

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

by Ben Hewitson, Andrew Hunter, Richard Stockley
and Andrew Thomas

Department for Work and Pensions

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A report of research carried out by BMRB Qualitative Research part of BMRB Limited (British Market Research Bureau) on behalf of the Department for Work and Pensions

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Summary

Background

Trust-based pension schemes are required to have at least one-third of the board of trustees as member-nominated trustees (MNTs) or member-nominated directors¹ (MNDs). This requirement was introduced in recognition of the fact that involving pension scheme members in the selection of trustees could help to ensure the successful running of the scheme in the interests of all scheme members. This requirement was brought in by the Pensions Act 2004, along with provisions for increasing the proportion of MNTs to 50 per cent. These provisions have yet to be put into effect.

In 2008 the Trades Union Congress (TUC) published research² examining the extent to which pension schemes were making progress towards meeting the one-third MNT requirement. Based on a web survey of pension scheme trustee boards (and a response rate of 30 per cent), the research found that, overall, 95 per cent of respondents were aware of the one-third MNT requirement and less than five per cent had not met the requirement. Overall, the majority of respondents in the web survey were in favour of the requirement to have a minimum of one-third of trustees who were member-nominated. Respondents were also broadly supportive of increasing the required proportion of MNTs to 50 per cent, although less so than those in favour of the one-third requirement. Thirty per cent of respondents disagreed with the 50 per cent MNT proposal, compared to 85 per cent in favour of one-third MNT representation.

Representations made to the Department for Work and Pensions (DWP) by some employer representative organisations suggested that some employers had concerns. These related to the additional cost of moving to 50 per cent MNT representation; whether it would be practical to find sufficient numbers of competent MNTs; and whether changes in trustee board make up would alter the governance of pension schemes.

¹ For the purposes of this study, only MNTs were interviewed.

² TUC (2008) *The Member Voice in Pensions Governance: Progress to One-third Member Nominated Trustees and Beyond*. Available from: <http://www.tuc.org.uk/pensions/tuc-15113-f0.pdf>

DWP commissioned BMRB Social Research to undertake a piece of qualitative research to explore attitudes to increasing MNT representation on pension scheme trustee boards from the perspectives of employers, pension scheme trustees and trade union representatives.

Research methodology

The study comprised 61 face-to-face depth interviews with employers, MNTs, employer-nominated trustees (ENTs) and trade union representatives from across England, Wales and Scotland. These groups have key roles in the running of occupational pension schemes and interviewing representatives of these groups allowed for a full range of views and experiences to be explored. Respondents were sourced from a variety of commercially available databases.

In order to provide a broad cross-section of pension scheme trustee boards, schemes were selected on the basis of the following quota variables:

- pension scheme size: 13-199; 200-999; 1,000+ members;
- type of pension scheme:
 - Defined Benefit³ (DB) pension schemes that were open to new accruals from existing or new members;
 - Defined Contribution⁴ (DC) pension schemes where the scheme was trust-based.

A number of schemes were excluded from the research: schemes with 12 or fewer members; public and church sector schemes; contract-based DC schemes; pension schemes closed to existing or new members, frozen or in the process of being wound up; and, pension schemes where the sponsoring employer was in administration.

The interviews were structured using topic guides (see Technical Appendices⁵) and conducted between July and October 2009. They lasted around an hour and were transcribed verbatim for subsequent analysis with a thematic analysis tool – Matrix Mapping (see Technical Appendices).

³ DB pension schemes are a type of pension in which an employer promises a specified monthly benefit in retirement that is predetermined by a formula based on the employee's earnings history, length of service and age, rather than depending on investment returns.

⁴ In a DC pension scheme, contributions are paid into an individual account for each member. The contributions are invested and the returns are credited to the individual's account. DC schemes may be either trust-based or contract-based. A trust-based scheme requires a trustee board to manage the operation of the scheme; a contract-based scheme is an individual contract between an insurance company and the employee that the Company contributes to.

⁵ The Technical Appendices are available from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

Key findings

Current trustee arrangements

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

Issues facing trustee boards

Difficulty recruiting MNTs was a widespread problem and perceived issues in terms of recruitment included: the MNT role being seen as 'boring' and technical; office politics; perceptions of personal liability; placing an employee in opposition to their employer should a dispute arise; the commitment involved in terms of time and effort; and, fears of a negative impact on an MNTs main job role. These issues led some employers, particularly those from 'blue-collar' industries, to express concern that they would struggle to recruit sufficient MNTs to make up 50 per cent of their board.

Employers recruited and selected MNTs as scheme trustees in a variety of ways, ranging from selection by a panel of existing trustees through to a democratic vote by members. The costs associated with the different recruitment methods were not described as being particularly prohibitive for any type or size of scheme.

Respondents emphasised practical issues associated with increasing MNT representation and highlighted the importance of training and support for new MNTs in the form of formal training and informal support.

The effect of MNT representation

There was an overall sense that MNT representation, either at one-third or 50 per cent would have little impression on a pension scheme, particularly in terms of a scheme's governance and any potentially detrimental effects felt by members. This was particularly recounted by schemes that had already met one-third or 50 per cent MNT representation. Despite this, MNT representation was felt to influence some specific areas of pension schemes, such as: the balance of power on a board of trustees and the equality of decision making; communication issues between board members; and, the level of expertise on the board.

A small number of employers said that they were unwilling to increase the number of MNTs on the trustee board because they were concerned about losing overall control of the pension scheme. These were medium-sized family-run firms and suggested that they would change the nature of the scheme or close it altogether to avoid loss of control.

The advantageous aspects of MNT representation, as perceived by some respondents, were: providing scheme members with a 'voice'; employers being

more willing to take members' views into account; and, changing the balance of power on trustee boards.

The disadvantages to MNT representation were: difficulties recruiting MNTs; a lack of knowledge and expertise to contribute to board discussions in a useful way; and, to a lesser extent, the costs of training and supporting them.

50 per cent MNT representation was generally seen positively, especially by MNTs and trade union representatives. Employers and ENTs however, did not always value MNTs due to a tendency for MNTs to lack sufficient trustee skills when entering the role and felt that if they replaced ENTs, skills and expertise would be lost. Employers expressed a clear concern about a shift in the balance of power and family-run businesses felt that MNT representation could equate to a loss of control over the pension scheme, leading them to suggest the possibility of changing the nature of a scheme or closing it down in order to maintain control.

Overall, there was broad support amongst MNTs and trade union representatives for increasing MNT representation to 50 per cent, but there remained the issues of: difficulty in recruiting appropriate MNTs; making the role of trustees more relevant and accessible to individuals; and, more effective guidance regarding the nomination and selection of MNTs.

