

## Relations with advisers

Best practice guidance setting out key issues for trustees to consider in their relations with advisers

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This best practice guidance sets out some key issues for trustees to consider in their **relations with advisers**.

Our aim is to help you make the best use of the considerable expertise that advisers and service providers can bring to your pension scheme.

Also, our Trustee toolkit (<http://www.trusteetoolkit.com/arena/index.cfm>) highlights throughout the importance of working with your advisers.

### Key points

- Trustees employ advisers and service providers to help them in the running of their pension scheme. It's a legal requirement for some types of advisers to be appointed to pension schemes.
- Although trustees can delegate duties to their advisers and service providers, they remain responsible for the work carried out on their behalf.
- This best practice guidance is not designed to be a 'checklist' – there may be other considerations relevant to the individual schemes not covered here.
- You can work through the guidance or simply select the type of adviser relevant to you. Each section is then divided into two parts:
  - key issues to consider when appointing a new adviser or reviewing the performance of an existing adviser; and
  - key issues to consider in order to get the best service from your current advisers.
- There are areas of overlap between the two sections, however, and many of the key issues to consider will be useful in either scenario.
- For consistency, we use the term 'adviser' throughout to refer to advisers, service providers and suppliers.

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## Important issues for trustees to consider

Understand how each particular adviser contributes to the running of your scheme and what specific tasks the trustees themselves are responsible for.

Be confident in your understanding of what each adviser is doing so that you can assess whether it's being done adequately and whether it represents good value for money.

Ensure that you have an excellent working relationship with the advisers you employ. Characteristics of a good working relationship are:

- mutual trust;
- open and honest dialogue; and
- productive communication.

## General issues for trustees to consider

### Relationship

#### *Appointing or reviewing your current adviser*

Ensure that any adviser you appoint is someone you feel comfortable working with and that you are confident about holding open and frank discussions with them about the advice they provide.

Ensure that all trustees have a common understanding of what is expected from your adviser and how you will objectively evaluate their performance. Share this with your adviser so that they can work accordingly.

Decide who is going to be the main point of contact with the adviser throughout the engagement.

#### *Getting the best service from your current adviser*

Do you feel that the adviser has taken sufficient steps to understand the needs of the scheme?

Do you feel comfortable with the level of technical language they use when working with you? If not, ensure that technical jargon is fully explained and that reports are presented in plain English. A good relationship with an adviser is one where you feel comfortable in requesting clarification and confident in challenging advice that you're unsure about.

If you have to make a decision based on information or options provided by the adviser, do you feel they have explained all the issues in terms you can easily understand? Has their advice enabled you to make an informed decision?

Is their advice consistent and practical?

Do you feel that your adviser responds well to urgent, contentious or sensitive issues? Are you happy with their ability to proactively raise matters with the trustees?

Where issues are identified with your scheme ensure they are escalated with your adviser and dealt with speedily, obtaining reports on progress.

Does your adviser seek feedback from you? If you have had to raise any concerns with them, how well did they respond? Ensure that you set up regular opportunities for two-way open and honest feedback.

## **Qualifications and experience, service standards and ways of working**

### *Appointing or reviewing your current adviser*

Establish what procedures and controls your adviser has in place to ensure the quality and accuracy of the service they provide. Find out what professional indemnity cover they have.

Establish what qualifications and accreditations they have and how they keep their professional knowledge up to date.

Find out whether your adviser has other pensions clients with schemes of a similar size and type to yours. Consider asking for references or testimonials from other clients.

### *Getting the best service from your current adviser*

Does your adviser appear to be aware of current issues and developments in pensions? Does the advice you receive reflect this?

How easy is it to contact your adviser?

Does the way your adviser works with the trustees suit both parties? If applicable, are the reports, newsletters and other documents they provide effective and fit for purpose? Do they participate effectively at meetings?

If your adviser is, or works for, a firm, how well does the structure of their organisation suit your needs:

- Is any of the work outsourced? If so, how well co-ordinated is this process?
- Is any of the work they do for you split across specialist departments within the firm? If so, do you have a single contact who is familiar with all the different areas of work?
- How often are key staff rotated? What implications does this have for continuity and does it affect the service you receive?
- Is there always someone available who can help you if your usual contact is unavailable?

