

Guide to

# The trustee board

To be read alongside our DC code of practice no. 13

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Also in this series:

2. Scheme management skills
3. Administration
4. Investment governance
5. Value for members
6. Communicating and reporting

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## About this guide

This is one of six guides to help trustee boards meet the standards set out in **Code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits** ('the DC code'). The six guides are:

- ▶ **The trustee board**
- ▶ Scheme management skills
- ▶ Administration
- ▶ Investment governance
- ▶ Value for members
- ▶ Communicating and reporting

While the DC code sets out the standards we expect you to meet when complying with the law, the guides provide information on how you might meet those standards in practice. You should read the code before you read this guide.

The guides aim to provide you with practical information, examples of approaches you could take, and factors to consider. The guides are not intended to be prescriptive, although in some instances they state what we consider to be best practice. Often, the methods you choose to adopt will depend on the nature of your scheme and its membership.

For the purposes of the guides, AVC arrangements are defined as arrangements that receive only voluntary contributions paid in addition to those due under the scheme rules, whether paid by the member or the employer (for example through salary sacrifice). Monies arising from a transfer in from another non-AVC arrangement in order to secure money purchase benefits do not fall into this category. Where legal obligations apply you should consider the risks to members in the context of the significance of the value of AVCs relative to those members' overall benefits in the scheme (as opposed to the size of the AVC arrangement relative to the scheme overall). You should apply a proportionate approach to meeting the relevant standards in our DC code.

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## Introduction

Appointing the right people to be trustees has a strong influence over how an occupational pension scheme is governed and how effectively member interests are protected.

The role of the chair is particularly important. A strong chair should be able to make the most of the attributes of each individual board member and of the board as a whole.

The composition and organisation of the trustee board, including the format for meetings and related processes, can help you to use your knowledge, understanding and skills effectively. Advisers and service providers can also provide valuable support to the trustee board.



You can find factors to consider when working with third parties in the guide on **'Scheme management skills'**.

# Appointing new trustees

## Fitness and propriety

You should work with your sponsoring employers to assess the fitness and propriety of candidates as part of the recruitment process. The table below sets out examples of the information you may need in order to assess the extent to which individuals demonstrate the qualities of a fit and proper candidate.

Qualities of a fit and proper candidate	Examples of information sources
<ul style="list-style-type: none"><li>▶ Honesty and integrity</li><li>▶ Competence and capability</li><li>▶ Financial probity</li></ul>	<ul style="list-style-type: none"><li>▶ References and details of any previous experience</li><li>▶ Education/qualification certificates, if any</li><li>▶ Directorship disqualification checks, eg through Companies House</li><li>▶ Conflict of interest declarations</li><li>▶ Bankruptcy checks. You can check an individual's bankruptcy status through The Insolvency Service: <a href="http://bit.ly/InsolvCheck">http://bit.ly/InsolvCheck</a></li><li>▶ Criminal record declarations, including:<ul style="list-style-type: none"><li>• any attempt to deceive</li><li>• any misuse of trust funds</li><li>• any breaches of trust law, particularly if these are significant, persistent, deliberate or contrary to legal advice received</li><li>• unspent criminal convictions, with the exception of minor offences. Refer to government guidance on ex-offenders and employment at: <a href="http://www.gov.uk/exoffenders-and-employment">www.gov.uk/exoffenders-and-employment</a></li></ul></li></ul>

In general, professional trustees should be held to a higher standard than other trustees. Broadly speaking, professional trustees are individuals or corporate bodies who charge for their services rather than just reclaiming necessary expenses, or who hold themselves out to be experts in trustee matters.

Where the trustee candidate is employed by the employer sponsor, you could find out whether some of the above checks have been carried out recently. For example, if certain checks have taken place in respect of that individual within the past few years, it might be reasonable to rely on the information on record.

Ultimately, you need to use your judgement and work with the employer to determine whether an individual is fit and proper. You should record the steps you take and the information you use to reach your decision. You might find it useful to put in place a fitness and propriety policy to ensure a consistent approach.

## Succession planning

Although employers often influence the appointment of new trustees, be prepared to advise employers on the needs of the scheme and have appropriate succession plans in place. These should reflect the size and complexity of your scheme.