Conclusion

The move to one-third MNT representation had generally been welcomed despite difficulties in recruiting trustees. A proposed move to 50 per cent MNT representation was generally seen in a positive light by MNTs and trade union representatives, but this feeling was less evident among employers and ENTs. Where employers and ENTs held negative views, this was mainly because they did not see the value of MNTs and felt that it could undermine scheme governance if experienced ENTs were replaced by inexperienced MNTs. Underlying these objections was a clear concern about a shift in the balance of power on the trustee board.

Although the issue of MNT recruitment was frequently mentioned, trustee boards had generally succeeded in meeting the one-third requirement and respondents generally felt that, despite it being difficult, they could recruit extra MNTs to meet the 50 per cent MNT requirement if it was introduced. Manufacturing industries employing 'blue collar' workers were the most concerned about finding suitable candidates to become MNTs due to a perceived lack of interest in, and lack of skills for, the role.

While costs were raised as an issue in MNT recruitment, employers recognised that the additional costs were marginal and not *per se* a significant objection to 50 per cent MNT representation.

Trustee boards that had already met, or exceeded, 50 per cent MNT representation were generally pleased with how the trustee board operated and felt that scheme governance was enhanced, although this depended on whether the Chair had a casting vote.

The implications of these findings are five fold:

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

1 Introduction

The opening section of this chapter provides contextual information about the role and responsibilities of pension scheme trustees and some general background information to the research project. Following this, the research aims, design and conduct of research, sample of respondents and the data analysis process are discussed. The chapter closes by offering a summary of the content of this report.

1.1 Background to the project

Most occupational pension schemes in the UK, such as those under study in this research project, are set up as trusts⁶. Employers set up occupational pension schemes and they are then run and administered by a board of trustees.

A trustee is a person or company, acting separately from the employer or trade union, who holds assets in the trust for the beneficiaries of the scheme. They are responsible for ensuring that the pension scheme is run properly and that members' and beneficiaries' benefits are secure. Trustees appointed internally from a company are known as member-nominated trustees (MNTs)⁷ or employer-nominated trustees (ENTs). As the names suggest, MNTs are appointed by the members of a scheme, whereas ENTs are appointed by the employer(s). Despite being appointed by different individuals, all trustees must acknowledge that their responsibilities are to the scheme. Regardless of any other position a trustee may hold, a trustee's duty must not be to any group or individual that they are connected with, such as the employer or a trade union.

⁶ The exceptions to this are contract-based Defined Contribution schemes such as Group Personal Pension Plans (GPPPs) and Stakeholder Pension (SHP) schemes.

⁷ Should a pension scheme be governed by a trustee company, one third of the directors of the company must be member-nominated directors (MNDs)

Many trustee duties arise from trust law and many powers a trustee possesses derive from the trust deed and rules document⁸ associated with each pension scheme. Generally, the key roles and responsibilities a trustee has are as follows:

- acting in line with the trust deed and rules;
- acting in the interests of the scheme beneficiaries;
- acting impartially;
- acting prudently, responsibly and honestly.

Trust-based pension schemes are required by law to put arrangements in place to ensure that at least one-third of the board of trustees are MNTs⁹. This was introduced in recognition of the fact that involving pension scheme members in the selection of trustees could help to ensure the successful running of the scheme in the interests of all scheme members. This was subsequently enshrined in the Pensions Act (2004). The Act also included provisions to increase member-nominated representation to 50 per cent. These provisions have yet to be put into effect.

In 2008, the Trades Union Congress (TUC) published research¹⁰ that was designed to consider the extent to which pension schemes were making progress towards meeting the one-third MNT requirement. Based on a web survey of 189 pension scheme trustee boards (a response rate of 30 per cent), the research found that overall, 95 per cent of respondents were aware of the one-third MNT requirement and less than five per cent had not met the requirement. Overall, the majority of respondents in the web survey were in favour of the requirement to have a minimum of one-third of trustees who were member nominated. Views about the proposal to move to 50 per cent MNT representation were also favourable, although less so, with 30 per cent disagreeing with the proposal.

While the TUC-funded research among pension scheme trustees¹¹ indicated a generally favourable disposition to moving to 50 per cent MNT representation, the Department for Work and Pensions (DWP) received representations from employer representatives to suggest that employers had some concerns. These were: the additional cost of moving to 50 per cent MNT representation, whether it would

⁸ The trust deed and rules are usually combined as one document. The trust deed sets up the trust under which the scheme operates and defines the duties of the trustees and their powers.

⁹ Should a pension scheme be governed by a trustee company, directors of the company must be MNTs. For the purpose of this study, only MNTs were interviewed.

¹⁰ TUC (2008) *The Member Voice in Pensions Governance: Progress to One-third Member Nominated Trustees and Beyond*. Available from: <http://www.tuc.org.uk/pensions/tuc-15113-f0.pdf>

¹¹ Ibid.

be practical to find sufficient number of competent MNTs, and whether changes in trustee board make-up would alter the governance of pension schemes.

On 27 June 2008, at the TUC Trustees conference, the then Secretary of State for Work and Pensions, James Purnell, reaffirmed the previous Government's commitment to moving to 50 per cent MNT representation, but at the same time considered that research was needed to gauge the potential impact of increasing the number of MNTs on pension scheme trustee boards.

(Viz): 'I want to speak on the issue of 50 per cent member-nominated trustees. We stand by the commitment...Therefore I want to commission some formal research into these issues, so that we can see what the impacts would be of getting more MNTs.'

(SoS speech, 27.06.2008)

The DWP therefore commissioned BMRB Social Research to undertake a piece of qualitative research to explore attitudes to increasing MNT representation on pension scheme trustee boards. The research aimed to explore views and experiences of trustees (MNTs and ENTs), employers and trade union representatives around increasing MNT representation to 50 per cent. In particular, the concerns highlighted by employers in the TUC research¹² in terms of how 50 per cent MNT representation would impact on costs, scheme governance and recruitment of MNTs were of particular importance.

1.2 Research aims

The aims of the proposed research were five-fold:

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

1.3 Research design and conduct

The study adopted a wholly qualitative approach to the research as it allowed the necessary flexibility to explore the key issues in depth through individual

¹² TUC (2008) *The Member Voice in Pensions Governance: Progress to One-third Member Nominated Trustees and Beyond*. Available from: <http://www.tuc.org.uk/pensions/tuc-15113-f0.pdf>

experiences and views. Qualitative methods do not allow information to be given on the numbers of people holding a particular view or who have particular experiences. The aim of qualitative methods is to define and describe the range of emergent issues, rather than to measure their extent.