## **Type of adviser, fees and fee structure**

### *Appointing or reviewing your current adviser*

Different advisers and firms have different qualities and you need to decide what is most important for your scheme.

Ensure that you compare a number of different advisers before deciding which to appoint.

Depending on a number of factors, including the size and complexity of your scheme, you may decide to look at firms with strong individual disciplines or a bundled administrative/actuarial/consulting service. Smaller schemes may get all their services from their pension provider.

Establish what level of expertise you actually require for your scheme. Ensure that the service provided matches the cost of the adviser.

Bear in mind that for some types of advisers charges can vary greatly depending on the seniority and qualifications of the person carrying out the piece of work. For example, costs vary between qualified and trainee staff, or juniors and seniors. It's easy for costs to spiral out of control if certain tasks are being handled by too high level staff. Remember, however, the more technical tasks may call for a more senior adviser.

Be clear which services are 'in scope' and which are additional and therefore chargeable. Ensure you're fully aware of the fee structure operated by your adviser and how it would apply to your scheme. All matters relating to fees should be laid down in the terms of appointment/contract.

Determine what is to be paid for by the employer and what is to be paid for by the scheme members.

#### *Getting the best service from your current adviser*

Regularly assess whether the adviser is good value for money.

Ensure that you're comfortable setting the process for negotiating and agreeing fees.

Ensure you have a clear understanding of their basis for charging, in particular for non-standard work and how and when fees can be increased. Are invoices broken down in a way that makes the charges easy to understand?

Assess how reliable their cost estimates are and how they respond when costs go over budget.

#### **Terms of appointment/agreement**

Ensure that a clear and comprehensive document is drawn up appointing your adviser. There are statutory requirements which prescribe how scheme actuaries and scheme auditors must be appointed (<http://www.thepensionsregulator.gov.uk/trustees/guidance/yourAdvisers.aspx#appointingRemoving>). In addition, the professional bodies that regulate your advisers will

also have their own requirements. For consistency, the terms of appointment, letter of engagement or signed agreement will be called a contract, although the precise form of the document or documents varies greatly depending on which adviser you are appointing.

The contract should document everything that you've agreed with your adviser. Read it carefully, paying particular attention to the adviser's liability limit, agreed fees and charges, and what has been agreed around terminating their appointment. Ensure that any notice period seems reasonable and that there are arrangements in place for releasing information back to the trustees and to the new adviser within a reasonable timescale.

The contract should clearly document your adviser's policy for managing any conflicts of interest.

### **Conflicts of interest policy**

Ensure that you have a clear written statement from your adviser stating how conflicts of interest (<http://www.thepensionsregulator.gov.uk/trustees/guidance/yourAdvisers.aspx#appointingRemoving>) will be avoided and/or managed. Your adviser should have processes in place to identify any potential conflicts and clear policies to deal with these. You may wish to check how they are managed for other clients.

## Your scheme actuary

### *Appointing or reviewing your current adviser*

It is a legal requirement for trustees of schemes with a defined benefit element (for example, salary related schemes, hybrid schemes) to appoint a scheme actuary. And remember that changes to a scheme actuary may be a notifiable event and will require reporting to the regulator.

You must appoint a new scheme actuary within three months of the resignation of your previous scheme actuary.

Although the scheme actuary must be a named individual, most actuaries work for an insurance company or pension provider, an actuarial firm, or a firm that provides many different services. The fee structure operated by your actuary will vary depending on the way he or she works.

You'll need to decide which arrangement best suits the needs of your scheme, taking into account the essential points outlined in Type of adviser, fees and fee structure.

Consider what controls the actuary has in place for managing conflicts of interest and ensure these are documented. Conflicts of interest are particularly significant if you engage the same actuary as the employer. Here are some examples of the kinds of scenarios to discuss with the actuary in this respect:

- The trustees are considering the employer covenant and negotiating a recovery plan with them.
- The employer proposes a liability reduction exercise.
- The trustees want to bring forward the next valuation.
- Sharing information between the trustees and the employer.

