



# Sole Trustee Survey 2020 – survey findings

With Sole Trusteeship increasing in popularity, during the first half of 2020 Aon asked around 20 professional trustees who have Sole Trustee appointments to tell us how they view the market. Our findings and observations are set out below.

# Table of Contents

<b>Rationale for Sole Trustee</b>	<b>3</b>
<b>Frequency of meetings</b>	<b>4</b>
<b>Decision-making</b>	<b>5</b>
<b>Sole Trusteeship requirements</b>	<b>6</b>
<b>Using third parties</b>	<b>7</b>
<b>Prevalence of Sole Trustees</b>	<b>8</b>
<b>Looking forward</b>	<b>9</b>

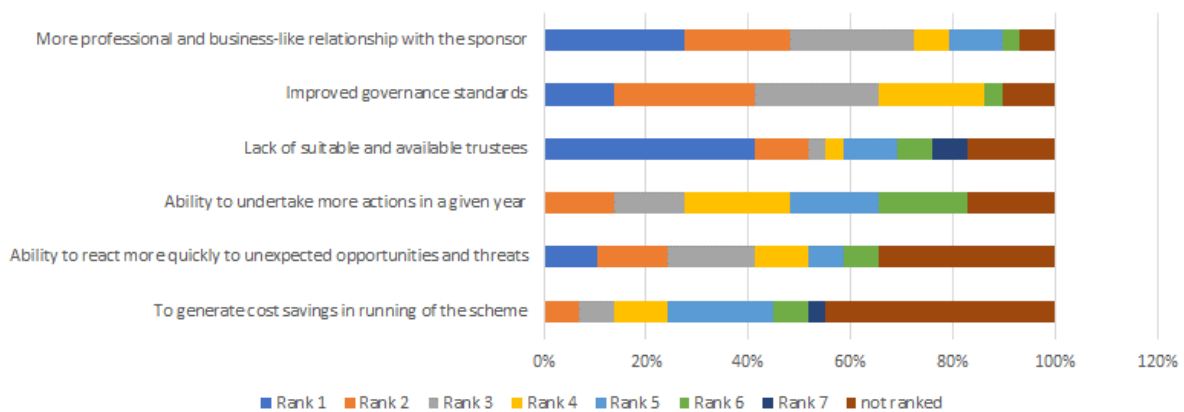
Unless otherwise indicated, all sources are the Aon Sole Trustee Survey 2020

## Rationale for Sole Trustee

Sole Trustee appointments (and to be clear, we mean Sole Corporate Trustee, not individual trustees) are definitely on the rise. But what is driving that trend? We asked:

*"Across the Sole Trustee appointments that you hold, what were the key drivers to adopt (and retain) a sole trustee model?"*

### Key findings:



- The reasons given were mixed, with no single reason dominating
- The most common "first rank" reason provided was a lack of suitable and/or available trustees. However, the highest average ranking was to generate a more professional relationship with the sponsor.
- About 70% of respondents view improved governance standards and developing a more professional and business like-relationship with the sponsor of the pension scheme in the top three reasons.
- Cost savings is viewed as the least important driver for appointments by respondents.

### Aon observations:

The lack of suitable and/or available trustees is a key challenge for pension scheme sponsors, so we are not surprised that this was a strong reason for appointments. However, although 40% of respondents had this as their primary reason, almost 20% did not rank this at all, making it the response that most divided the group.

The overall top ranked response of better relationships with the sponsor is interesting in that it relates to a key issue that is often posed to the Sole Trustee community: managing conflicts between their duty to member and their duty to the sponsor. Conflicts are everywhere in pensions, and Sole Trustees can clearly maintain a good relationship with a sponsor while also managing any real perceived conflicts. But it is inevitable that some sponsors will expect more advocacy in their relationship.