The study comprised 61 face-to-face depth interviews with individuals drawn from across England, Wales and Scotland, and from four groups of respondents that were identified as having key roles in the running of occupational pension schemes – employers; trade union representatives; MNTs and ENTs.

This sample size allowed for high-level analysis to take place. The original aim was to achieve a total of 68 interviews, but this was not possible, owing to recruitment difficulties with small organisations with Defined Contribution (DC) pension schemes. These organisations do not commonly adopt trust-based DC schemes, preferring instead to employ alternative pension arrangements, such as contract-based schemes. In addition, the economic climate in the period July – October 2009, when the fieldwork took place, meant that individuals from small organisations were less able to give up their time to aid the research process. As such, the overall total was reduced from 68 to 61. Despite this, full analysis was undertaken among all sub-groups, although readers should note the small sample sizes of organisations with a DC pension scheme and with between 13 -199 employees (see Table 1.1).

It was felt that interviewing these groups according to the sample outlined in Table 1.1 would allow for a full range of views and experiences to be explored and thus, a full analysis to be conducted.

Respondents were sourced from Dun and Bradstreet's *D&B Database* and AP Information Services' *Pension Firms and their Advisers* database. Both of these sources are commercially available databases.

In order to provide a broad cross-section of pension scheme trustee boards, schemes were selected on the basis of the following quota variables:

- pension scheme size: 13-199; 200-999; 1,000+ members¹³;
- type of pension scheme:
 - Defined Benefit¹⁴ (DB) pension schemes that were open to new accruals from existing or new members;

¹³ It was felt that stratifying employers by size for recruitment purposes would ensure a range of different organisations with varied resources and business cultures were included in the study. The three groups of pension scheme size were chosen to reflect small, medium and large businesses.

¹⁴ DB pension schemes are a type of pension in which an employer promises a specified benefit in retirement determined by a formula based on the employee's earnings history, length of service and age. DB schemes must have a 'sponsoring employer' who guarantees to make up any shortfall in scheme funding when the promised benefits become payable.

- Defined Contribution¹⁵ (DC) pension schemes where the scheme was trust-based.

The following pension schemes were excluded from the research:

- pension schemes with 12 or fewer members, as the MNT rules do not apply;
- public and church sector schemes, on the basis that these do not have to comply with the legislation on MNTs in the same manner as required for private sector occupational schemes;
- contract-based DC schemes as these schemes do not have trustee boards;
- pension schemes that were closed to new or existing members, frozen or in the process of being wound up; and
- pension schemes where the sponsoring employer was in administration.

The interviews were structured using topic guides for each of the respondent types (see Technical Appendices: Appendix A¹⁶) and conducted between July and October 2009. The interviews were undertaken by a team of six fully trained qualitative interviewers from BMRB and took place within the respondent's workplace or at an alternative neutral venue, such as a hotel. They lasted around an hour and were digitally recorded, with the respondents' permission, then transcribed verbatim for subsequent analysis.

1.4 Sample profile

The sample profile detailing types of respondents interviewed can be found below. It should be noted that owing to some of the small sample sizes within individual quotas, all findings should be placed in context of how many interviews were conducted. Additionally, readers should be aware that the data presented throughout is based on 61 different pension schemes and therefore comparison of the views of different respondents based on the shared experience of a particular pension scheme was not possible.

¹⁵ In a DC pension scheme, contributions are paid into an individual account for each member. The contributions are invested and the returns are credited to the individual's account. DC schemes may be either trust-based or contract-based. A trust-based scheme requires a trustee board to manage the operation of the scheme; a contract-based scheme is an individual contract between an insurance company and the employee where the only role of the employer is to appoint a contract provider.

¹⁶ Technical Appendices available from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

Table 1.1 Sample profile

Number of members	Type of occupational trust-based pension scheme								Total
	DB pension schemes				Trust-based DC schemes ¹				
	Trustees				Trustees				
	Employer	ENTs	MNTs	TU	Employer	ENTs	MNTs	TU	
Small (13-199)	4	2	2	4	2	1	2	0	17
Medium (200-999)	3	2	2	3	3	2	2	3	20
Large (1,000+)	4	2	2	4	4	2	2	4	24
Total	11	6	6	11	9	5	6	7	61

¹ The intention had been to include an approximately equal number of small (13-199 members) trust-based DC schemes. However, this group proved very difficult to recruit as so few small employers have trust-based DC schemes. It was far more common for smaller organisations to have alternative pension arrangements, such as contract-based schemes. In addition, the economic climate in the period July – October 2009 meant that individuals from small organisations stated they were less able to give up their time to aid the research process.

1.5 Analysis of the findings

Verbatim transcripts, produced from digital recordings, were subject to a rigorous content analysis (Matrix Mapping), which involved systematically sifting, summarising and sorting the verbatim material according to key issues and themes within a thematic framework. These analytical charts formed the basis of the evidence reported in the following chapters. Further details of the analytical process used can be found in Technical Appendices: Appendix B¹⁷.

The purposive nature of the sample design and the small sample size means that the study does not provide any statistical data relating to the prevalence of these views.

The findings have been illustrated with the use of verbatim quotations. The quotations have been edited for clarity but care has been taken not to change the respondents' meaning in any way – alterations are shown using parenthesis and ellipses.

Quotations are attributed, anonymously, using the following convention:

(Interviewee type, employer size, type of pension scheme)

¹⁷ Technical Appendices available from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

1.6 Content of the report

This report outlines the findings from the qualitative research in four further chapters:

- **Chapter 2** describes the variation of current trustee arrangements adopted by occupational pension schemes and the extent to which they had met the one-third MNT representation requirement outlined in the Pensions Act (2004). The chapter also offers reasons for different schemes adopting different arrangements and discusses how these arrangements are currently working in practice;
- **Chapter 3** explores the issues that are facing trustee boards, in the light of them being required to have a proportion of at least one-third MNTs. In particular, the chapter addresses issues of MNT recruitment and retention; training and supporting MNTs in their role; and, desirable skills that are sought in MNTs;
- **Chapter 4** considers the effect that MNT representation had on different aspects of pension schemes. These are explored in relation to scheme governance; scheme members; costs; and, the perception that MNTs had a limited impact on pension scheme boards; and
- **Chapter 5** draws together the findings from the preceding chapters and provides a set of conclusions and possible implications of moving to 50 per cent MNT representation. In addition, the conclusion also highlights broader implications that became apparent during the course of research.

2 Current trustee arrangements

This chapter explores the range and variation of current trustee arrangements employed by occupational pension schemes during the course of the research.

