that trustees will not always conclude that buying out liabilities with an insurer is the only way of achieving this goal.

In the context of the current policy debate over DB surpluses, it is clear that effective policy making will need to be informed by a comprehensive understanding of what influences a trustee's attitude to risk and how this can be shaped.

3. Consultants have a key role but as advisors, not decision-makers

The published reports of pension schemes often indicate that trustees have been supported in their decision making by a whole host of advisors and consultants, including lawyers, actuaries and investment consultants.

As one interviewee pointed out 'we are generalists', and therefore having specialist expertise can be a great aid to effective decision-making. Indeed, there is a legal duty on trustees to 'take advice' before reaching key decisions on things like investment strategy.

However, our respondents were consistent in their view that 'consultants advise but trustees decide' and warned of the risk of being too consultant-led. A particular concern was the need for trustees to ensure that the advice they received was appropriate to their unique situation and not simply a 'cut and paste' of advice offered by the consultant firms to all schemes that they advised.

As a chair, having the confidence is really important; particularly if they're chairing the board, there is from time to time the need to cut through a lot of the noise of the advice you receive.

Chris Martin
IGG

Being consultant-led, I think is a real challenge. I think we've seen some cyclical challenges with advice that's come out. I'm conscious I'm obviously speaking to a firm with excellent investment consultants but there's certainly been some consultancies who have just this tendency to do copy and paste.

Wayne Phelan
Vidett

The old-fashioned way of running a trustee board is the actuary is king. The actuary controls the agenda, and everyone just listens to the actuary, even if they're talking about administration because the old way of doing things was very much all linked to one consulting firm where the lead consultant was the actuary. And therefore, they control an awful lot of what's even on the agenda, let alone all the recommendations.

Unnamed solo trustee

Similarly, some respondents pointed out the advantages of hearing from a range of advisory firms to provide a breadth of perspective. For example, different investment consultants may have differing approaches, have expertise on different types of investment and an opportunity may be missed if established advisors do not provide this wider perspective.   In this regard, having trustees who serve on multiple boards and potentially hear from different advisory firms can be seen as an advantage.

Several interviewees stressed the importance of being willing to challenge advice and not simply accept it. The potential contribution of member trustees in particular was highlighted as being the people in the room most likely to ask the 'common sense' question, whereas others with a reputation at stake might be less likely to want to reveal that they had not understood some analysis or argument.

4. The level and nature of company engagement with their pension scheme varies greatly

Since the start of 1997, companies that stand behind occupational pension schemes have contributed over half a trillion pounds to the DB schemes for which they are responsible.   This includes both regular contributions as new pension promises were being made and 'deficit recovery contributions' when the money set aside turned out to be inadequate to fully fund those promises[5].

Given the large and often volatile nature of these costs, and also the fact that pension deficits now appear on the profit and loss accounts of employers, it would be reasonable to suppose that companies would always be actively involved in the running of their DB pension scheme.

[5] Source: Contributions to trust-based pension schemes for private sector employees, Quarter 1 (Jan to Mar) 1997 to Quarter 4 (Oct to Dec) 2019 and Data related to Funded occupational pension schemes in the UK - Office for National Statistics

Indeed, some interviewees said that a strong corporate position can be influential in a board's discussions, and that for sponsors operating in a heavily regulated industry, there may be limited scope for discretion by the trustees.

If there's a strong corporate view in terms of what the direction of travel is, I think that understandably influences trustee thinking. So let's say that there's a sponsor that definitely wants to get this off the books give it to an insurer. If they're throwing money at it, then it's quite hard for a trustee to then say, please don't give me that money, I'd rather use the assets and try and get the growth myself.

Wayne Phelan
Vidett

There were also concerns that in some cases trustees employed or selected by the sponsor might give too much weight to the sponsor interest over that of the member or see their role as monitoring the trustees on behalf of the sponsor rather than serving the member interest.

I dislike the phrase "patsy trustee", but very occasionally we have seen sponsors make trustee appointments in the clear hope or expectation of a particular outcome. It is imperative that all trustees - lay or professional, employed or not - remember that their fiduciary duty is to the members and do not overstep the line of working collaboratively with the sponsor. Trusteeship is based on negotiation and can involve robust conversations, but all trustees should be able to act without fear of repercussions on their employment or commercial position.