Ensure you're satisfied with the actuary's qualifications and experience by considering the points in the Qualifications and experience, service standards and ways of working section. Check that the actuary has an up-to-date practicing certificate and establish the size and qualifications of the actuary's support team.

Establish whether the actuary will provide you with training if required.

Establish whether the actuary will contribute to discussions on investment and how knowledgeable they are on investment and strategic asset allocation.

When you've selected your scheme actuary you'll need to formally appoint them (<http://www.thepensionsregulator.gov.uk/trustees/guidance/yourAdvisers.aspx#appointingRemoving>) in line with legislation. Actuaries are required to request a trustees' undertaking from you which formalises your obligation to notify them if certain events occur in your pension scheme.

The various matters you and your new actuary have agreed prior to their appointment should be documented in the terms of engagement. Ensure that you review it carefully and are familiar with all the 'small print'.

*Getting the best service from your current adviser*

Make sure you consider everything covered in the Appointing and reviewing your current adviser section.

Do you feel that your actuary is properly familiar with your pension scheme?

Is your actuary able to explain and justify the assumptions used to enable you to determine whether they are appropriate for your particular scheme?

Do you feel comfortable challenging your actuary's advice? How well do they respond when you do?

Check that your actuary can take the trustees through the latest actuarial research and any new regulations, and what the changes mean for your scheme.

Ensure that your actuary is informed in advance and as early as possible of significant upcoming scheme events such as mergers, bulk transfers and changes to benefits.

Read the key considerations in the Relationship section.

## Your scheme auditor

### *Appointing or reviewing your current adviser*

It is a legal requirement for trustees of most schemes to appoint a scheme auditor (<http://www.thepensionsregulator.gov.uk/trustees/guidance/yourAdvisers.aspx#advisers>). You must appoint a new scheme auditor within three months of the resignation of the previous scheme auditor.

The fee structure operated by your auditor will vary depending on the type of firm you employ and how it works. The scheme auditors employed by trustees range from very large firms with dedicated teams of pension auditors to much smaller concerns who are still expanding the pensions side of their practice. You'll need to decide which arrangement will best suit the needs of your scheme, taking into account the essential points outlined in Type of adviser, fees and fee structure.

Ensure you're satisfied with the firm's qualifications and experience by considering the points in the Qualifications and experience, service standards and ways of working section. Check that the auditor has an up-to-date practicing certificate.

Establish and understand the firm's process for planning and undertaking each year's audit. How will problems uncovered during the audit be relayed to the trustees? Find out how the audit will help you to manage financial risks and to comply with statutory requirements on internal financial controls.

Consider what controls the audit firm has in place for managing conflicts of interest (<http://www.thepensionsregulator.gov.uk/trustees/guidance/yourAdvisers.aspx#appointingRemoving>) and ensure these are documented. Conflicts of interest are particularly significant if you engage the same auditor as the employer.

Make sure you confirm what the firm considers to be within the scope of the normal audit process and what it considers to be additional services. Agree what will or will not be provided to the trustees and on what terms.

The various matters you and your new actuary have agreed in relation to their appointment should be documented in the terms of engagement. Ensure that you review it carefully and are familiar with all the 'small print'.

### *Getting the best service from your current adviser*

Ensure you feel confident about setting the process for negotiating and agreeing the annual audit fees. Considering meeting with your auditor before, during and at the end of the audit to ensure you're fully engaged with the process.

Assess whether the audit plan has a clear timetable and how closely this is adhered to.

Ensure that the auditor is briefed in advance and as early as possible of any additional work the trustees would like them to undertake.

Ensure that the auditor is informed in advance and as early as possible of significant upcoming scheme events such as bulk transfers any change of scheme administrators.

Ensure that your auditor formally submits any feedback and consider how helpful and practical the comments made in the management letter are regarding areas of concern.