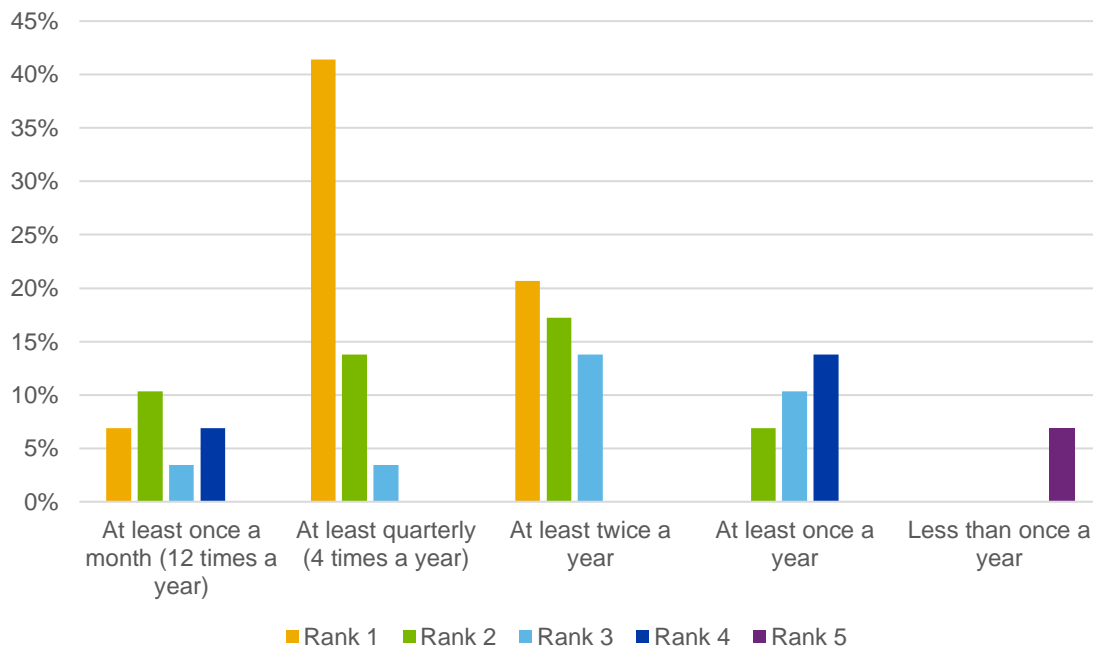
The responses on cost saving are intriguing, as Aon's experience is that cost savings are often a key consideration from sponsors in the appointment of a Sole Trustee. A possible explanation may be the idea of undertaking more actions in the given year. Sole Trustees see the model as more efficient, hence you get more done with the same outlay of costs. Whatever the reason, our feeling is that costs play a greater role in the appointment process than indicated in our survey findings.

## Frequency of meetings

With Sole Trustee appointments, the assumption is that the nature and frequency of meetings will change. We asked:

*"Across your Sole Trustee appointments how frequently do you tend to hold discussions (whether meeting or calls) with the sponsor?"*

### Key findings:



- The most common response by far was that four meetings a year remains most prevalent, followed by two meetings a year.
- Although a range of other structures were noted, they were much less prevalent than two/four meetings a year.

### Aon observations:

We were surprised that the majority of respondents still had a traditional four meetings a year structure, although a factor that the question did not address was the nature of those meetings.

With the move to a Sole Trustee, we often see a change in the nature of meetings. The typical trustee meeting, a forum for trustee training, discussions with advisers, and decisions, tends to become less necessary, replaced by informal regular meetings and ongoing decision-making. But a new type of trustee meeting, a forum for the Sole Trustee to liaise with the sponsor, often becomes more frequent. The responses in this question may therefore reflect that change in the nature of meetings.

Of course, this survey largely pre-dated the COVID-19 lockdown, which has probably had more impact on the nature and frequency of meetings than any moves towards a Sole Trustee model.