Harus Rai
Capital Cranfield

Many trustees told us that the situation can vary from scheme to scheme. Our interviewees told us:

- It helps if company-nominated trustees have 'skin in the game' – that is, are members of the scheme itself; in the past this would have been relatively common but as most schemes are now closed to new members it can easily be the case that senior executives who joined the company after the scheme closed are on the trustee board, but have no personal interest in the scheme;

- Some corporates mainly engage around the time of a triennial valuation – perhaps not surprisingly, the process of establishing the funding position of the scheme and agreeing a 'journey plan' is likely to be of considerable importance to the company which stands behind the scheme; but beyond this some corporates will take a back seat as the day-to-day issues of running the pension scheme and making other decisions are handled by the trustees;

I've found right across those schemes, by and large, that the only time there's real interest and engagement from the sponsor is when you come up to a valuation. The rest of the time it depends. Some schemes have got some effective representation on trustee boards, others just are completely indifferent until it comes to the valuation.

Eric Stobart
Independent Professional Trustee

- Engagement can be harder for smaller schemes and employers – large employers may find it easier to employ people in their finance departments who can devote time to pensions issues, and the largest schemes may even have in-house pensions executives to help service the scheme; but smaller employers may rely more heavily on professional trustees to provide expert governance of the scheme.

For smaller schemes there may simply be no-one in the company who has pensions expertise, and this may also be true of the member-nominated trustees. In this case the role of the professional trustee can be crucial.

Huw Evans
BESTrustees

Not surprisingly, corporate sponsors may have views about the right endgame or destination for the scheme, and some trustees noted a shift in company attitudes. Until relatively recently it would be common for a company to want the pension scheme 'off the books', and therefore to seek to move to a buyout with an insurer at the earliest opportunity. But a number of trustees told us that there had been something of a 'pivot' to considering running on the scheme, and it is possible that imminent changes to legislation will make that option still more attractive.

One of my proudest moments is getting sacked by a scheme sponsor. For doing the right thing.

Chris Martin
IGG

5. **Decision-making is overwhelmingly consensual**

One key issue discussed in our interviews was the extent to which a trustee board is a set of competing interests, with member trustees 'lobbying' for the member interest in opposition to the company trustees seeking to spend as little as possible on the scheme.

Whilst in the past this kind of 'adversarial' model may have been more common, perhaps especially in heavily unionised workplaces, most trustees stressed that this was no longer an accurate description of the vast majority of boards.

Most respondents told us that trustee decisions are almost always taken by seeking consensus and that votes in trustee meetings are rare. It was pointed out that although the way each trustee is appointed (or elected) to the trustee board may vary, once they are a trustee they have equal status and are all required to act on behalf of all the beneficiaries of the trust.

It is however important that 'consensus' is genuine and not simply achieved because a single dominant voice is allowed to prevail unchallenged.

The way I see it is you do need to collaborate with the sponsor because you're both on the same side, in the sense that you both want the members to get the benefits that the sponsors promised them.

Alison Bostock
Zedra

B. What is needed for a successful trustee board

1. Member trustees can add huge value, if properly used and supported

A major area of discussion across our interviews was the role of member-nominated trustees (MNTs). We spoke at length to the Association of Member Nominated Trustees but also heard perspectives from those who sit alongside them on trustee boards.

The overwhelming view was that member trustees can add great value to the work of a trustee board provided that they are suitably equipped, enabled and supported.

In the ever-changing pensions environment, the value of lay trustees can be underestimated. Their understanding of the mechanics of the sponsor's business is just one example of the significant value that they can bring.

Harus Rai
Capital Cranfield

I'd say the vast majority of member trustees we work with are excellent. They're often people who held senior positions at the firms that they were in. They bring a knowledge of the history of the organisation, but they also bring a perspective on what members think, and they're very often involved in pensioner groups, pensioner Facebook groups, veterans' associations. For things like member communications, they can give you a really advanced steer on them. I've also been really fortunate that a number of my Member Nominated Directors are people who have held other trustee positions elsewhere, so for example they may have been company-nominated trustees at other organisations.