Consider whether it would be useful to put the audit engagement out for tender periodically. This exercise would help the trustees in benchmarking the quality of service provided and the overall audit fee.

Read the key considerations in the Relationship section.

## Your legal adviser

### *Appointing or reviewing your current adviser*

You are not legally required to appoint a legal adviser to your scheme. It is, however, good practice to do so. If you require any legal advice you cannot, by law, obtain it from anyone who is not properly appointed to the scheme.

The fee structure operated by your legal adviser will vary from firm to firm. You will need to decide which type of adviser and firm will best suit the needs of your scheme, taking into account the essential points outlined in Type of adviser, fees and fee structure.

Ensure you're satisfied with the adviser's qualifications and experience by considering the points in the Qualifications and experience, service standards and ways of working section. It may be useful to establish whether any members of the firm are involved with professional bodies such as the Association of Pension Lawyers.

Establish whether your legal adviser has any experience in advising trustees on the implications to their pension schemes on corporate mergers, acquisitions and disposals.

Get a feel for how well the adviser will be able to explain any issues to you in terms that you can easily understand, and in such a way that the trustees will have the confidence to make informed decisions.

Legal firms should have robust procedures in place for managing conflicts of interest. Ensure that these are documented.

Determine what procedures the firm has in place for reviewing the advice that is provided to clients.

### *Getting the best service from your current adviser*

Assess how well your legal adviser assists you with any disputes or difficulties that you refer to them.

Assess whether you're satisfied with the delivery of legal advice – is it clear and is it timely? Does it answer your questions?

Do you feel that your legal adviser is keeping you up to date with recent cases and changes to legislation that are relevant for your scheme?

Read the key considerations in the Relationship section.

## Your scheme administrator

Many pension schemes are administered in-house. It's becoming increasingly common, however, for trustees to outsource the administration of their schemes to a third party. This is typically a specialist third-party administrator or an insurance company.

Remember that, even though a scheme's administration may be outsourced, the trustees remain responsible and accountable for the administration of the scheme.

### *Appointing or reviewing your current adviser*

Establish whether the administrator is sufficiently experienced in administering your type of scheme and ask about the proportion of staff that hold recognised and relevant qualifications. Consider the key issues outlined in the Qualifications and experience, service standards and ways of working section.

Establish how frequently you want the administrator to provide administration reports and what form you would prefer these to take. Is the administrator happy to accommodate trustee requirements for member communications? Determine how frequently you would like the administrator to attend trustee meetings. Establish how frequently the administrator will provide the trustees with a compliance certificate.

Find out what systems the administrator uses. Establish how the administrator will ensure safe transfer of scheme data into its systems and ask about its procedures for dealing with transferring data from the systems run by different administrators. Establish whether these systems allow the administrator to be flexible and to adapt to reflect regulatory or scheme-specific changes.

Determine how the administrator ensures integrity of data and find out about their quality control procedures. Do they have a disaster recovery plan in place?

Establish which services are 'in scope' and which are additional and therefore chargeable. Review the key issues in the Type of adviser, fees and fee structure section.

Ensure that you establish robust service level agreements (SLAs) in the agreement you make with your chosen administrator. SLAs should not just reflect turnaround times but also include your agreements for checking and cleansing data. Be sure that the administrator has adequate systems to monitor its performance and that you've agreed how this will be fed back to the trustees.

Ensure that the terms of the administration are tailored to suit your scheme. Be prepared to negotiate terms. The Pensions Management Institute has produced model administration agreements (<http://www.pensions-pmi.org.uk/Publications/model.asp>) for different types of pension schemes which you may find useful for reference.

### *Getting the best service from your current adviser*

Ensure that you and your administrator have a clear plan in place for checking and cleansing data. Here are some examples of areas where this is particularly important:

- Data in respect of deferred members, transfers in and out and special benefits.
- Any 'legacy data' held on paper, microfiche or old computer records.
- Data that has been transferred from any previous administrator or that has been moved from a different record keeping arrangement.
- Events such as mergers, bulk transfers and rule changes have occurred in your scheme

Be aware that once the administrators have performed the necessary testing and analysed the results, they'll need to work with you and the employer to correct any data problems identified.