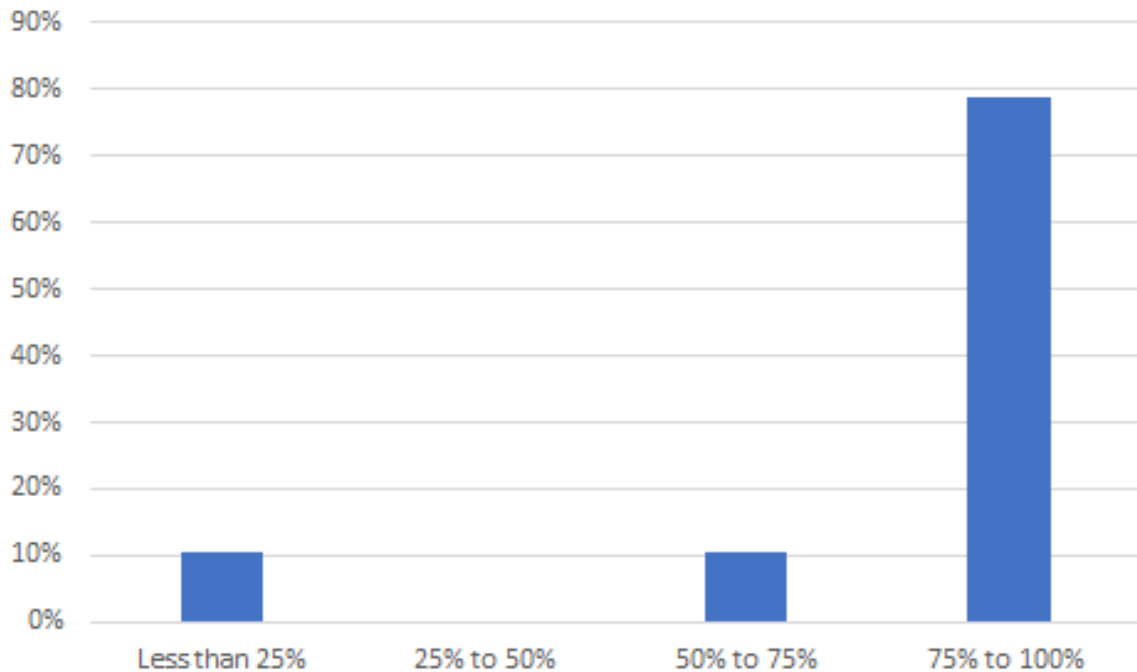
As detailed in our final question responses, thought should also be given to the fact we are still in the relatively early days of Sole Trustee. We would be interested to ask this question again in a couple of years, after which the model and how it operates should be firmly established.

## Decision-making

Sole Trustees regularly point out that although they are often represented by an individual, important decisions are reviewed by other professionals within their business. We asked:

*"What proportion of decisions are subject to peer review from someone other than the lead representative?"*

### Key findings:



- Almost 80% of respondents indicated that over three-quarters of decisions would require a peer review.

### Aon observations:

The responses to this question raise a couple of interesting questions.

The fact that over 75% of decisions are peer-reviewed is encouraging, reinforcing the message that decisions are being taken by the professional trustee business rather than the individual. That said, there are undoubtedly day-to-day decisions which a sponsor would expect their nominated individual to be able to make without the cost of a formal peer review. As Sole Trustee services are often priced on a fixed basis, sponsors are unlikely to directly see the cost of this.

At the same time, the fact that a minority of Sole Trustees appear to have very few decisions peer-reviewed is surprising and concerning given the strong consensus.

## Sole Trusteeship requirements

Professional trustee standards are a hot topic, with two organisations now offering accreditation. There is currently no additional accreditation for Sole Trustees, so we asked:

*"Should there be additional requirements to be a Sole Trustee rather than for a professional (non-sole) trustee?"*

### Key findings:

- About 75% of respondents stated that there should be additional requirements for a Sole Trustee.
- By far the most common suggestion was around the requirement to demonstrate a robust governance framework, including multiple trustees being involved in each appointment, peer review and key person cover.