Jane Beverley
Law Debenture

Key points that were raised included:

- MNTs will vary in the extent to which they are immediately able to deal with the types of decisions and analysis required of trustees; in some cases they will bring a wealth of business experience and will be well able to contribute on equal terms with company and professional trustees; where they are not specialists they should be supported with appropriate training and mentoring;

They're usually very good. They usually bring a welcome different view, avoiding the pensions industry group think. Sometimes they can bring an insight on the employer or on the membership, so they're normally very good, very diligent. One has to be honest and say it's not always the case. But we're experienced at the chairing of these boards. To get the most out of an MNT can take a different chairing in terms of the pace of proceedings or some extra conversations between meetings. But normally, most of the time very helpful and very good.

Alison Bostock
Zedra

- MNTs can bring diversity to a trustee board, perhaps bringing expertise from a perspective; one interviewee said that having MNTs can help to 'avoid groupthink'; another told us that 'no-one has a monopoly on good ideas';

- There can be challenges for MNTs who are still in employment as they may have limited time to devote to attending meetings and training and in doing the preparation for meetings; employers vary in the extent to which they cover the cost of attendance at meetings and are willing to allow time off for trustee activities beyond core attendance at meetings; we were told that some MNTs who are current employees of the firm may also be reluctant to challenge senior company representatives on the trustee board;

- There is a risk that lay trustees who do not come from a financial background could be unduly swayed by expert advisers (particularly investment advisers) or be dominated by those on the board who are professional pension trustees; it was repeatedly said to us that good chairing (and trustee training) is essential to enabling MNTs to add the most value;

- Although member trustees might be expected to have particular insights in discussion on communications with members (eg assessing written communications for clarity and intelligibility), and could be involved in external engagement with members (eg webinars) their contribution should not be limited to this; a good MNT will bring a deep knowledge of the business and firm-specific issues which may be less obvious to an external trustee, and may also have useful relationships across the firm.

Member trustees are incredibly valuable. They look from a different angle and often understand the business and the scheme better than someone coming from outside. They can help navigate the internal politics of the firm and have the lived experience of being a scheme member.

Bob Hymas
BESTrustees

Member trustees are there to keep the scheme honest because they are members of it. Therefore they have an interest in the scheme doing well and they haven't got competing interests. This role is not 'airy fairy' – sometimes people dismiss MNTs by saying "oh you'll be much better at doing the communications" which irritates me.

Maggie Rodger
AMNT

- One interviewee told us of an instance where a member trustee had 'misunderstood their role', and had been inappropriately confrontational in their approach to the employer; but this seems to have been a rare occurrence, especially in the increasingly consensual decision-making process which we described earlier;

Lay trustees, whether they be a company appointee or a member nominated trustee, will have a range of different backgrounds and may *never have set out to be a trustee deliberately, and so they will be bringing a full range of skills, experience and backgrounds that it is possible to bring to a trustee board. The job of the professional trustee, whether or not they're the chair, is to help to bring that together so that the whole is better than the sum of the parts and to provide objective, external perspective gained from working with other schemes.*

Rachel Croft
Chair of the APPT

- There was some discussion of the appropriate term of office of a MNT; whilst there is a potential learning-curve for a new trustee and a decent period of time may be needed for them to be able to contribute fully, one interviewee warned that excessive length of service could lead some MNTs to 'lose their independence'; a periodic turnover of MNTs could therefore help to make sure that there was a continued source of fresh challenge and insight to the trustee board;

I think it's great that you get people who still want to spend time even though it's so complex and also time consuming compared to previously. You've got people who remain enthusiastic when it isn't their day job, and I think that is a is a real positive.

Sankar Mahalingham
Law Debenture

2. **Corporate Sole trusteeship – a governance solution where a board is replaced with a group of trustees from the same professional trustee firm - brings a concentration of decision-making**

Growing numbers of schemes have replaced a trustee board made up of a mixture of member-nominated, company-nominated and independent professional trustees with a move to a 'corporate sole trustee' model. Our annual 'Sole Mates' report covers this topic in more detail[6], but as it arose a number of times during the course of our interviews, we provide a brief summary here of the points raised.