Put in place procedures for the prompt reporting of administrative non-compliance, member complaints and errors and omissions. Does your administrator alert you in a timely manner if serious issues occur and are you satisfied with their performance in addressing those issues? How quickly does the provider respond to and resolve issues that you raise with them?

Request comments on standards of administration from the scheme auditor and ensure that the scheme actuary is aware of any deficiencies in the data so that they can weight the valuation accordingly.

Are you satisfied with the speed and accuracy with which they carry out their duties and are they meeting the SLAs you agreed when appointing them?

Read the key considerations in the Relationship section.

## Your independent financial adviser

Consider whether you need the services of an independent financial adviser (IFA) and if so, on what basis.

Depending on the nature of your pension scheme you may only need the advice of an IFA if significant events occur. It may be possible for you to obtain the advice you need from your other advisers or pension provider.

Many schemes employ an IFA solely to provide advice to members, for example on open market options at retirement. If you employ an IFA on this basis you may wish to consider whether it would be preferable to appoint a different adviser for yourselves in order that the members can feel confident in the independence of the advice they are receiving.

### *Appointing or reviewing your current adviser*

Establish what type of services they offer and establish the adviser's status:

- independent;
- multi-tied; or
- tied.

Determine which type of adviser would best suit the needs of your scheme. Determine the adviser's basis for fees or commission. Consider the key points listed in the Type of adviser, fees and fee structure section.

Find out what proportion of their business relates to pensions and what relevant qualifications they have. Consider the key points listed in the Qualifications and experience, service standards and ways of working section.

If you wish to increase scheme take-up, ask the adviser for their proposals.

### *Getting the best service from your current adviser*

Are you satisfied with the speed and accuracy with which they carry out their duties and are they meeting the SLAs you agreed when appointing them?

Read the key considerations in the Relationship section.

## Your benefit consultant

### *Appointing or reviewing your current adviser*

Determine what type of adviser would best suit the needs of your scheme and ensure that you have a good understanding of their fee and charging structure.

Consider the key points listed in the Type of adviser, fees and fee structure section.

Determine their view on the level of charges set by investment managers and whether they can negotiate lower charges for your scheme.

For defined contribution schemes, find out what range of funds they recommend and consider their suitability to the scheme membership. Is there a range of appropriate choices, taking into account different asset classes and lifestyling options, for example?

Does the adviser appear up to date with new developments, for example, alternative asset classes and key personnel changes at investment managers? Consider the key issues set out in the Qualifications and experience, service standards and ways of working section.

### *Getting the best service from your current adviser*

Do you feel that your benefit consultant properly understands your attitude to risk and takes this into account when providing advice?

Is the advice provided clear and timely?

For salary-related schemes, does the consultant work well with your scheme actuary?

For defined contribution schemes, does the consultant work well with your scheme administrator?

Are you satisfied with the speed and accuracy with which they carry out their duties and are they meeting the SLAs you agreed when appointing them?

Read the key considerations in the Relationship section.

## Online resources

We've listed here some online resources that you may find useful.

Actuaries' and auditors' inter-professional communication – pensions and other post-retirement benefits (PDF, Institute of Chartered Accountants)  
(<http://www.icaew.com/index.cfm?route=151271>)

Pensions trustees: Assessing and managing risks (PDF, Institute of Chartered Accountants in Scotland)  
([http://www.icas.org.uk/site/cms/download/aa\\_Pension\\_Guidance.pdf](http://www.icas.org.uk/site/cms/download/aa_Pension_Guidance.pdf))

Funded pension schemes, Government Actuary's Department website  
([http://www.gad.gov.uk/Services/Occupational\\_Pensions/Funded\\_schemes.asp](http://www.gad.gov.uk/Services/Occupational_Pensions/Funded_schemes.asp))

Model administration agreements, Pensions Management Institute  
(<http://www.pensions-pmi.org.uk/Publications/model.asp>)

Unbiased.co.uk, search for an IFA (<http://www.unbiased.co.uk/>)