TISA

Response by TISA to: Trust-based pension schemes: Trustees and governance, building a stronger future

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have approximately 270-member firms involved in the supply and distribution of savings and investment products and associated services. Our members include the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on four key workstreams that best support the consumer and UK financial services, TISA has become a leading industry voice and ally for delivering consumer focused initiatives.

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members and our industry. From improving financial education, inclusion and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **three distinct workstreams**:

1. **Consumer Protection**
   Protecting the best interests of UK consumers in their financial journeys.

2. **Consumer Access**
   Considering issues that could directly impact access to financial products.

3. **Effective Products**
   Examining key considerations and legislation relating to products across the investing and saving landscape.

All groups focus on both strategic and technical elements of policy/regulation. Key outputs from our workstreams can include recommendations to government and regulators on developing a financial services framework that protects and benefits UK consumers, finding solutions to operational/infrastructure challenges and developing standards of good practice on the interpretation and implementation of new regulation.

We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government and regulators.

Find out **more about TISA here:** https://www.tisa.uk.com/about-tisa/

Executive Summary

TISA welcomes the opportunity to respond to the DWP consultation - Trust-based pension schemes: Trustees and governance, building a stronger future.

Given the increasing responsibilities and areas of coverage trustee boards are required to govern, it is the right time to take stock of where we are and consider whether changes are needed.

The UK pensions framework is currently going through significant change. There are various regulatory changes coming through including Value for Money, Guided Retirement, Targeted Support and Pension Dashboards. The rise in digital capabilities and the rising prominence of AI combined with an increased focus on behavioural science means the level of specialist knowledge needed to effectively govern a pension scheme is becoming ever greater. This highlights the needs for board diversification to ensure the necessary skills and knowledge can be applied, to ensure scheme members are getting good outcomes.

We shouldn't underestimate the benefit of having member views represented, which becomes more challenging for modern multi-employer schemes. The use of sub-committees is a model which supports this as well as providing a way in which boards have access to the expanding range of specialised knowledge and services needed.

The TPR trustee toolkit should be reviewed and updated so that lay trustees have access to the latest guidance which is reflective of the changing landscape. Finally, we agree that professional trustees should be mandated to hold a minimum level formal qualification which demonstrates they have the capabilities to act in that capacity and can meet higher standards than other trustees.

We would be pleased to discuss any aspects of this response with you.

Question responses

Question 1: What do you think works well in the current trusteeship and governance system?

It is regarded by DWP and TPR that bigger pension schemes generally provide better governance than smaller schemes. So, economies of scale work well in helping achieve good governance. That is not to say that all smaller schemes perform poorly.

The responsibilities of trustee boards are clearly set out and a good mix of member and employer nominated trustees can lead to strong governance. Boards will achieve the best outcomes where they work in a culture which enables them to challenge each other and those that advise them on specific areas such as investments and actuarial aspects.

The frameworks of ESOG and ORA have provided structure and sharpened the focus for trustees and the Code of Practice is also a very well referred to and useful guide for trustees.

Question 2: What are the barriers to good trusteeship?

A challenge to achieving and retaining strong governance is the continually changing DC landscape. This has been subject to a prolonged period of substantial change and will continue to do so, until at least the start of the next decade. Requirements being placed on trustees are therefore in a constant state of change and they are expected to keep up to date in multiple areas which are often quite specialised such as technology, IHT and behavioural science.

The increasing responsibilities being placed on trustees, combined with an expected significantly contracted market by 2030 may result in there not being enough professional trustees coming through. We may also see some professional trustees sitting in multiple boards, which could have a negative impact on their performance.

Single employer schemes may not benefit from the necessary resources to effectively govern the schemes. This may be financial or could be where good MNTs are discouraged or prohibited from carrying out the role due to a potential adverse impact on the operational running of the underlying employer.

SSAS schemes require every member to be a trustee but this does not mean they are qualified to do so. Some employ a professional trustee but this is not mandated and we would recommend the requirement for these schemes to have a professional trustee is reviewed.

For commercial schemes, where there maybe conflicts of interest, there needs to be stronger guidance on how these situations should be effectively managed.

Question 3: Looking ahead to 2030 and beyond, what further support will trustees need to ensure effective scheme governance?

