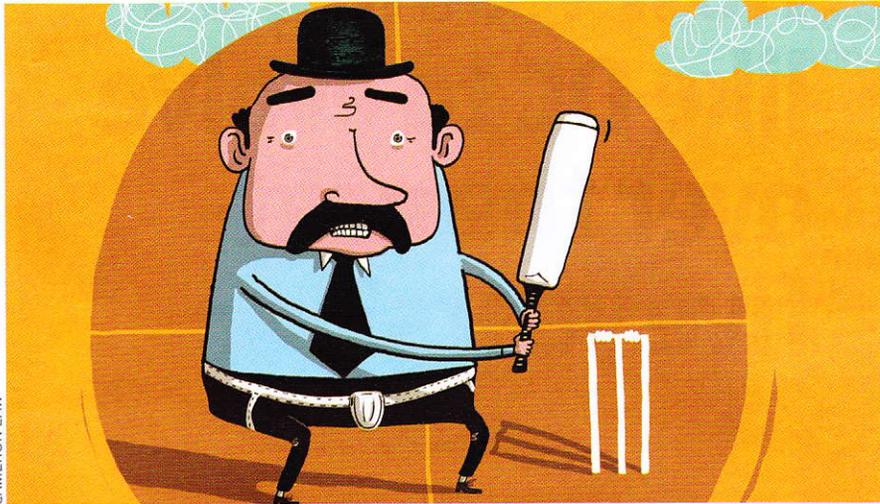


## Trustee governance



# Challenges that could leave schemes stumped

As trustees strive to avoid a sticky wicket, they have their work cut out to stay ahead of their game, says **Steve Delo**

**T**he Ashes is in full swing down under. And the opening batsman in test cricket – who faces fierce bowling to make the big innings upon which victory can be built – has much in common with a pension scheme trustee.

Of course, if cricket were actually like trusteeship, there would be a few changes. The umpire – the Pensions Regulator – would take a more active part in the game, probably changing the rules from time to time. The laws of cricket would be replaced by 'guidance', some of which might make no sense, some of which might be demanding perfection. In the world of pensions cricket, there would be no space for a loose shot; no trustee batsman would ever risk letting a ball past the bat. The fear of getting it wrong – and the need to be seen to do the right thing – would result in some very defensive play. In pensions cricket, the batsman isn't allowed to wear pads, so muck up a shot and it will hurt.

Nobody will be making a David Gower-style flash outside off stump to try to entertain the crowds. The trustee batsman needs to be Geoffrey Boycott.

So, grab your bat, put your cap on (no helmets allowed) and walk out to the crease to play the deadly over of bowling that could face trustees in 2011.

**First ball:** It's fast, laser-accurate and coming straight at your feet. World equity markets crumble over a five-day period in mid-January – 18% wiped off asset values. We thought the fear of a double dip had gone away. Yet there's a big appeal from the Aussies! The umpire looks hard. Fortunately, you got some bat on it, realising that you'd reduced your equity exposure last year by allocating to a diversified growth fund (DGF). Not out.

**Second ball:** The crowd is buzzing after that sizzling opener, and you barely have time to take guard before the bowler storms in again. A bouncer! You are all at sea – DGFs have crumbled in value by almost the same amount as equity markets. They turned out to be correlated with equities after all! Pure luck that you'd picked a skilled DGF manager that had been able to move quickly into a more defensive position and limit the damage. Not out.

**Third ball:** Your palms are sweating. You need to steady your nerves and focus on a more manageable issue. It's consumer/retail price indexation (CPI/RPI) coming your way. You follow the ball. You know the subject. Surely this is an easy one to put away. But no! The ball hits a rough patch and jack knifes. On-the-fence legal advice utterly confuses the matter and you don't know where to turn. You need to play a shot as the pensions increase exercise is due but hesitancy grabs you and the ball flies by into the hands of the keeper. The crowd boos, as your members complain you are too cowardly to resist employer pressure to steal their RPI increases. CPI/RPI is the easy ball that could lose many trustees their wickets in 2011. But you survive – just.

**Fourth ball:** The bowler is up for it now. He can smell your fear as he steams in. But an error – full toss! You elegantly move into place, open your shoulders and hook the ball to the boundary. Four runs! Who cares if the government fails to sort out the section 251 surplus repayment legislation before the April 2011 deadline? Like all good trustees, you had this ball well under control in 2010 and didn't leave it to chance. The Barmy Army roars its approval at this class trusteeship. You are still in this innings.

**Fifth ball:** That boundary has made the bowler angry. Oh no – a blistering swinger! It turns out your data is rubbish. Core data is shot to pieces. Conditional data a disaster. Everything you thought was accurate in the scheme is not. Liabilities have been substantially underestimated. And to make matters worse, there's a complaint from a member who transferred out during an enhanced transfer value exercise three years ago. The IFA who advised members has gone bust and nobody can find any evidence of advice given. The member claims he was misled and the trustees did nothing to protect him. How on earth did you survive that killer ball?

**Sixth ball:** It has been a torrid over and your enemy races in with full energy. If you can just get through this last ball, you can regroup. But the ball is zoning in. Straight through your guard and hits your leg! You had extended your data audit to a documentation audit in preparation for a future buyout. Nobody can find the deed to formalise equalisation in 1992. What? There was no deed! What about announcements? Nobody kept them! And minutes? No signed copies available. Did the scheme really equalise at all? It's going to the third umpire – counsel's opinion. The crowd holds its breath. The umpire raises his finger. You are out. **Steve Delo is chief executive at PAN Governance**