Some professional trustee firms were supportive of the 'sole trustee' model as they argued that it enabled swifter decision-making, undertaken by highly skilled professional trustees. They noted that for many schemes it can be difficult to satisfy the statutory requirement that a third of trustees should be member-nominated, and that a sole trustee can still seek to hear the voice of members through 'member panels' and similar structures.

Supporters of the model said that the label 'sole trustee' can be slightly misleading as in practice there are likely to be multiple professionals involved in decision-making, perhaps subject to separate internal challenge, and that these processes can help to ensure continued diversity of thought. They also pointed to the APPT 'code of practice' on sole trustee appointments which has been designed to ensure high standards and to deal with issues relating to the replacement of a trustee board with a corporate sole trustee.

There are always going to be scheme sponsors which can easily populate a trustee board with people with all the right, different skills and experience. But there are other organisations which find it more challenging to find suitable trustee candidates or do not wish to do so. In that instance, I think the professional corporate sole trustee model is an entirely appropriate governance model. Regarding 'conflicts of interest', my view is that it is inevitable that conflicts of interest exist around the trustee table, whichever model you adopt. You can't avoid them. What you can do is identify them, discuss them, and manage them appropriately.

Rachel Croft
Chair of the APPT

[6] See latest report here: Sole mates

However, various interviewees expressed reservations about this model. Key points raised included:

- Concern over conflicts of interest: most notably, there is a risk that a company with a particular agenda for a pension scheme could appoint a trustee firm likely to be sympathetic to the firm's agenda (and with the power to replace them if this proved not to be the case); there was concern that this could reduce the amount of independent challenge and could mean that member interests were given less weight than the agenda of the company sponsor.

- With some trustee firms increasingly diversifying into additional services, the sole trustee could be more likely to source those services from within their own firm, further reducing the diversity of thought and extent of external challenge.

- The ability of sole trustees to continue with meaningful member engagement and an understanding of the member perspective was questioned. One respondent described 'member committees' under a sole trustee as a 'talking shop' and suggested that these structures might be allowed to fall away once the new structure was up and running.

I have concerns about sole trusteeship from the perspective of scheme governance both from a presentational point of view as well as from a practical point of view. There are various motives for a scheme moving to sole trusteeship including inability to find trustees, especially member nominated trustees, particularly in small schemes, cost saving, which often doesn't arise and quicker decision making, which can be dealt with through delegation from a trustee board. I've seen member panels established to provide oversight, but these tend to have little in the way of teeth and can become a talking shop tending to fade away in fairly short order.

Eric Stobart
Independent Professional Trustee

Multiple respondents said that if a move to a sole trustee is to take place, it should be done with the full trustee board's involvement and with a long 'handover' period to ensure that key insights from the wider trustee membership were not lost as a result of the change. Some gave examples where the appointment of a corporate sole trustee had happened suddenly and with no consultation and raised concerns about the impression that the speed of the change could be seen as designed to deliver on the agenda of the corporate sponsor rather than the wider membership. Such cases were seen by some as seeming to represent a 'rejection' of the work of the existing trustees.

Sometimes a sole trustee appointment can be appropriate after a full trustee board has done the heavy lifting in setting the direction of travel for the scheme and can even be with the blessing of the outgoing trustees'.

Bob Hymas
BESTrustees

3. **Trustees require a range of skills to be effective**

We discussed with all our respondents what makes for a good trustee and a number of consistent themes emerged. Based on this conversation, a 'good trustee':

- 'is able to think strategically' – almost by definition a pension scheme is a long-term enterprise, focused on paying pensions for decades into the future, and will need to be able to ride out the ups and downs of financial markets and changes to the regulatory landscape; a good trustee can see the big picture and is clear what they are trying to achieve, whilst being open to refining their views when things change;

- 'is fully involved in decision-making' – a successful trustee board draws on the experience, skills and perspectives of all of its members; no one member should dominate and challenge and questioning should be seen as a valuable part of decision-making; a good chair will seek to ensure that all voices are heard;