You may find it useful for your plans to take account of the strengths and weaknesses of the existing board and look to address any gaps in knowledge, skills and relevant experience. Having at least a basic level of pensions or financial knowledge is very useful but trustee candidates should be able to demonstrate relevant skills as well as technical knowledge.



Refer to the guide on **'Scheme management skills'** for more information on useful skills for the trustee board.

One of the most important traits that a trustee can possess is an interest in the role and motivation to do it well. Candidates should be able to explain clearly why they want to do the role and what they believe they can contribute to the board.

Depending on the size and needs of your scheme, you may wish to consider including competency-based interview questions or psychometric testing as part of the recruitment and appointment process, in particular for professional trustees. This would provide an additional layer of detail when you need to choose between trustee candidates and help you understand the different attributes of individuals on the board.

Some schemes may find formal succession planning difficult. However, you should still consider whether there are opportunities for existing trustees to interact with trustee candidates, eg at a board meeting or through a member panel. This would allow candidates to improve their understanding of the role and give you a chance to review the suitability of individuals ahead of an official appointment process. Larger schemes may be able to establish a pool of potential candidates and involve them in some activities. They could also consider holding sub-committee meetings focused on recruitment.

### Best practice

To prepare new trustees for their role, a best practice approach is to put in place a structured induction process. This includes helping them to become familiar with their role and responsibilities and encouraging them to start their training before they officially take up the post.

For example, our Trustee toolkit ([www.trusteetoolkit.com](http://www.trusteetoolkit.com)) provides free online training that covers key areas of scheme governance and administration. You should encourage new trustees to start the toolkit ahead of appointment, bearing in mind that they will need to complete it or an equivalent learning programme within six months of being appointed to ensure they possess the knowledge and understanding required by the law. You can return to the toolkit at a later date to refresh your learning and complete modules that have been added or updated.

As part of the induction process, you could also consider appointing established trustees as mentors. Alternatively, where a scheme operates sub-committees, it could be helpful to new trustees to attend as an observer to help build up their knowledge and understanding of specific issues.

To support member nominated trustees (MNTs) in particular, you could consider carrying out a selection process early to allow time for a handover period.

Professional trustees should have relevant experience and, ideally, an appropriate qualification from a recognised organisation – eg, relating to finance, investment or pensions – before being appointed.

## The role of the chair

The chair of a trustee board should be prepared to assume similar governance responsibilities to those expected of a chair of any corporate board but adapted to suit the needs of their scheme.

They need to be an effective leader, with an independent viewpoint and capable of setting high standards for the board as a whole. They should be able to recognise each individual trustee's potential and ensure their knowledge and skills are used effectively. Trustee boards need to look strategically across all of the issues that affect their scheme; a chair who can remind trustees to take the broad, long-term view, and can help achieve compromise and consensus, is an asset. They should also involve and encourage participation from all board members, particularly new trustees.

When appointing a chair, the skills and experience of candidates should be considered as well as their technical knowledge – although the chair should have a good overall knowledge of pensions, they do not need to be an expert in every area.

In practice, employers are often very influential in choosing a chair but you should review your scheme rules and other relevant scheme documents, which in the case of a corporate trustee includes the company's articles of association or constitution, to check whether your scheme has a process in place for appointing a chair. Whatever process you follow, you should bear in mind that in most schemes the legal duty to appoint a chair falls on the trustee board so you should seek to ensure that the successful candidate is the right person to lead your board.

You need to be confident in the chair's ability to represent effectively the interests of the scheme to all relevant parties, including employers, advisers, service providers and members.

### Useful skills for the chair

Candidates who can demonstrate skills or attributes in areas such as the following are more likely to be suited to the role:

- ▶ strategic leadership
- ▶ communication
- ▶ organisation
- ▶ teaching and training (sourcing if not delivering)
- ▶ debating, challenging and negotiating
- ▶ ability to gather and understand diverse views and try to build a consensus
- ▶ managing conflicts.

Different candidates will offer different skills and experience so, where possible, work with employers to decide on the specific needs of your board and scheme. This involves considering factors such as the risks to your scheme, your membership profile and any knowledge and skills gaps on the trustee board.