Summary

- The research highlighted that there were three levels of compliance in terms of organisations meeting the one-third member-nominated trustees (MNT) requirement: those meeting the requirement; those not meeting the requirement; and, those exceeding the requirement. The majority of organisations interviewed had met the one-third MNT requirement.
- Those who had met the one-third requirement were generally happy with how this was working. However, there was a sense from MNTs and trade union representatives that one-third MNT representation did not go far enough to creating equality on the board.
- In the small number of cases where organisations had not met the requirement, this was because the organisation was either unable to recruit sufficient MNTs or because of resistance on behalf of the employer who was concerned about loss of control of the scheme.
- Organisations already exceeding the one-third MNT requirement were generally happy with how these arrangements were working. Reasons for moving to more than one-third (commonly 50 per cent or more) MNT representation included company tradition – i.e. that the pension scheme board had historically operated in this way; the balance of trustees on the board; and, some organisations had sought to anticipate any change in the law to require 50 per cent MNTs.

Broadly, there were found to be three 'levels of compliance' with the extent to which organisations had achieved the requirement to have at least one-third of trustees designated as MNTs on their boards. These were organisations:

- meeting the one-third MNT requirement;
- not yet meeting the one-third requirement; and
- exceeding the one-third MNT requirement

The chapter discusses each of these 'levels of compliance' in turn and offers the reader an insight into how well respondents felt different arrangements were currently working.

There was not found to be a relationship between the size of organisation or type of pension scheme offered and the extent to which organisations had or had not met the one-third requirement.

2.1 Trustee boards with one-third MNT representation

The majority of organisations in this study had met the one-third MNT requirement successfully, regardless of type of pension scheme employed or size of organisation. For these, there was a feeling that on the whole, having at least one-third MNT representation was working well for the pension scheme in question.

'It seems to work quite well...the balance seems...I think it's quite good.'

(ENT, 13-199 employees, DB scheme)

However, there were some exceptions to this general feeling, such as in cases where MNTs perceived that one-third representation did not go far enough. MNTs on boards with one-third representation occasionally recounted feeling as though they were being ignored or overruled by employers or other trustees. Reasons for this included the lower number of MNTs on the board in comparison to other trustees and employers; and because of the limited amount of time individual MNTs had spent on the board, leading to a perception from MNTs that employers and other trustees felt they had more experience and knowledge in relation to the scheme.

There were also exceptional cases whereby there was perceived to be a degree of antagonism between the different trustees and employers, which prompted some to call for the one-third requirement being raised as it was felt this would increase the power MNTs had (see Section 4.1.1). Even less commonly, a sense also existed that having MNT representation on the board would threaten the organisation's control of the pension scheme. This sentiment was expressed in relation to 'family-run' organisations who feared that a specified MNT representation would take control away from the family.

Respondents suggested that if they did not already have one-third MNT representation before the requirement was brought in, that the Pensions Act (2004) was the sole reason for facilitating one-third MNT representation on their board.

2.2 Trustee boards that had not met the one-third requirement

There were a small number of Defined Benefit (DB) and trust-based Defined Contribution (DC) boards that had yet to meet the one-third MNT requirement. These organisations were either medium-sized (200-999 employees) or large employers (1,000+ employees).

There were two reasons why these organisations had not yet met the requirement. Firstly and most commonly, this was because they were unable to recruit MNTs to the board (see Section 3.1). More exceptionally, however, one organisation had failed to meet the one-third requirement because there was a resistance on the part of the employer and other trustees to recruit MNTs to the board for fear of losing control of the pension scheme.

In the case of organisations experiencing an inability to recruit MNTs to the board, employers were generally still happy with the way in which their board arrangements were working. However, in some instances concerns were expressed with regard to the fact they were not complying with the requirement outlined in the Pensions Act (2004).

In the most exceptional case where employers and trustees were resistant to the one-third requirement, resistance was felt to follow from the fact that all the aspects of the company, including the pension scheme had always been 'family-run'. As such, the company chairman was concerned that by bringing MNTs onto the board the family would lose control of the scheme and its governance. Furthermore, it was even suggested that should control be taken away from the family, then the business could respond by changing the nature of the pension scheme or closing it down altogether.

The perceptions of 'family-run' businesses regarding the control of their pension scheme, should 50 per cent MNT representation be introduced, hold important implications for the development of increasing MNT representation (see Chapter 5).

2.3 Trustee boards already exceeding one-third MNT representation

It was not entirely uncommon for DB and trust-based DC trustee boards to already have 50 per cent, and in some cases two-thirds MNT representation. In the main, these employers were ex-public sector or a trade union and reflected different sized organisations.

In most cases, the trustee board had achieved at least 50 per cent MNT representation for as long as the respondents could remember. In some instances, respondents knew by inspecting the trustee board constitution that the pension scheme had originally been established in this way.

'It has always been fifty-fifty since it was set up ... As far as I know, there was no employer casting vote and no employer majority, so [a decision] is either agreed or nothing changes, which is the best way...'

(Trade Union representative, 1,000+ employees, DB scheme)

In other instances, the one-third MNT requirement had prompted the trustee board to review its composition. They had moved swiftly to 50 per cent MNT representation for two key reasons:

- First, increasing MNT representation was considered to make the trustee board more balanced. Increasing the proportion of MNTs to 50 per cent gave greater recognition to the role of MNTs, increased MNT confidence and served to engage them more in the process of scheme governance.

'I've been an MNT for ten years now. We've only ever had one vote because having the balance as it is means that you have to proceed by consensus [...] I think people wanted to see decisions made by consensus rather than a majority forcing its view.'

(MNT, 1,000+ employees, trust-based DC scheme)

- Secondly, when the one-third requirement was introduced it contained provision to further increase MNT representation to 50 per cent. Some organisations had sought anticipate any changes to the law to require 50 per cent MNT representation.

On the whole, respondents from organisations that had exceeded the one-third requirement were happy with how their current trustee arrangements were working. MNTs and trade union representatives reported that they were particularly happy with the trustee arrangements for their organisations and that the schemes were being governed appropriately. Employers and employer-nominated trustees (ENTs) offered mixed views on how well they thought these arrangements were working, but there was a general feeling that 50 per cent MNT representation was beneficial to the scheme (see Chapter 5).

3 Issues facing trustee boards

This chapter provides an insight into issues facing boards of trustees in respect of member-nominated trustee (MNT) representation. In particular, the importance of effective recruitment, retention, training and support of MNTs are discussed. The chapter also describes the skills identified by respondents as desirable for potential MNTs to possess.