- 'works collaboratively with the sponsor' – we heard that a successful pension scheme is one where trustees seek to ensure that they understand the perspective of the sponsor of the scheme; the trustee's fiduciary duty is to the beneficiaries of the trust, but it is not incompatible with that goal to see the scheme managed in a way which works for the sponsor as far as possible; short of a full buyout of liabilities or move to a consolidator, a healthy sponsor is the best guarantee of pension benefits being paid into the future;

The first thing is to elicit responses from your trustees and making sure they have a voice. The second is using your expertise to scrutinise the advice that comes to you and to ask informed questions so you can make informed decisions. The third is to have a channel with the sponsor themselves, because it may have been fractious in the past or adversarial so we can understand their drivers. So, actually inviting the sponsor to work with your trustee is a good thing so that they're around the table with us because you can still have the 'us and them' mentality. I call it "being the conductor", making sure everyone's playing the same tune. That is part of the role.

Shehzad Ahmad
Dalriada Trustees

- 'is well trained' – this includes both core training such as completing the Pensions Regulator's 'trustee toolkit', other formal training such as accreditation by the Pensions Management Institute, and taking up ongoing training provided by scheme advisers and others; this is especially important in a world where the investment landscape and regulatory landscape can change dramatically over a relatively short period of time;

Well-run schemes will have robust trustee training programs in place. An important component of a good training program will be to ensure that "issue specific" training is organised at the right time and integrated into the business plan. For example, if you're about to commence work on a valuation, you might want to make sure that valuation refresher training is included on your trustee meeting agenda in advance of making decisions relating to the valuation.

Vicky Paramour
Independent Professional Trustee

- 'brings experience from other schemes' – professional trustees, whether those working for a trustee firm or solo professional trustees with multiple trustee appointments can bring insights from working with other schemes; this could include hearing from different advisers or sharing how other schemes have responded to similar challenges;

Having experience of other schemes absolutely helps. You don't listen to just one firm of consultants because they have different approaches, different views and that's really healthy. It's always been a goal to make sure that the professional trustees have experience of working with different schemes. Some of the people at the table have heard other advisors. It's not dramatically different, but I think sometimes there's a there's a different emphasis perhaps on the urgency of an issue, or definitely with lawyers, some of them are much more risk averse about a particular thing than others.

Unnamed Solo Trustee

- ‘is their own person’ – trustees will bring a variety of backgrounds and skill sets which can contribute to the diversity and strength of the board; we heard that a good trustee ‘is able to stand their ground’ if they are unclear about advice they have received or why a particular decision is being proposed.

- ‘has the time to devote to the role’ - several respondents told us that the demands on trustees have grown over the years, with greater professionalism required and a broader range of regulatory requirements; this means that trustee duties go well beyond attendance at quarterly full board meetings, and can include service on board subcommittees, time spent studying paperwork and preparing for meetings, and engagement with ongoing training;

It isn't a four day a year gig, it's every day. I work on all my clients probably every day in one way form or another, and every week I do a complete overhaul in terms of looking at their funding position, going through the plans etc just to make sure I know what I'm doing.

Allan Whalley
Independent Professional Trustee

Although most interviewees were professional trustees, either attached to firms or operating independently, we also received valuable feedback from the AMNT on where professional trustees can add value but also where there may be challenges.

As MNT's we usually find Professional trustees to be very knowledgeable and helpful in dealing with complicated or unusual scheme issues. They can also bring external aspects of diversity to the board when members of a closed scheme cannot. However, since they are an increasingly concentrated group, they often can't bring the thought diversity that can come from member trustees (and indeed there is the risk of groupthink). But crucially, whilst all share the same fiduciary duty, unlike member trustees they do not provide the balance between employer and beneficiaries which comes from having a stake in the scheme. I don't think it should be either/ or. Ideally together they provide the diversity that makes for good decisions.

Maggie Rodger
Chair of the AMNT

On the other hand, a number of firms pointed out that a typical professional trustee may typically serve on 5-10 different trustee boards and that this provides a range of insight and perspective which is harder to obtain when someone's experience is limited to a single scheme.

