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67% of FTSE-100 pension fund boards exposed to potential conflicts of interest

- **Half of non-independent chairmen are Directors or Senior Managers at sponsoring company**
 - **Government should enforce 'comply or explain' policy for using independent trustees**

An astonishing 67% of FTSE-100 final salary pension schemes are still exposed to potential conflicts of interests by failing to appoint independent Chairmen to their board of trustees, reveals new research from Trustee GAAPS, the trustee search and selection firm.¹

Only one in three (33%) of the pension trustee boards, whose role is to protect the interest of pension fund members, are chaired by a trustee that is independent of the pension fund's sponsoring employer.

Of the 67% of FTSE-100 pension fund Chairmen that are not independent, 50% are Directors or Senior Managers of the company that funds the scheme, whilst 50% are former Directors or Senior Managers of the sponsoring company (which fails the generally accepted governance definition of "independence").

Trustee GAAPS says that a fundamental conflict of interest exists when a company Director is also a trustee of the pension fund because they have a legal duty as a Director to act in the best interests of the shareholders, which may mean keeping company pension contributions to a minimum. At the same time, however, they have a legal duty as a trustee to protect the scheme members, which may mean negotiating increased funding from the employer.

A director's or senior manager's commitment to their employer may see the pension scheme encouraged to gamble on riskier investment policies in the hope of reducing a fund's deficit without the company having to raise its contribution.

As more companies struggle to fund their pension schemes these conflicts of interest become more acute and unmanageable.

David Johnson, Consulting Director, of Trustee GAAPS says: "It would be better if a higher percentage of all pension scheme trustees were independent of the employer but at a bare minimum the Chairman of the board of trustees should be independent."

¹ The research is based on 45 FTSE-100 final salary schemes for which information on the trustee board is available

“A lot of decisions about funding pension schemes can be a zero sum game, which puts a Director in the impossible position of trying to choose between shareholders and scheme members.”

“The directors of more progressive companies realise that they can argue the company’s case more freely to the pension fund if they aren’t weighed down by conflicts.”

“To be honest FTSE-100 pension schemes usually have the best pension governance standards – the smaller the employer the less likely they are to have independent trustees.”

According to the Pension Protection Fund, the total assets of the UK’s defined benefit schemes were £836 billion with liabilities of over £1 trillion (August 2009) so Trustee GAAPS says that the cost of independent Chairman for trustee boards is a red herring. In fact Trustee GAAPS says that the benefits of having an independent chair would more than pay for itself.

David Johnson explains: “Appointing a professional independent trustee to chair the trustee board should improve the scheme’s performance, plus the expertise that they bring with them to the role would mean cost savings on services from advisers and fund managers.”

Time for mandatory independent chairman

Adds David Johnson: “The Pensions Regulator has acknowledged this governance failure and stated its preference for the use of independent trustees to eliminate conflicts of interest. But it doesn’t have any powers to push the matter further.”

Trustee GAAPS says that the Government should mandate a ‘comply or explain’ policy to ensure that chairmen of pension trustee boards are independent.

Comments David Johnson: “Where a trustee board felt that the cost of using an independent Chair for the board of trustees was too expensive compared to the assets under management then that decision needs to be explained to the scheme members.”

David Johnson adds: “The performance of trustee boards in their negotiations with sponsoring companies will determine the living standards of millions of employees and pensioners. It is vitally important therefore that conflicts of interest are removed by appointing independent trustees.”

ENDS

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