Summary

- The processes of MNT recruitment, training and support were seen as highly important, both in terms of giving MNTs the skills necessary for effective scheme governance, and to retain their services.
- In some cases it was felt that recruitment practices were shaped by employer concerns over ensuring the suitability of potential candidates. Some felt that this had led to recruitment procedures which failed to ensure that all eligible members were consulted or considered. There was little evidence of any standardised approach to recruitment, with differing practices existing between employers.
- Difficulties associated with the recruitment of new MNTs, such as lack of interest from prospective trustees was the primary concern reported, both in terms of meeting the requirement for one-third MNT representation and any potential mandatory move to 50 per cent. This difficulty highlighted the importance of retaining the services of currently serving MNTs and that some employers, particularly, but not exclusively, those working in 'blue-collar' industries may encounter difficulties in attaining 50 per cent MNT representation.
- Various issues surrounding MNT recruitment and retention were identified by respondents, namely: perceptions of the subject matter as dry and technical; office politics; potential career impact; concerns around personal liability; and time pressures; and, a lack of remuneration for the role.

Continued

- Overall it was felt that an effective MNT would have a genuine interest in pensions and a basic understanding of the governance and investment decisions made by trustee boards. Confidence to speak up in board meetings, honesty, integrity and the ability to balance the MNT role with their day-to-day responsibilities were also deemed essential characteristics for a trustee to possess. Candidates possessing these skills and attitudes would make highly effective MNTs once they had received adequate training and spent time on the board *'learning the ropes'* from more experienced trustees.

3.1 Recruiting MNTs

All the respondent groups noted that one of the greatest difficulties with MNT representation lay with the ability to recruit members for the role. Respondents associated with both Defined Benefit (DB) and Defined Contribution (DC) pension schemes and from all sizes of organisation recognised that recruiting new MNTs was often a difficult task due to, among other reasons, the low level of interest shown in the role by members (see Section 3.3 for other reasons and further explanation). This was especially prevalent during the effort to obtain a board comprised of one-third MNTs and was perceived to be a particularly problematic aspect associated with a move to 50 per cent MNTs.

Employers noted that the difficulties in recruiting suitable MNTs for the role at the one-third requirement, such as a lack of knowledge about pension schemes, legislation and investment strategies and a perceived unwillingness to take on extra responsibility, justified concerns about a possible 50 per cent MNT requirement.

'Well the difficulties are the difficulties that they've always been, you know, 50% would be even more ridiculous [than trying to recruit for the one-third requirement].'

(Employer, 1,000+ employees, trust-based DC scheme)

Employers had a range of systems in place for MNT recruitment and these varied in their level of formality. Commonly, employers would contact the entire membership of the scheme to announce an MNT vacancy in the first instance.

However, there were also employers that preferred to task a member of staff with drawing up a shortlist of potential MNT candidates and approaching these individuals directly to gauge their interest in serving as a trustee as a first port of call. For organisations that adopted these recruitment methods initially, if these proved unfruitful the entire scheme membership would usually be contacted about the vacancy. Should multiple candidates then present themselves an election would usually be held; it was a matter of concern for some employers that an election could lead to the most popular candidate being selected rather than the individual with the appropriate skills and attitude. As such, certain employers would interview

candidates putting themselves forward and make a selection without opening the process up to a vote¹⁸.

It should be noted that in terms of potential barriers to recruitment and the difficulty of finding suitable candidates, the findings applied equally to both DB and DC schemes. However, it was suggested by some employer-nominated trustees (ENTs) that the increasing complexity of their DB schemes could make the process of finding and retaining capable MNTs more difficult. For example, an ENT on a DB scheme board noted the increasing difficulty of understanding the governance and investment strategy being pursued. As such, other trustees recognised the importance of recruiting new MNTs with sufficient knowledge of investment strategies.

'The strategy that we've been pursuing on the defined benefit assets has got so technical that [we] felt we need somebody with even more experience than I've got to help us with this.'

(ENT, 1,000+ employees, DB scheme)

While individual circumstances varied between organisations and individuals, the following potential barriers to MNT recruitment were commonly identified:

- **Perceptions of subject matter** – Pension governance as a whole was not viewed as a particularly attractive prospect and suffered from an image problem. As one employer put it:

'Essentially, the vast majority of people are only interested in the benefits the pension scheme provides, they're not interested in the nuts and bolts...'

(Employer, 200-999 employees, DB scheme)

This was felt to be particularly evident among younger scheme members in their 20s and 30s, for whom pensions were largely viewed as a distant concern lacking immediate relevance.

The duties and skills required in an MNT role were often considered technically difficult, requiring a particular set of technical skills and an aptitude for business decision-making. This was seen as potentially intimidating for junior staff, particularly those working in 'blue collar' roles. Furthermore, employers themselves often voiced a preference for more senior staff in MNT roles for precisely this reason. In this respect, industries with relatively large numbers of semi-skilled or unskilled workers felt that finding employees to be MNTs could be particularly difficult. Conversely, firms in the financial sector recognised their relative advantage in having a workforce with financial knowledge and investment skills.

¹⁸ The TUC research also provided evidence of MNT selection methods that were not always wholly democratic. TUC (2008) *The Member Voice in Pensions Governance: Progress to One-third Member Nominated Trustees and Beyond*. Available from: <http://www.tuc.org.uk/pensions/tuc-15113-f0.pdf>

- **Office politics and personal liability** – While actual disputes were reportedly rare, the potential for disagreements with one's employer over pension scheme governance was another concern for potential MNTs. More explicitly, the possibility for such disagreements to spill out of the boardroom and affect an individual's wider career prospects at the company was also mentioned. While employers tended to view the taking on of extra responsibility as a positive sign of an employee's dedication, there was said to be a perception among some employees that it was safer not to put themselves forward in the first place to avoid any such disputes.

Employers and ENTs voiced their own concerns regarding the importance of selecting suitable candidates. The role of the MNT was to assist in the governance of the pension scheme; the board of trustees was not seen as an appropriate forum for raising any wider employee grievances.

'The relationship [between board members] could deteriorate if the wrong sort of person was a member-nominated trustee, [they] came with the wrong agenda.'

(ENT, 1,000+ employees, DB scheme)

More broadly, the issue of trustees' personal liability was seen as potentially intimidating for those without a background in corporate governance; it was, however, common for employers to provide liability insurance for trustees. This was one area where costs were identified, although they were not seen as prohibitive.

- **Time pressure and lack of remuneration** – The MNT role was seen as requiring significant time investment to manage the extra workload. Employees were often said to be reluctant to take on this extra burden if they foresaw a negative impact on their performance in their day-to-day responsibilities.

'Most people do the extra bit at home and things and in actual fact, still work to full capacity [...] in my experience, they've [MNTs] always worked a lot harder.'

(Employer, 200-999 employees, DB scheme)

Levels of concern about time pressure varied between organisations depending on the levels of support and cover offered. While some employers expected MNTs to manage their own time effectively, others made allowances and gave trustees time off before board meetings to read appropriate documents and prepare for discussions. This was another area where potential costs were identified although once again they were not seen as particularly problematic.

