

Signs of declining governance standards in pension schemes?

- **Trustees concerned about their own skills to negotiate required funding levels and monitor service providers**

Research by the Pensions Regulator gives worrying signs that the standards of governance in employers' pension schemes may have slipped, says Trustee GAAPS, the trustee search and selection firm. According to the research, trustees are increasingly concerned about their ability to manage risk, monitor service providers and negotiate funding levels effectively.

Trustee GAAPS says that while trustees' general understanding of their role has seen an improvement, there are signs that trustees are themselves concerned that their ability to impose high standards of governance has waned over the last year.

According to the Pensions Regulator's Governance Survey, the percentage of trustee boards who "strongly agreed" they were "able to conduct effective negotiations with the employer in relation to scheme funding requirements" has declined from 66% to 61% over the last year.

Trustee GAAPS highlights that the ability to successfully negotiate funding requirements is a skill that has become essential, especially as stock market falls have put a dent in pension schemes' funding level.

Comments David Johnson, Consulting Director, Trustee GAAPS: "As corporate profits weaken, employers are more inclined to dig their heels in and prevent cash slipping off their bottom line and into their employees' pension scheme."

"Although employers' arguments can be very persuasive, trustees need to be aware that that such volatile investment markets are capable of turning healthy surpluses into deficits in a matter of months."

Difficulties to actively monitor risks and control service providers

The Pensions Regulator's Governance Survey also reveals that the number of trustee boards who "strongly agreed" that they "actively monitor service providers and professional advisers" has declined from 52% to 41% while the number who 'have appropriate internal controls to manage risk' has declined from 51% to 48%.

David Johnson, comments: "Trustees are under great pressure as their role and responsibilities are becoming more complex. It may be that, as portfolio investments

continue to diversify across asset classes, trustees feel that their ability to keep a proper oversight over their advisers such as fund managers becomes challenged.”

Trustee GAAPS says that the growing complexity of the trustee role is causing part-time trustees to withdraw from the market, while the vacancies are being increasingly filled by professional independent trustees.

David Johnson concludes: “Trustees are putting great efforts into improving governance standards, but as their job description widens and as they come under ever-greater scrutiny from the Pensions Regulator, they are likely to be feeling the strain.”