A greater focus is being placed on decumulation, notably with Guided Retirement due to be implemented in 2028. Pension Dashboards and technology/AI are playing an increasingly prominent role in driving up levels of understanding and engagement through digital journeys and online modelling tools. Value for Money places a strong emphasis on investment performance – both past and future. This is only a snapshot of some of the developments within the DC landscape and trustee boards will be expected to collectively have a strong and detailed knowledge in every single area.

They will be reliant on greater support through advisers and greater support through the regulators. The trustee toolkit will need an update to cover several new areas of focus and in view of the pace of change, should be reviewed and updated annually.

Multi-employer schemes will be larger in size and all have a commercial interest. Conflicts of interest will need to be managed, especially where these exist between scheme outcomes vs member outcomes. The employee link to the board, which can provide additional perspectives is also missing in this model. To enable their voice to be heard, a member committee could be established which reports directly to the board.

Smaller schemes may need to create sub-committees who focus on specific areas of governance and report back to the main board.

Question 4: Does effective scheme governance in a Megafund require additional support or any specific changes in regulatory approach?

Given the scale of change coming through in DC, trustees will undoubtedly need more support to effectively govern their schemes. TPR will need to be able to provide this support, which could take the form of trustee toolkit enhancements or more direct support.

TPR will also need to be scaled up to manage effective governance themselves of occupational DC schemes. Multi-employer schemes will become too big to fail. VfM framework will not be appropriate in its current proposed form for ensuring trustees are meeting their requirements. TPR will need to be more on the front foot to ensure any areas of concern can be quickly identified and worked on, rather than waiting for the outcomes of a retrospective VfM assessment.

Question 5. Can you describe any potential or actual conflicts of interest that stem from the provision of further services within professional trustee firms and other third-party providers? How are these conflicts managed now? What is the scale of the residual risk in the market?

Conflicts of interest will always exist to some extent. MNT for instance will need to consider how personal outcomes vs scheme outcomes are managed. An extension to the trustee toolkit to include a section on how to manage conflicts of interest would be beneficial.

Question 6. Are additional safeguards needed to effectively manage these risks, given the need to balance members' interests with effective scheme management?

As above

Question 7. Should there be restrictions on individuals acting as professional trustees, such as the number of trustee appointments they can hold, to ensure individuals have the appropriate capacity to manage schemes?

The nature and the type of scheme will place different requirements on professional trustees, including knowledge and time. As such, it would be difficult to place a restriction on the number of appointments that could be held. However, strong guidance should be provided to enable trustees to consider whether their performance is adversely impacted due to multiple appointments. Trustee boards should also be challenging professional trustees where it is felt they are underperforming.

Question 8. Are there situations where a PCST model is more or less appropriate and why? Should there be any restrictions or suitability guidelines on PCST appointments?

No strong suggestions here but one scenario where they could be more appropriate is where a DB scheme is fully buying out and the process has nearly completed. This final stage can take months/years but there is a restricted amount of oversight and governance required at this stage of the transition process. It is more of a maintenance type role.

Question 9. If the Government introduced an enhanced code of practice for sole trustees what specifically would you like to see included? Do you think existing codes of practice (Code of practice) already cover some or all of this?

N/A

Question 10. Given the future landscape for pensions, are any further controls or safeguards needed on the appointment of trustees to ensure that decisions are made in members' interests?

Please see our response to earlier questions where we see the role of trustees developing in line with a changing DC landscape.

Question 11. What role can government and regulators play in helping schemes to attract a diverse and talented pool of individuals to trusteeship?

N/A

Question 12. Should there be any limits on length of trustee appointment, or should they be limited in number of repeat appointments to the same trust?

There is a balance to be struck here as historical actions and decisions may provide contextualisation to the current performance of a scheme. Whilst there is an argument to be made on limiting the tenure for trustees in order to bring in fresh perspectives and skills, creating a hard rule may not be the best way to achieve this. Trustees should be challenging each other and a culture needs to exist where poor performance is highlighted and acted upon by the rest of the board.

Whilst we are aware that age discrimination should be avoided at all costs, there could be a case made for placing an age cap on trustees.