A broad consensus across employers, trustees and trade unions agreed that it was inappropriate to offer financial incentives to serve on pension boards; the feeling was that this would attract the wrong sort of candidate with little or no genuine interest in scheme governance. On the other hand it was acknowledged that this lack of financial incentive detracted from the attractiveness of serving as an MNT for some individuals.

3.2 Retaining MNTs

Retaining existing MNTs was considered extremely important in the light of the recruitment difficulties highlighted by respondents (see Section 3.1). This commonly led boards to request that people did not step down, if at all possible. Respondents felt that a requirement to install 50 per cent MNT representation would simply exacerbate recruitment and retention difficulties experienced in attempting to obtain a one-third MNT representation.

Employers and former MNTs reported several reasons for MNTs stepping down from their trustee role. These included:

- **‘I’ve served my time’** – After several years of service MNTs often felt they had made a significant contribution, but would prefer not to have the burden of responsibility or dedicate the time needed to perform the role effectively;
- **Moving On** – As employees leave an organisation, while they may still be a member of the pension scheme it was common to want to dedicate their efforts to their new role elsewhere, if at all;
- **Maximum Terms** – Schemes sometimes imposed a fixed term (e.g. five years) for which an individual may serve before seeking re-election and an additional limit on the number of terms any given individual may serve;
- **Disputes** – Should relations between board members deteriorate or a dispute arise between MNTs and the employer over governance this was seen as highly stressful and potentially damaging to future career prospects. As such, any dispute was a potential trigger leading to trustees wishing to step down.
- **Lack of support or training** – A lack of training and/or support was also found to act as a trigger to stepping down. MNTs citing this reason commonly stated that a lack of training or support left them feeling ‘out of [their] depth’.

Overall, employers noted that they could only encourage MNTs to stay and attempt to motivate and encourage. Once an individual had firmly decided to step down there was little option but to seek a replacement and run with a vacancy in the meantime.

It should be noted that from a scheme governance perspective, boards particularly valued a low turnover of trustees and the long-term stability of the board membership; building effective working relationships while gathering experience collectively over time.

3.3 Training and support

Training and supporting newly recruited MNTs was seen by employers as part of the process that all members of staff entering into new roles must go through. Training and support provisions were considered to be an essential part of the process of a new MNT becoming effective in their role, encouraging them to

become more comfortable with the issues affecting the occupational pension scheme. Furthermore, the cost of training and supporting MNTs in their role was not viewed as a prohibitive aspect of the one-third or 50 per cent MNT requirement. Reasons for this offered by employers were that often, training and support mechanisms had been in place for a number of years already, and also that the cost of supplying these provisions was relatively small to the cost of maintaining the pension scheme itself (see Section 4.3).

New MNTs were offered a variety of different training and support provisions in order to learn about their role and how the company pension scheme they were representing worked. Training was generally described as being ongoing from the moment MNTs were appointed in order to encourage them to see the role as a dynamic and ongoing process requiring them to stay up to date with developments in policy, legislation and investment strategy.

After introductory training was completed it was commonplace for the impetus to lie with MNTs to flag up any further training needs or gaps in knowledge. This was usually done as part of proceedings in board meetings. It was felt by some MNTs that such public admission of training needs could be seen as embarrassing and potentially intimidating for new trustees. One large employer (1,000+ employees) had produced a training needs checklist allowing people to declare their needs more privately to the company's pension's manager.

Estimates of the time needed to become a fully effective trustee usually fell within the range of one to as long as three years. This was explained largely in terms of the time needed to learn new governance skills and see all aspects of the pensions-cycle, including scheme valuations etc. This placed greater emphasis on the need to retain experienced trustees.

3.4 Reported desirable skills/aptitudes for MNTs

Overall it was felt that an effective MNT would have a genuine interest in pensions and a basic understanding of the governance and investment decisions made by trustee boards. Confidence to speak up in board meetings attended by senior staff, honesty, integrity and the ability to balance the MNT role with their day-to-day responsibilities were also deemed essential characteristics of an MNT. Candidates possessing these skills and aptitudes were felt to make highly effective MNTs once they had received adequate training and spent time on the board '*learning the ropes*' from more experienced trustees.

This desire from employers for 'suitable' MNT candidates should perhaps be considered in the context of ENT recruitment. Employers, particularly those from larger organisations, tended to nominate experienced senior staff often with their main role in finance or human resources departments for ENT positions. As such, it can be suggested that employers tended to be predominantly concerned that all trustees possessed an aptitude and understanding of pension investment and governance decisions; while giving a voice to the concerns and aspirations

of ordinary scheme members was seen as a secondary consideration for those wishing to become MNTs.

There were also concerns among employers that trustee boards should remain strongly focused on pension-related issues and not become a forum for any wider discussions between workforce and employer. Employers felt that a move to 50 per cent representation could create a situation whereby members had 'control' of board room discussions and used these to debate non-pension-related issues.

As a result of these concerns, employers may wish to carefully consider that MNT candidates understand the boundaries to the role and acknowledge that the position of MNT relates only to the pension scheme for which the MNT is recruited.

Very few employers considered the make up of their board in terms of demographics and even representation in terms of gender, age, ethnicity etc. Instead, when asked about their preferred board composition, this was discussed in terms of a mix of employer and employee-nominated trustees, also noting the importance of having a current pensioner's perspective. Bearing in mind the emphasis placed on relevant skills and knowledge, companies would often seek the assistance of a professional trustee if they felt these skills were insufficient within their own organisation.

In the light of the findings outlined in this chapter, the implications point towards the fact that some employers, particularly, but not exclusively those from 'blue-collar' industries, may encounter difficulties when recruiting additional MNTs to meet a 50 per cent requirement. This assertion is borne out of the notion that the most desirable MNT candidates were those with a strong knowledge of pensions legislation, investment strategies and scheme governance, but at the same time were willing to give up their own time, receive little or no remuneration for the MNT role and negotiate concerns that they would be held liable should wrong decisions be made.

4 The effect of MNT representation

This chapter discusses the effects that member-nominated trustee (MNT) representation were perceived to have had on pension scheme boards, based on the experiences of organisations that had met or exceeded the one-third MNT requirement and the perceptions of those that had hitherto not exceeded one-third MNT representation. Specifically, the chapter addresses the effects that MNT representation had, or was felt to have, in terms of:

- scheme governance;
- scheme members; and
- costs.

The chapter also addresses the views of respondents who felt that MNT representation had resulted in limited influence on pension schemes. This issue is discussed in terms of those who felt one-third representation did not go far enough to creating an impression, and those who believed that MNTs did not add any value to the board or scheme.

