

Trustee governance



CAMERON LAW

Trustees must take a closer look at DC

As the overall focus continues to shift from DB to DC, many trustee boards need to catch up and place DC higher on their agendas, says **Clive Gilchrist**

The relentless march of defined contribution (DC) continues. A number of major employers have recently announced the closure of their final salary schemes to future accruals by existing members; all benefits henceforth will be on a money purchase basis. Other schemes have also closed, but without attracting publicity.

The trustees of these schemes will have been actively involved in the closure, and may have found themselves in difficult negotiations with the sponsoring employer, depending on the specific terms of their trust deed. They will then have to consider their DC offering.

Back of the queue

Even when their defined benefit scheme is open, trustees usually have a DC scheme for some sections or for recent employees. Criticism has been levelled at trustees for spending insufficient time monitoring their DC scheme compared to the final salary one. For some trustee boards, this criticism is fair; DC gets shunted to the end of the agenda where it receives scant attention if the meeting overruns. Other trustee boards are more diligent and give the DC fund full and proper attention, sometimes having a specific DC committee.

I spent a fascinating couple of days last month with one such client on site visits to shortlisted DC providers. A decision had been taken to replace the incumbent bundled DC provider.

Trustees' focus is too often solely on investment, but the administrative platform is in some ways more important. Many of the platforms can deliver the same underlying investment funds, so the efficiency and cost of the administration becomes the key driver of the decision regarding the supplier. Whether passive or active, the performance of investment managers is largely driven by markets, which cannot be predicted years into the future. Costs, on the other hand, will be a drag on that performance, so it is important to minimise them.

This client had been through an extensive tendering process that began with a comprehensive request for proposal – each response to which ran to nearly 100 pages, and more in some instances. Having sifted through the documentation and received clarification on a few points, we set about reducing the field to a manageable shortlist and visited three of them to better understand their administrative capabilities. In addition to the trustees and their pensions executive we were accompanied by an IT specialist and a payroll manager from the sponsor. Trustees' vocabulary doesn't normally extend to phrases like 'straight-through processing' or 'digital interface', but administrative efficiency demands that contributions flow seamlessly through the system in a readily auditable fashion and are invested promptly.

Blended funds

Having said that, investment was not the primary focus of our questioning; one investment issue was discussed in detail – 'white labelling'. Rather than members being offered funds from particular named investment managers, the latest trend is for trustees to brand them by asset class: 'the ABC scheme global equity fund' etc. This enables the trustees to blend a number of funds and to change a fund manager without prior reference to members – which is not always easy, particularly in respect of deferreds. While everyone was talking about white labelling, we found that experience in practice was not that common. We insisted, therefore, in taking up references from clients actually using white label funds.

This scheme is fortunate in having a good governance structure and an employer that is fully engaged with the process; others are not so lucky. Similarly with contract-based schemes where employers take all the decisions, it is important that they take full account of the administrative complexities and requirements.

DC schemes are not just about investment choices and lifestyling, and they certainly don't deserve to be shunted off the end of the agenda.

Clive Gilchrist is director of Besttrustees