



Beachy HEADACHES

Isometimes wonder if a Martian trying to deduce the functions of pension scheme trustees by their behaviour might conclude they are to:

- churn paper
- keep actuaries, investment consultants and active fund managers in employment
- avoid exercising any of their powers in a way that upsets the scheme sponsor.

Piles of paper

The mound of paper at most trustee meetings and the rosy financial state of pensions consultancies support the first two assertions. The most telling proof of the third point is the dire financial state of most defined benefit (DB) pension schemes. Even trustees with the weakest possible powers still have the power

Tim Gordon Gordon Consulting suggests some holiday reading for trustees tired of tussling with tedious tomes

to set investment strategy and to appoint their own advisers.

These powers can be extremely effective in improving a scheme's funding position (provided this is the trustees' objective). At the other end of the scale, trustees with the sole power to set sponsor contributions will have a difficult job explaining why the scheme has a deficit if the sponsor fails. Nevertheless, the pensions *status quo* argues that:

- future investment returns outweigh short term security (the past 20 years not withstanding)
- future mortality improvements are overstated (again, recent experience not withstanding)
- the role of trustees is merely to facilitate the sponsor in delivering employee benefits (which were never really meant to be guaranteed. In any case, company contributions should surely never be more than 20% of payroll).

If you are a new trustee or take your role seriously, I suggest you do some reading outside the influence of the *status quo*. This is difficult.

Yawn of the rarely read

Most books written for pension scheme trustees are exceedingly dull. Despite their authors' efforts to be comprehensive, they tend to miss the wood for the trees. This means, even if you are a diligent layman, you will struggle to work out what is important and what is not. This is may not be wholly accidental.

There are other players in the game who have a vested interest in keeping matters this way.

Books for trustees tend to be written by fully paid up members of the pensions establishment. While they are well placed to comment on many issues, they are unlikely to give you an independent perspective.

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The good news is that there is a new book written which is quite different from its predecessors. Andrew Freeman, a financial journalist for 20 years, was prompted by his experience as a pension scheme trustee to look more deeply into the world of pensions. He has written an accessible and informative book on the subject called *All you need to know about being a Pension Fund Trustee*.

Resist the lists

This book avoids the traditional long lists of spurious detail and trotting out clichés way past their sell by date. Instead, it is a practical guide to how trustees can carry out their duties effectively. Mr Freeman writes with clarity about the role and behaviour of employers

and consultants who advise trustees and provides plenty of tips on how to deal with them.

The book is also up to date in terms of pension scheme finance. The world of pensions is about a decade behind other areas of finance. Those of us on the sidelines are looking forward with some relish to see how the newly established independent Board of Actuarial Standards will reconcile the standard practice of insurance actuaries who reserve against future risk with their pensions cousins who like to take advance credit for it. Mr Freeman's financial background – he is also the author of well regarded book on financial risk – may have helped him avoid the standard traps for the unwary that beset financial advice on DB schemes.

I would not normally mention a particular book but I doubt that this one will have the backing of a major financial or media institution. Interestingly, however, at least one major firm of consultants has asked Mr Freeman to make a presentation to its actuaries. This is newsworthy in itself. If you read what the book has to say about consultants, you will understand why.

Mr Freeman's book goes a long way to redressing the mass of pensions literature created by organisations with a commercial axe to grind. If you are serious about being a trustee, I suggest you read it. **PW**

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All you need to know about being a Pension Fund Trustee by Andrew Freeman. Published by Longtail Publishing, ISBN 0-9552186-0-8

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