Summary

- An overall feeling existed that MNT representation would have limited effects on pension scheme governance. Notwithstanding this, influences resulting from MNT representation were felt to affect the balance of power on a board, the equality of decision making, communication issues between the board, and the level of expertise on the board.
- Having one-third or particularly, 50 per cent MNT representation was perceived to have a positive effect on members through giving them greater confidence in the security of their pension scheme and an increase in transparency around decision making and scheme governance.

Continued

- Having a required proportion of MNTs was not felt to have any great effect on costs for any respondents. Where costs were felt to occur, these were small and were largely based on administrative costs in areas such as MNT recruitment and training. Marginal costs were also acknowledged in terms of the time MNTs spent away from their day job conducting trustee duties.
- There was also a sense that MNT representation had a limited effect on a scheme through, on the one hand MNTs not adding value to the board of trustees, and on the other hand that any proportion of less than 50 per cent MNTs did not go far enough to making a meaningful difference to decision making.

4.1 Effects on scheme governance

There was an overall sense that any proportion of MNT representation had little effect in terms of how a scheme was governed. It was suggested that providing MNTs contributed effectively in board meetings, there was little difference in the running of the scheme regardless of the make-up of the board's trustees. This was mainly felt to be the case due to the understanding that the pension scheme board already operated in the interests of the members and that regardless of the proportion of MNTs on the board it would always operate in the same fashion.

'I don't think that there is anything other than what we're doing that will be beneficial, otherwise we'd be doing it. If things are needed to be done to improve the scheme then we'll always do it as a company. The philosophy of the company's owners has always been to provide a good pension for people.'

(Employer, 200-999 employees, DB scheme)

Despite this overall feeling, respondents offered a variety of suggestions that one-third and 50 per cent MNT representation could have on the governance of a pension scheme. Broadly, these were based around three key themes:

- alterations to the balance of power on the board and the equality of decision making;
- communication issues between board members; and
- issues relating to loss of expertise or focus on the board.

4.1.1 Alterations to the balance of power and equality of decision making

All types of respondents suggested that one advantage of having MNTs on pension scheme boards was that they helped to facilitate a 'balance of power', in that it enabled members' 'voices' to be heard and would be taken into consideration by others on the board.

'It is important to have member representation because those people do represent the scheme.'

(MNT, 13-199 employees, DB scheme)

Having at least one-third of a board comprised of MNTs occasionally led some to suggest that the MNT requirement had shifted the balance of power so that employers were not able to make decisions that they may have made previously quite so easily. This was especially felt to be the case on boards where there were particularly 'dominating' characters occupying 'powerful' roles, such as the board Chair. One salient example related to the pressure that MNTs could bring to the board to ensure that Defined Benefit (DB) schemes were kept open for as long as possible. It was felt by some trade union representatives that employers would like to close these schemes as they were not bringing benefits for the company and were amassing large deficits. However, it was believed that MNTs' presence on pension scheme boards allowed some of these schemes to remain open, thus reflecting member interest¹⁹.

'From the Trade Union's point of view we want to see the final salary scheme kept in place, the more people [MNTs] we have on the board the more chance that may happen...we've managed to keep the final salary scheme in place at a time when a lot of companies are withdrawing from that due to the cost.'

(Trade Union representative, 1000+ employees, DB scheme)

Trade union representatives, and to a lesser extent MNTs, described how one-third representation did not go far enough to ensuring equality between employers and members on pension scheme boards. Trade union representatives highlighted that at one-third MNT representation especially, MNTs did not have sufficient power to affect decision-making to any great extent as they could be overruled by other trustees. It should be noted that respondents generally acknowledged that this issue was more likely to occur if there was a dominant individual in a position of power, such as the board Chair, present at trustee meetings.

Pension scheme boards that had already moved to 50 per cent MNT representation were felt by all parties to provide 'fairer' representation and lead to more equal decision-making by trustees sitting on the board. This facilitated a feeling that all parties' views were taken into account and was seen as a positive move for the scheme as the board allowed a greater insight into the needs of its members through MNTs. Additionally, it was felt that greater exposure of members' needs would increase employee engagement in pensions at a time when confidence in pensions is perceived to be low.

¹⁹ It should be noted that legislation allows an employer to close a DB scheme to new members or new accruals without requiring the consent of the Trustee board.

'I mean if you've got more of an equal basis of representation then you as a member are going to be more comfortable about the way the thing is governed...'

(Trade union representative, 1,000+ employees, trust-based DC scheme)

In these instances MNTs and trade union representatives suggested that having greater MNT representation on the trustee board was what was owed to members paying into pension schemes and could only be viewed as having a positive value.

'There is safety in numbers, isn't there and if you've got the three member-nominated trustees who have a particular issue that they want to make sure is taken forward, then I think, you know, they probably will have more clout than two of them.'

(Trade union representative, 1,000+ employees, trust-based DC scheme)

However, a feeling existed among trade union representatives that on some trustee boards with 50 per cent MNT representation, the role of MNTs could be undermined. This was especially felt to be the case on trustee boards where the board Chair had a casting vote over contentious decisions. It was conceded that in cases where votes were tied between employer-nominated trustees (ENTs) and MNTs, the board Chair would commonly vote similarly to ENTs, thereby overruling the MNTs' votes. In these circumstances, trade union representatives felt the principle of 50 per cent MNT representation would be undermined.

4.1.2 Communication issues between board members

MNTs and ENTs held contrasting views about the extent to which 50 per cent MNT representation would affect communication issues between board members. As some MNTs had the view that 50 per cent representation would directly equate to a greater number of individuals on the board, it was felt that communication between board members would become more 'cumbersome' due to the greater number of opinions present on a board and also because of the greater number of people to contact to initiate meetings. Additionally, it was acknowledged that some organisations struggled to gather all trustees together for board meetings, meaning decision making could often be delayed until all trustees were able to discuss issues.

On the other hand, some ENTs stated that communication between board members may even be improved as a result of 50 per cent MNT representation. Commonly, it was felt that 50 per cent representation would result in a greater number of individuals on a board and as such, greater numbers were suggested as being able to play a role in attending meetings.

4.1.3 Loss of expertise or focus on the board

There was a sense among employers that in some instances, 50 per cent MNT representation could lead to an unintended loss of expertise on boards through MNTs replacing ENTs as board members. Employers had experienced this through

the one-third requirement and one suggested that this led to MNTs contributing nothing to board meetings because they had little knowledge of pensions. It was felt additional MNT representation could reduce the levels of pensions knowledge and expertise available on the board and that this, in turn would be detrimental to governing the scheme and making key decisions.

'...I think it's better to have more professional people who understand what's going on to do it, than it is to have member-nominated trustees.'