### Aon observations:

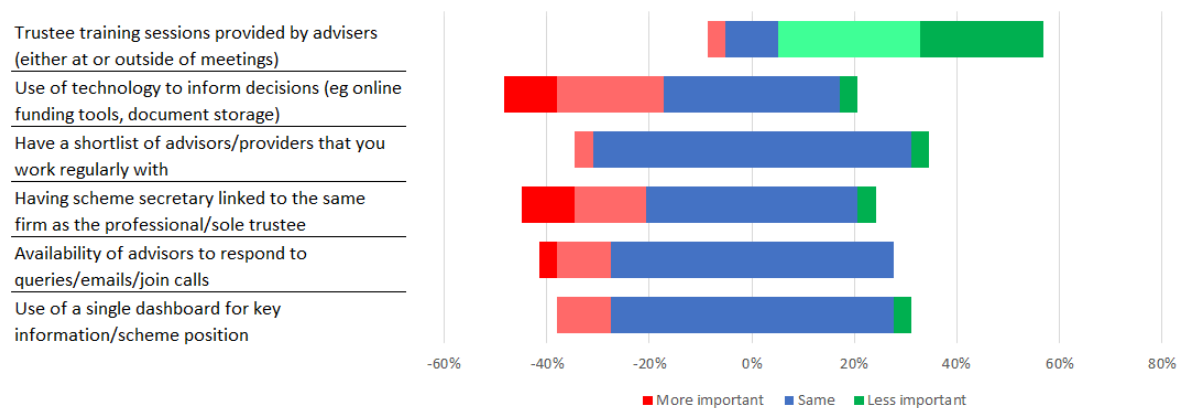
It is positive that there was such a strong consensus around Sole Trustee governance standards, decision-peer review etc. as these are standards that will be needed to ensure confidence in the Sole Trusteeship offering. At the present time, such arrangements have no formal standing, although Aon is seeing first hand that trustee firms are putting these in place voluntarily. With The Pensions Regulator still watching the role of Sole Trustees carefully, it may be that making these arrangements more formal, and having the evidence (and possibly some form of audit) available may be a next step.

## Using third parties

The needs of Sole Trustees are different to the needs of a professional trustee on a board, and how they use advisers may also differ. We therefore asked:

*"In relation to working with advisers, which issues are typically more or less important for a Sole Trustee compared to a conventional trustee board?"*

### Key findings:



- On most issues, the consensus was that there were material differences between the needs of a Sole Trustee and a conventional trustee board.
- The main areas of difference were:
  - It is more important to have the scheme secretary linked to the Sole Trustee firm
  - Technological solutions, such as online funding tools and online documentation storage are more important
  - Training from third parties is less important

### Aon observations:

Training clearly remains important for all trustee. Those in a professional trustee firm have the opportunity to benefit from many training opportunities as well, in many cases, as their own professional expertise. The strong response in this area is therefore not surprising. That said, it is important for the professional trustee community to remember that pension schemes vary widely in structure and so training that is not scheme-specific needs to be assessed carefully before being applied in practice.

We have seen a trend of Sole Trustees also offering scheme secretarial services, on the basis that this can improve the efficiency of making and documenting decisions. This can make sense in the right circumstances, but there is clearly also a commercial imperative for professional trustee firms to pick up this and other additional work. Firms need to ensure that there are controls in place to ensure that appointing themselves for additional services is in the interests of the scheme and members.

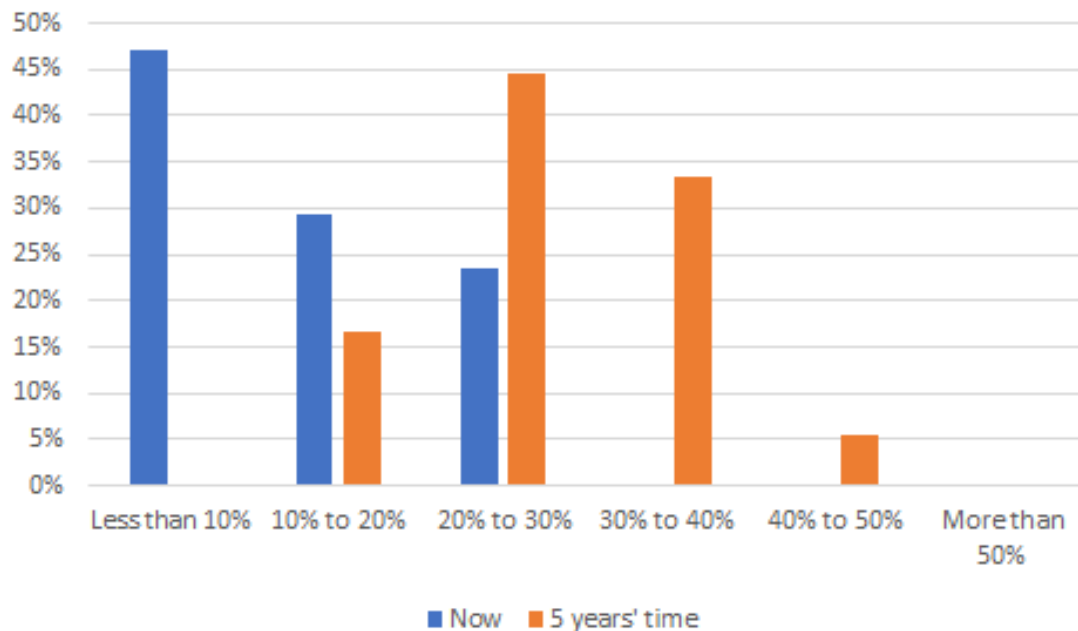
Interestingly, the vast majority of respondents felt that there should be no material difference in relation to the availability of advisers to respond to queries and join meetings or calls. This surprised us, as anecdotal evidence and comments suggest that Sole Trustees take actions and decisions more frequently than conventional boards, working more frequently with advisers outside meetings.