All trustees are jointly responsible for ensuring that the legal requirements they must report on in the chair's statement have been met and well explained. However, the chair<sup>1</sup> is required to sign the final document and therefore should be confident that it reflects scheme governance accurately.

You need to include particular information about your chair in the scheme return and notify us as soon as possible in the event of any changes.

Further information on the chair's role is included overleaf.

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Where the scheme is in the process of appointing a chair, a deputy or acting chair is permitted to sign the chair's statement.

# Board composition

## Diversity

As far as possible, trustee boards should be diverse and well-balanced. This relates to factors including:

- ▶ **the type of trustees**  
eg employer-appointed, member-nominated, professional
- ▶ **the experience and skills of trustees**  
eg education, professional, voluntary
- ▶ **societal demographics**  
eg race, sex, age, disability, orientation

Ideally, individuals will bring a mix of different and complementary attributes to the board. This might range from particular knowledge of investment matters to understanding the employer's priorities, to simply asking the right questions. Being aware of the attributes of different board members can help you to delegate tasks more effectively.

Where appropriate, you could consider including a professional trustee on the board. If they are able to demonstrate detailed technical knowledge and experience of good practice in different schemes, professional trustees can bring valuable insight, impartiality and objectivity. They can also help the board to:

- ▶ prioritise time and spending
- ▶ assess the value for members offered by your scheme compared to other options in the market
- ▶ challenge advice
- ▶ question the practice of service providers

If it is not practical or proportionate to include a professional trustee on the board of your scheme permanently, you could consider whether it would be helpful to appoint or consult with one on a temporary basis. In particular, this might help you to make decisions relating to uncommon events such as a change in scheme administrator or where a conflict of interest arises within the trustee board that would benefit from independent oversight.

Where the board is a mix of different types of trustee, chairs should guard against professionals becoming too influential and ensure that the views of all board members continue to be heard. In general, it is the combination and collaboration of different individuals that results in a more effective board. In particular, member-nominated trustees might be best-placed to provide a different and member-focused perspective during the decision-making process.

Master trusts are subject to additional requirements relating to the representation of member views on the board.



Refer to the guide on **'Communicating and reporting'** for examples of how they might meet those requirements.

You should also give serious consideration to appointing a scheme secretary, perhaps through an independent external firm or by making use of the employer's company secretariat.

### **Scheme secretary – best practice**

This role should be independent from the trustee board and can play a vital role in scheme management. It is best practice for the scheme secretary to assist the board with tasks such as:

- ▶ supporting the chair
- ▶ developing and operating a strategy to achieve the objectives set out in the scheme's business plan
- ▶ documenting and reviewing scheme policies and processes
- ▶ helping to manage day-to-day relations with advisers, service providers and the employer
- ▶ planning and facilitating meetings, including taking and distributing minutes
- ▶ providing constructive feedback on overall scheme governance and management
- ▶ carrying out board effectiveness reviews, including an assessment of the chair and any sub-committees
- ▶ succession planning

## Board sub-committees

Establishing sub-committees can help larger, more complex, schemes to use trustee time more effectively as well as concentrating knowledge and skills on the right areas. Some sub-committees also benefit from the inclusion of independent specialists.

For example, a large defined benefit scheme (DB) with a small defined contribution (DC) section could consider putting in place a sub-committee to focus solely on DC issues. Depending on the complexity of your scheme's investment arrangements, this is another area that could benefit from a sub-committee. If used appropriately, sub-committees will help you to use and effectively apply the specific knowledge and understanding of particular board members.

The board as a whole remains responsible and accountable for any decisions made so the chairs of sub-committees should provide regular updates to the full board and certain matters can be reserved. For example, where a large DB scheme with a DC section operates a DC sub-committee, decisions on issues such as objectives for services and investment options might be delegated, while changes to administration could be reserved for the full board. Where schemes operate a number of sub-committees, you could consider whether the scheme secretary should sit on all of them to identify any links, duplication or gaps.

You should ensure that sub-committees have terms of reference agreed, documented and regularly reviewed.

## Master trusts (relevant multi-employer schemes)

If your scheme has been set up as a master trust, with non-associated employers, you are subject to additional requirements relating to the composition of your board.