(Employer, 1,000+ employees, trust-based DC scheme)

There were a small number of employers and ENTs who found it difficult to highlight any benefits brought about by MNT representation, particularly if the MNT was inexperienced and had a relatively low level of pension knowledge in comparison to other trustees on the board.

Employers and ENTs, particularly those from organisations with more than 1,000 employees, suggested that MNTs did not bring any specific value to the board that ENTs did not already bring.

'Even when we have meetings with MNTs their contribution is zero. We have to take time out and take them through it very carefully and let them have their say and do their bit and then move on, because their contribution is weak.'

(Employer, 1,000+ employees, trust-based DC scheme)

4.2 Effects on scheme members

Having a specified proportion of MNTs on a pension scheme board was felt to have positive effects on the members of a scheme. This view was commonly held by MNTs and trade union representatives, although it did not go unmentioned by employers and ENTs as well. Effects on members were mainly suggested as being based around increasing member confidence in the pension scheme and greater transparency between the pension scheme sponsors and the members.

4.2.1 Increasing member confidence

The presence of MNT representation was felt to give pension scheme members greater confidence that their interests were being represented on pension boards. Employers, MNTs and trade union representatives all believed that members of occupational pension schemes (including active members, deferred members and pensioners) felt more comfortable in the knowledge that they had a channel through which their views would be considered at trustee board meetings. In some instances it was believed that the increase in members' confidence brought about by additional MNT representation on the board would impact positively on workforce morale as a whole.

'If the staff feel as if the employer is genuinely taking into account the views of the staff and of the pensioners, then I think that has an impact in terms of the workers' attitude to work, morale and so on and that will contribute to a more efficient workforce. It's just good management practice.'

(Trade Union representative, 200-999 employees, DB scheme)

Furthermore, employers suggested that it could be beneficial for members that they knew, or knew of, MNTs representing them as they would usually have voted for them to take up the role of MNT. This was felt to enable members to approach MNTs to ask questions or put forward any concerns they had about their pension, thereby reducing potential barriers for communication between members and trustees.

4.2.2 Increasing transparency

Trade union representatives thought that 50 per cent MNT representation would increase the level of transparency around scheme governance between the board and scheme members. They felt that members should know about options deliberated and decisions made by the board, such as decisions around pension fund management. It was conceded through experience that although this was commonly the case in most schemes, it was not universal.

More exceptionally, it was believed that a greater level of transparency on boards would encourage employees to actively participate in occupational pension schemes.

'I think if we're ever going to restore people's faith in pensions and there's a long way to go to do that, one of the key things is to make sure that people can see what's happening and feel a level of comfort that the people that are looking after their interests are truly doing that.'

(Trade union representative, 1,000+ employees, DB scheme)

Greater transparency between the board and the scheme's members was commonly felt to be a factor that would reduce any potential or actual antagonism between the two parties. This was a view held by all types of respondents from all sizes of company and from both types of pension scheme. Having 50 per cent MNT representation was considered to be equal and fair and would allow decisions to be made openly and by consensus. This was a view supported by trustee boards already with 50 per cent MNT representation who were described as generally functioning in a very democratic manner. While discussion could still be heated there was a sense that decisions were arrived at by consensus rather than by majority view. From the point of view of employers and members concerned, 50 per cent MNT representation tended to remove the antagonism that could sometimes be felt with one-third MNT representation.

4.3 Effects on costs

Costs associated with a move to 50 per cent MNT representation were generally considered to be marginal, especially in comparison to the costs of running a pension scheme overall. It was common for employers to suggest that costs were not a particularly onerous aspect of meeting the one-third MNT requirement and therefore, that they did not envisage costs to be an issue meeting a 50 per cent requirement.

'I mean financially, it's not a big deal.'

(Employer, 13-199 employees, DB scheme)

Despite this overall view, there were some concerns raised by employers that there would still be an impact, albeit relatively small, in terms of the cost to the scheme and employer of implementing 50 per cent MNT representation. It was felt that costs would be incurred in a number of places, namely:

- time and money spent on recruiting MNTs;
- providing training and support for new MNTs;
- associated administrative costs; and
- the cost in terms of time taken by an employee to conduct MNT duties in place of their primary employment duties.

'The increased costs in the sense that if again, if anybody took up the trusteeship, if anybody was nominated and voted into the trustee board then the additional costs as we've already mentioned, would be training and I suspect the cost of that person spending an appropriate amount of time on that rather than the current work that they're doing.'

(Employer, 200-999 employees, DB scheme)

5 Conclusion

The move to one-third member-nominated trustees (MNT) representation had generally been welcomed by all respondents in this study. The exceptions to this were family-run firms that were concerned about the loss of power they would have over the management of the pension scheme.

A move to 50 per cent MNT representation was broadly welcomed by respondents representing the interests of employees and scheme members – MNTs and trade union representatives. There was less support for such a move from employer-nominated trustees (ENTs) and employers themselves. Where employers and ENTs held reservations about a proposed move to 50 per cent MNT representation, this was mainly due to a feeling that further change was unnecessary and that scheme governance could be undermined if experienced ENTs were replaced by inexperienced MNTs. Underlying these objections was a clear concern about a shift in the balance of power on the trustee board. In the case of family-run firms there was a suggestion that if they had to concede to 50 per cent MNT representation then some might either review the members' benefits or close the pension scheme.

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

The costs of increasing the number of MNTs on the trustee board were mentioned by employers, but were not considered to be onerous or a strong enough reason to oppose an increase the proportion of MNTs on the trustee board. Employers

recognised that the additional costs of increasing MNT representation were marginal and that costs would be incurred around administrative tasks, recruitment and the cost in time an MNT would spend undertaking trustee duties in place of primary employment duties. Costs of increasing MNT representation were generally felt to pale into insignificance when considered in relation to the cost of pension scheme employer contributions, for example.

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

The implications of these findings are five fold:

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

This report presents the findings from a qualitative research project commissioned by the Department for Work and Pensions (DWP) and carried out by BMRB Social Research to explore attitudes to increasing member-nominated trustee (MNT) representation on pension scheme trustee boards. The research aimed to explore the views and experiences of representatives of four groups with key roles in the running of occupational pension schemes around increasing MNT representation to 50 per cent and, in particular, concerns relating to how 50 per cent representation would impact on scheme governance, recruitment of MNTs and costs.

The study, conducted in 2009, comprised 61 face-to-face depth interviews with employers, MNTs, employer-nominated trustees (ENT) and trade union representatives from across England, Wales and Scotland. Respondents were sourced from a variety of commercially available databases and selected to provide a broad cross-section of pension scheme trustee boards in terms of scheme size and type.

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