## Prevalence of Sole Trustees

Sole Trustees have definitely become more prevalent in recent years, although there is little available data on how many cases there are. We therefore asked:

*"Based on your experience, what proportion of the DB pension schemes (by number) do you think currently use a Sole Trustee and what do you think that will be in 5 years' time?"*

### Key findings:



- All respondents viewed that less than 30% of schemes had a sole trustee, with the average being 13%
- On average, respondents felt the market more than double in the next five years, with Sole Trustees accounting for 28% of schemes.

### Aon observations:

Talking up market demand is something that many organisations do, and we have to assume that Sole Trustees are more bullish about their own services than the industry as a whole.

That said, the expectations of Sole Trustees are broadly in line with what Aon is seeing in the market: More sponsors are looking at Sole Trusteeship as an option, for the reasons set out in the first question and also as pension schemes approach their "end-game". One of the challenges for the Sole Trustee market is dealing with that end-game, where a plan to get the scheme bought out quickly is also a plan to end their role. In practice that is no different to the dilemma facing advisers.

Of course, this expected growth needs to be balanced by additional governance, which has been referred to elsewhere in this paper. If cases really are to rise from 13% to 28% in five years, that means around 800 DB schemes moving to Sole Trustee. As well as the practical difficulty of finding enough people to take on those roles, it is difficult to see TPR, or the market generally, simply accepting that without some tough questions.



## Looking forward

Predicting the future is notoriously difficult; as a final question we asked:

*"What do you think will be the key challenges to the Sole Trustee market over the next 5 years?"*

### Key findings:

Although the responses to this question were completely freeform, there were some strong themes. The three most common challenges identified, which are clearly related, were:

- Maintaining reputation, credibility and quality of Sole Trusteeship as the market expands.
- Ensuring efficient governance and providing value for money, especially for smaller schemes.
- Demonstrating transparency and independence from employers.

### Aon observations:

We concur with the challenges set out by the respondents. Sole Trusteeship is still a developing area, and notwithstanding the changes and improvements in recent years it remains an immature market. We agree that credibility and proof of the Sole Trustee structure is key. That means its ability to respond to the inevitable questions about diversity, decision-making and conflicts, as well as its ability to deliver efficiency and value for money for all stakeholders. We do believe these challenges can be overcome, and that there is real scope for growth in this area.

*We hope that this survey provides some insight into this developing market. We would of course be interested to hear your thoughts on Sole Trusteeship – if you would like to discuss this with us, please contact one of our team.*

## Contact Information

### **Paul McGlone**

Partner

+44 (0)1727 888613

[paul.mcglone@aon.com](mailto:paul.mcglone@aon.com)

### **Laurence Hargrave**

Senior Consultant

+44 (0)20 7086 1324

[laurence.hargrave@aon.com](mailto:laurence.hargrave@aon.com)

### **Nicholas Brinton**

Senior Consultant

+44 (0)20 7086 0180

[nicholas.brinton@aon.com](mailto:nicholas.brinton@aon.com)

## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Copyright © 2020. Aon Solutions UK Limited. All rights reserved.

Aon Solutions UK Limited Registered in England and Wales No. 4396810 Registered office: The Aon Centre, 122 Leadenhall Street, London, EC3V 4AN.

Aon Solutions UK Limited is authorised and regulated by the Financial Conduct Authority.

Aon Solutions UK Limited's Delegated Consulting Services (DCS) in the UK are managed by Aon Investments Limited, a wholly owned subsidiary, which is authorised and regulated by the Financial Conduct Authority.

Compliance code: A186-310121