

The background of the entire page is a close-up photograph of purple and blue flowers, likely hydrangeas, with soft lighting and a slightly blurred effect. The colors range from deep purple to light blue, creating a vibrant and textured backdrop.

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Member Engagement and Pension Trustee Diversity

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Member engagement would seem to be the readiest means to achieve appropriate diversity among pension trustees. UK pension trustee boards are not currently, on average, diverse in composition and are generally less diverse than the boards of directors of FTSE 100 companies, many of which are sponsoring employers of large occupational pension schemes.

This has potential consequences for the quality of trustee decision-making. With automatic enrolment, pension scheme members are becoming increasingly diverse as they grow in number. The Pensions Regulator has stressed that the diversity of pension trustee boards should reflect that of the scheme membership. Diversity in this context should be seen not only as reflecting the protected characteristics under the Equality Act 2010, such as sex, age, disability or sexual orientation, but also other broader factors such as socio-economic background, education, working style and family or care responsibilities. It is important from the standpoint of member engagement as well as diversity that pensions are made accessible and comprehensible as regards the terminology that is used.

The Pensions Regulator on 1 December 2022 published its action plan "Promoting high standards of diversity and inclusion among our regulated community". This is against the background of recent research which has found that on average 83% of UK pension scheme trustees are male, 25% of trustee boards are all male and 1/3 of scheme trustees are over age 60 (2016 PLSA Annual Survey) and that the average UK pension scheme trustee is male, 54 years old, with a university degree and only 2.5% of scheme trustees are under age 30 (2016 Aon research "Mapping the Trustee Landscape").

Diversity on a pension trustee board should result in a trustee body having a range of diverse skills, points of view and experiences and should facilitate robust discussions, which stand up to scrutiny and are less likely to be challenged by scheme members (as the Pensions Regulator commented in its July 2019 Consultation "Future of Trusteeship and Governance"). On the other hand, a less diverse trustee body may not be open to

fresh thinking and may fail to recognise issues that affect the scheme membership. Greater engagement with scheme members may result in increased participation by members on trustee boards and those members may bring a welcome knowledge of the history of the business and of the scheme and of the needs of the members.

There is a greater risk with a less diverse body of knowledge gaps on the trustee board and of the trustees becoming over-reliant on a particular trustee or adviser. The Pensions Regulator sees greater diversity as ultimately improving benefit outcomes for scheme members. This would most clearly be the case with a defined contribution scheme, rather than with a defined benefit scheme where the employer has designed a pre-determined formula for computing pension benefits.

Greater diversity on pension trustee boards is to be an ongoing gradual process of good practice, in the view of the Pensions Regulator, rather than there being a defined target. Measures that trustee boards can take include assessing the range and types of diversity of their scheme membership, issuing communications to scheme members to promote the benefits of becoming a trustee to encourage diversity in candidates to be member-nominated trustees (MNTs) and engaging with sponsoring employers to recognise the benefits of the trustee role in the personal development of employees, to the benefit of the business. It is also important to encourage new trustees to contribute to board discussions. This requires effective chairmanship.

Pension trustees are necessarily constrained in the changes that they themselves can make. Diversity among member-nominated trustees on pension trustee boards will depend on there being diversity among the candidates standing to be MNTs. Candidates will generally be subject to an election process by scheme members. Pension trustees can promote diversity by encouraging a wide range of candidates to stand. Typically, pension schemes seem to be having difficulty getting sufficient MNTs on board. In any event, diversity among MNTs may only affect one third of the trustee body. It will generally be in the employers' hands to achieve diversity on the trustee board as regards up to two thirds of the trustee body.

This article was authored by Jeremy Harris, Pensions Partner at Fieldfisher. Ranjit and Jeremy are talking to various companies about their inclusion and diversity strategies. Contact details below if you would like to discuss further.



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