leader

Greater transparency could ease trustees' burdens

Matthew Craig

Trustees have always had a challenging workload, but the recent moves by the FSA and the IMA to make transaction costs more transparent could actually help trustees carry out their duties

Who would want to be a pension scheme trustee at the present time? Trustees have always had a challenging workload, balancing the demands of their voluntary role overseeing a pension fund with a full-time job and the demands of their lives away from work.

Over the last few years, the bar for trustees has been raised, with the Myners' review and subsequent Treasury follow-ups calling for better investment decision-making by trustee boards. As we all know, this has come against a backdrop of falling funding levels at many schemes, which has placed more pressure on trustees.

Now the Pensions Act 2004 has placed more formal requirements on trustees in terms of their knowledge and understanding of their own scheme, and pensions and investments in general.

Given all of this, members of occupational schemes should be grateful that there are still people willing to serve as scheme trustees. For those public spirited individuals, it is to be hoped that the recent moves by the Financial Services Authority (FSA) and the Investment Management Association (IMA) to make investment transaction costs more transparent bear fruit.

Over the last year or so, the FSA and IMA, along with various other parties, have been deliberating over the unbundling of investment research and broker execution costs. Now, their proposals are up for consultation with implementation in some form later this year.

Paul Myners flagged up this often overlooked corner of the investment space as one which needed trustee attention, but for many schemes it may well have been considered a marginal issue on their agenda.

However, if the new rules make it easier for schemes to keep track of where their transaction expenses are going, then it could help trustees carry out their duties. In this sense, the FSA and IMA could have given trustees a helping hand. If so, this must be good news for trustees grappling with a notoriously tricky subject.

With so many other changes taking place, it is important that trustees keep abreast of developments such as these. Anything that helps reduce costs, or at least make them more transparent, could help hard-pressed schemes with their funding levels.

Personal view

A clear path to solving conflicts of interest

While the Morris review puts some onus on trustees to identify potential conflicts of interest that arise when an actuary advises both trustees and sponsor, trustees should be able to rely on their actuaries to be proactive, says **Aaron Punwani** and **Lucy Hughes**

Sir Derek Morris' review of the actuarial profession, published on 16 March 2005, includes guidance on how to deal with conflicts of interest that arise when an actuary advises both the trustees and the sponsor. If a material conflict arises, then the trustees should have the option to retain the existing actuary and the sponsor should go elsewhere for advice.

As the Pensions Act 2004 comes into force, including the scheme funding regime and the more powerful Pensions Regulator, trustees will increasingly need to demonstrate that they have acted independently of the sponsor.

While the review puts some onus on trustees to identify potential conflicts, trustees should be able to rely on their actuaries to be proactive. Rather than waiting for a problem to arise and then addressing the conflict, actuaries need to have plans in place for safeguarding the trustees' and members' interests as distinct from those of the employer, in the event that circumstances change to require this.

The Morris report recommends independent oversight of the profession by the Financial Reporting Council, including creation of an Actuarial Standards Board which would set technical standards.

Lane Clark & Peacock welcomes greater independence in standard setting, but care is needed to ensure that the guidance is not too prescriptive, which could stifle individual judgement and put excessive focus on compliance. The demise of the minimum funding requirement is a classic example of how a one-size-fits-all approach did little to improve members' benefit security.

The understanding gap between actuaries and their clients is one of the most significant themes of the review. Clients need to be in a position to challenge actuarial advice.

Actuaries are already making significant advances in communicating advice, particularly the uncertainty of outcomes. For instance, actuaries often use interactive models to take trustees through the steps of an actuarial valuation and enable them to see in real time the effect of different assumptions. Actuaries also illustrate uncertainty using statistical 'risk analysis' principles. It is fairly certain that development and innovation in these areas will be what clients look for in the future.

The review recommends that actuarial advice be independently scrutinised, for example through supervision by the regulator, audit or external peer review.

It is important to distinguish between auditing a prescribed calculation, as for the pensions numbers in company accounts, and scrutinising funding recommendations. The scrutiny process needs to be focused on client objectives. Our concern is that excessive scrutiny could lead to overly defensive advice – or reckless prudence – and substantially increased costs.

Trustees are, now more than ever, looking to actuaries to provide clearly communicated recommendations and opinions, and avoid sitting on the fence. These are perhaps the key messages for the profession as it reforms itself in the light of the Morris review.

Aaron Punwani is a partner and head of trustee consulting and Lucy Hughes an actuary and consultant at Lane Clark & Peacock LLP