Although the legal minimum number of trustees on the board is three, some master trusts may need at least five trustees to provide effective governance. The appropriate number of trustees depends on the number of members and participating employers, and the range and complexity of products on offer.

In addition, the majority of trustees on a master trust board, including the chair, must be independent of any company that provides services to the scheme (non-affiliated trustees) and the law sets out matters to take into account when making this determination. Being on the board of a master trust will not prevent trustees from also sitting on a provider's independent governance committee.

The non-affiliated requirement applies to both individual trustees and professional trustee bodies. The latter must ensure they have a nominated individual who acts as a representative.

The law sets out time limits relating to the appointment of non-affiliated trustees. Trustees can be treated as non-affiliated for a single period of up to five years and up to 10 years in total. If there is a gap of more than five years between appointments, the previous appointment is ignored when working out the total. Slightly different rules apply to professional trustee bodies. Again, they can be treated as non-affiliated for a single period of up to five years, but they are not restricted to any cumulative term. However, their individual representative cannot retain this role for more than 10 years in total, regardless of any gap between appointments.

The limit on the length of appointment starts from the later of 6 April 2015 and the date of the appointment. For example, if a trustee met the independence criteria on 6 April 2015 and had already been in post for three years, their tenure could run for up to five years from that date (to a cumulative maximum as described above).

You are required by law to appoint independent trustees through an open and transparent process. For example, you could use a recruitment agency or advertise in a national or local newspaper, or other relevant publication. However, you should take a proportionate approach and choose a method that is appropriate to your scheme in terms of both available time and money. The best approach is also likely to vary depending on the type of trustee you are looking for. For example, if your board includes MNTs, an acceptable way of finding a new candidate might be to invite nominations from participating employers or through a trade union.

You are required to describe your open and transparent recruitment process in the chair's statement.

## Board meetings

The role of the chair is particularly important at board meetings. The chair should provide you with guidance on conduct and structure for meetings, the level of contribution expected from attendees and roughly how much time you need to prepare for meetings. It is helpful for any training or updates from service providers to be tailored to the issues at hand.

For meetings to be productive and effective, you will find it helpful to arrive fully briefed on the agenda and prepared to discuss each item. It is particularly important that you are clear on the decisions that need to be made and the process for making those decisions. You are accountable for the decisions you make and you should ensure that you have access to all of the relevant information before acting. The chair should encourage open debate during the meeting, and guard against any single viewpoint dominating the discussion. The chair or secretary should also aim to keep the discussion relevant and allow enough time for questions. Where schemes offer mixed benefits, you should devote sufficient time to issues relating to money purchase benefits.

### Meeting agenda – best practice

In general, the topics that should be covered at most board meetings include:

- ▶ conflicts of interest
- ▶ management information
- ▶ investment performance and strategy
- ▶ risks to the scheme – new and existing
- ▶ administration
- ▶ member engagement, including communications
- ▶ sub-committee decisions
- ▶ any relevant updates in the law
- ▶ trustee training plans

Before making decisions, particularly in relation to services to the scheme where members bear some or all of the relevant costs, you should take account of any potential impact on value for members.



Refer to the guide on **'Value for members'** for more information on how to assess good value.

The appropriate number of times for trustee boards to meet in a year will vary according to the circumstances of the scheme and its membership. You need to ensure you meet often enough to maintain effective oversight and control, which in most cases will be at least quarterly. Where urgent matters arise, or if your scheme is undergoing change, you may need to hold additional meetings or arrange for decisions to be made outside of a formal meeting, or meeting cycle.

However, the trustees of less complex schemes with a small number of members and that carry out fewer transactions might find that there is not a need to meet so often. This will depend on factors such as whether they are able to keep in regular contact via email or telephone, that they still receive relevant governance information, and that they are able to make and record decisions outside of formal meetings.

You could also consider the benefits of holding informal meetings on occasion. This might include workshops focusing on particular elements of scheme governance or current industry developments, or perhaps organising for the board to visit a service provider.

## How to contact us

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[www.tpr.gov.uk](http://www.tpr.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

Free online learning for trustees

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### **Guide to The trustee board**

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