Question 13. Would it be appropriate to introduce a new public trustee who could be appointed by the Pensions Regulator? If so, in what circumstances would a public trustee appointment be preferable to a professional trustee from TPR's independent trustee register? And why?

This could be appropriate should the requirement to include a professional trustee for SSAS be introduced.

Question 14. Are there any reasons why TPR's powers of intervention regarding trustees should be modified and if so in what way should they be modified?

We are not aware of any reasons for modification.

Question 15. How can TPR ensure it has the information it needs for the directory without creating greater administrative requirements for schemes?

A requirement could be introduced for trustee boards to make periodic reports to TPR, so TPR has an up-to-date record of current operating trustees, the type of trustee they are and the board(s) they are appointed to.

Question 16. What skills will trustees of trust-based pension schemes need in order to be an effective and efficient trustee board? For example, areas such as leadership experience, negotiation skills, investment management, (including sustainability-related investment management), communications, financial planning? What other areas should trustees have proficiency in?

A lot of the skills have been highlighted. We would also add that 'soft skills' are a necessary skill to have – these are not really covered in existing guidance.

Question 17. Would it be appropriate for TPR to set statutory higher standards for professional trustees? What should these standards look like?

We believe it would be appropriate for professional trustees to hold a formal professional qualification which demonstrates why they can refer to themselves in this way. The standards to achieve this qualification should be agreed through consultation.

Question 18. We are moving towards models of trusteeship that do not include as many lay trustees as now, what important benefits or skills of lay trustees should we try to replicate in consolidated structures? And how should it be achieved?

We would suggest that consolidated structures adopt the approach of creating a member committee, where employees from the various employers can be voted into the role on a periodic basis. This committee should report to the main trustee board, who should evidence how their views are factored into decisions.

Question 19. What support/continuing professional development (CPD) would you like to see put in place for lay trustees? Should all trustees be accredited? Would it lead to a trustee shortage? Who would pay for it including time as well as any L&D costs?

The trustee toolkit needs updating to reflect the continuing changes and additional responsibilities that trustees take on, which reflects the changing DC landscape. These should be reviewed annually. We do not believe an accreditation is required per se but should available if it is felt it would help from a personal and board perspective.

Question 20. How can we ensure trustee boards take into account the perspectives of members in their decision making?

The introduction of a member committee would ensure this takes place. Please see our response to Q18.

Question 21. Can you give any examples of best practice in the UK or internationally that demonstrate schemes taking appropriate account of their members' views?

N/A

Question 22. What benefits and challenges do you foresee if mandatory minimum standards were introduced for scheme administrators and/or wider administration services such as Integrated Service Providers?

ISPs have to meet PDP standards and report to TPR. They have no say in the running of the scheme and we believe there is no further requirements needed for this group.

Scheme administrators' performance should be monitored by the trustee board, who should retain responsibility for determining whether the standards met are appropriate. The new VfM framework will help in this regard. Membership of the industry body PASA helps schemes with best practice in this area.

Question 23. Should TPR have the same levels of regulatory oversight as the FCA regarding administrators and/or wider administration services, and why?

No, the different legal structures highlight why regulatory oversight is managed in a different way.

Question 24. Should administrators have to be registered with TPR to be involved in administering a scheme? If so should TPR be able to deregister an administrator? (A model similar to that in Ireland)

This would introduce additional costs which would ultimately be borne by scheme members and require a significant lead-in time. Trustees should retain the responsibility for ensuring administrators are meeting the standards needed to run the scheme effectively. VfM framework will help evidence performance in this area.

Question 25. What risks if any, does increased levels of consolidation activity in the DC sector pose to administration service providers? How can these risks be mitigated to ensure an orderly transition to Megafunds?

Trustees will need to ensure that administrators keep fully updated with regulatory and technical changes. This should form part of the boards ongoing responsibilities to ensure they are complying with theirs.

Question 26. What role should TPR take in reducing the risk and impact of a disorderly market exit by an administration provider?

Schemes should already have continuity and exit plans in place, to ensure an orderly exit from the market. It is up to TPR to ensure through effective governance that all schemes do have these and keep them updated.

Question 27. To help us better understand the trustee landscape and the potential impacts of any changes emerging from the consultation, we would welcome some information regarding the scheme or provider you are answering on behalf of in the table below.

N/A