4. **Regulation should give trustees scope to act in the best interests of their members and not be reduced to a tick-box 'compliance culture'**

Pension schemes operate in a heavily regulated environment and although trustees are not currently directly accredited by the Pensions Regulator (TPR), they need to be fully up-to-speed with the regulatory framework within which they operate[7]. We asked interviewees about their attitude to TPR and what could be done to improve things. We were told:

- 'quoting the regulator never helps' – trustees should do the right thing by their scheme, not simply 'because the regulator says so'; obviously, schemes need to comply with relevant legislation and regulation but trustees should ensure that they can justify decisions they have taken, including to regulators, and not to make assumptions about what regulators will expect;

I think the Regulator was used as an excuse quite a lot. You know, I don't necessarily agree with the fact that TPR was really driving risk aversion. I think it was driving at managing risk but that gets interpreted in a particular way. And it's not just regulation that has historically driven what might be a kind of risk averse attitude from trustees. I think it is also the fear of other repercussions as well.

Louise Davey
IGG

- 'TPR needs to adapt to a world of surpluses' - there was a perception that the culture of TPR was developed during a period when the focus was on tackling deficits and that a different mindset may be needed for a world where nearly half of all schemes are now in a buyout surplus according to TPR;

- 'TPR / DWP need to move away from a compliance culture' – trustees told us that they felt too much time was spent on 'tick box' exercises of little added value and that this diverted time and attention from strategic thinking about the scheme and its direction; examples of regulatory requirements which some respondents felt added little value were chair's statements and some climate impact reporting;

[7] The Pensions Regulator has recently announced plans to step up regulation of Professional Trustees: TPR extends its oversight to professional trustee firms | The Pensions Regulator

It is important not to overburden every board with increasing regulation. I recognise that there are some schemes that do need attention and where TPR involvement would be beneficial. But don't burden the whole industry because of a few cases. The feedback from all our trustees is that regulation has taken over the 'governance budget' and therefore there's less time to deal with strategic issues. If we are driven by regulatory compliance that does not always allow for getting the best out of your trustee.

Simone Lavelle
Pi Partnership

I keep telling people that I don't have to do what the regulator tells me to do. What I have to do is what's right for the scheme and that's the only thing that matters, to be honest with you.

Allan Whalley
Independent Professional Trustee

We should not see reporting and disclosure as a 'control mechanism'. Creating more and more regulatory reports and statements which virtually no-one reads is not a good way to regulate.

Huw Evans
BESTrustees

If the government and regulators were to listen to trustees more and understand what we do it would allow us to take a much more long term strategic view.

Chris Martin
IGG

5. Conclusions

There are over 4,800 Defined Benefit pension schemes in the UK and each one is unique. Schemes differ according to their size and funding position, the strength of their sponsoring employer, the rules of the scheme, the make-up of the membership and many other factors. The trustee model means that decisions can be taken by trustees on behalf of scheme members which reflect the unique situation of each scheme.

As these schemes collectively hold over £1.2 trillion in assets – more than double the current asset base of Defined Contribution workplace schemes – there has been a growing interest by successive governments in how this money is invested. In particular, the present Government is keen to see more of the money within these schemes invested ‘productively’ to enhance the growth of the UK economy and also to see ‘surplus’ funds extracted to be used by the sponsoring employer.

But there is a tension between the understandable desire of government to see this money used in support of its wider economic objectives and the fiduciary duty of trustees to act in line with the trust deeds and rules to the benefit of members.

This report has provided new insights into the different types of people who serve as DB pension scheme trustees and the way they think about their role. It is clear that although all trustees have an equal duty to the membership, the way they approach that role, and the contribution they make can differ considerably.

What is most striking however is that these trustees feel that their views are not well understood by government and regulators, and that their voice is not listened to. Given that these people are the ‘pensions powerbrokers’, collectively controlling a vast amount of assets, this is a worrying omission.

There is no doubt that effective government intervention in this area will not be possible unless the mindset of trustees is better understood by policy makers. We believe that this report shines a light on the complexity and diversity of the trustee landscape and will provide new insights into what makes trustees ‘tick’.

We call on the government to study this report with care and then to ensure that future policy on DB pension arrangements is far better informed by an understanding of the priorities and views of trustees.

Contact us

For further information, please contact one of us or the partner who normally advises you.

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