

Essentials

Getting the best from your advisers

February 2018

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Law Debenture has been acting as a professional pension trustee for over 35 years. Our experience, applied over that period to hundreds of pension schemes of all types and sizes, means that we are able to bring a unique perspective to getting the best from your advisers.

Trustees bear a huge responsibility for the good management of pension schemes. Advisers play a vital supporting role. Trustees work with them in many different ways, but however the advice is delivered they must be confident that their needs are being met reliably and cost effectively.

The purpose of this Pensions Essentials, is to provide a framework for trustees to review the performance of their advisers. We recommend that trustees do this regularly, for example informal reviews annually, formal reviews every three years, and market testing say every six years or as trustees decide in their particular circumstances is appropriate. We believe that the emphasis should be on identifying areas for improvement rather than on changing advisers.

We have drawn on our experience as a pension trustee to provide a framework to help other trustees to carry out these reviews. We cover advisers in the form of actuaries, auditors, investment consultants, legal advisers and covenant advisers. However, the principles may be applied to all service providers for your scheme.

Our intention is to help trustees get the best from their current advisers. However, our guide can also be used as a source of questions to ask when making appointments.

There is no one approach that is right for all schemes, and trustees should use this guide with their own circumstances in mind. The important point is that they should have a programme for regular reviews, and that they should act on the results.

Mark Ashworth

Chairman, LawDeb Pension Trustees
February 2018

How to use this document

We have divided the questions in this guide into two categories.

General questions cover:	Followed by specific questions for each adviser:
<ul style="list-style-type: none">• Delivery• Quality• How the relationship is managed• Value for money• Other matters	<ul style="list-style-type: none">• Actuary• Auditor• Investment consultant• Legal adviser• Covenant adviser

The general questions are broken down into Trustee Questions and Management Questions. Whilst Trustees should be able to answer the Trustee Questions, they may not be best placed to answer some or all of the Management Questions. In this event, where others are the usual point of contact for advisers, such as the pension manager or the secretary to the trustees, they should also be consulted and their views reported to the Trustees. Trustees may also wish to seek the views of executive staff, members of the pensions department, and even other advisers. The views of any people who are not trustees should be reported separately as their interests may be different.

Below most questions there are practical comments followed by a space for responses. For some questions a 'yes' or 'no' response is all that is required. For the others we suggest a scoring scale of 1 to 4 where 1 = poor; 2 = satisfactory; 3 = good and 4 = very good. The scale is intended to draw out how well you feel that the issue is being addressed. Beneath each question group there is a space for comment.

Trustees will find that best value will be derived from this document by considering and answering the questions and then discussing their views with fellow trustees, rather than from any detailed statistical analysis of the scores. Trustees may also find it useful to ask the advisers to complete some or all of the questions themselves, as self-assessment, to aid the trustees in their discussions.

There is always room for improvement; trustees may find it helpful to focus on any areas of weakness or concern, as identified by scores of 1 or 2, and to discuss how these areas might be improved. In nearly all cases it will be helpful to show the results to the relevant party, to seek their comments, and to discuss areas of potential improvement. Exceptionally, it may be appropriate to consider whether a change in the relationship is necessary.

Please note this document is not intended to constitute advice, nor to replace the need to take appropriate professional advice in the relevant areas.

Law Debenture welcomes any comments from users of this document as to how it may be improved. These may be sent to us at: pensions@lawdeb.com or to your usual contact at LawDeb Pension Trustees.

Copies of this document are available to download at www.lawdebenture.com

Delivery

Trustee questions

A1. How customer focused is the adviser?

Is it apparent that the adviser's principal concern is to understand and then provide advice that meets the trustees' needs?

1 2 3 4 N/A

A2. How suitably qualified and experienced does the adviser appear to be?

The individuals advising should be neither over nor under experienced.

1 2 3 4 N/A

A3. How timely is the advice?

Trustees should have time to consider and discuss advice before they are required to make a decision.

1 2 3 4 N/A

Advisers need to have sufficient capacity to be confident of meeting agreed timescales.

A4. How well does the adviser respond to urgent, sensitive or difficult issues?

1 2 3 4 N/A

A5. Is the adviser proactive? Does the adviser appear able and willing to initiate and raise matters with the trustees?

YES / NO

Advisers should have direct access to the trustee board when necessary, via the chairman or by some other agreed route.

A6. Is advice usually given by the most appropriate team member?

YES / NO

Some changes of individuals are to be expected from time to time, but not frequently. On the other hand, specialists may be needed to deal with particular areas.

A7. What one (or more) specific improvement would you like to see?

Comments:

Scoring System

1 = poor, 2 = satisfactory, 3 = good, 4 = very good

Delivery continued

Management questions

A8. How well are the trustees consulted about significant staff changes? 1 2 3 4 N/A

A9. If you have needed to contact an individual adviser, how easy was it? 1 2 3 4 N/A

In practice contact will usually be made through the chairman of trustees, the secretary to the trustees or the pension manager.

A10. How suitable is the range of services offered? 1 2 3 4 N/A

Trustees should neither feel they have missed out on services they need, nor that they are being offered services they do not need, especially where the latest product is being “sold” irrespective of the trustees’ needs.

A11. When advice will take time to prepare, is a delivery date given, and are progress reports provided? YES / NO

Trustees need to know when to expect advice, and to be alerted if there is likely to be any delay.

A12. How well does the adviser appear to relate to and deal with third parties on behalf of the trustees? 1 2 3 4 N/A

Third parties include the employer, other advisers, service providers and regulators.

A13. How alive is the adviser to the need to bring in separate experts in areas where they are unable to advise? 1 2 3 4 N/A

This situation may arise where the adviser doesn’t have the necessary expertise.

A14. Where juniors are acting, how much evidence of supervision and support by more senior people is apparent? 1 2 3 4 N/A

It is generally beneficial for advisers to resource tasks at an appropriate level, but only if the trustee client can be confident that the quality of work does not suffer as a result, nor lead to higher fees as a result of duplication.

Comments:

Scoring System

Quality

Trustee questions

A15. Is advice perceived to be correct?

Trustees cannot have confidence in an adviser whose advice is found to be unreliable.

YES / NO

A16. How well does advice address the trustees' needs and cover the relevant issues and options?

Advice should be technically correct; it should also take into account the circumstances of the scheme and the trustees' concerns and where appropriate suggest options that have not previously been considered.

1 2 3 4 N/A

A17. How practical is the advice?

Advice should be given with a view to resolving or avoiding an issue in a practical way.

1 2 3 4 N/A

A18. How well structured is the written advice the trustees receive?

Concise written advice should provide clarity on key issues with well thought out conclusions and recommendations. It should be easy to follow.

1 2 3 4 N/A

A19. How effectively does the adviser participate at meetings?

Advisers should be able to engage in constructive discussion within their area of expertise, without being inhibited, or verbose.

1 2 3 4 N/A

A20. How clearly is oral and written advice communicated?

Advice should be given in plain and intelligible English, avoiding unnecessary jargon and explaining unavoidable technical terms.

1 2 3 4 N/A

Comments:

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Quality

Management questions

A21. How well does the advice demonstrate an awareness of current issues and developments in pensions? 1 2 3 4 N/A

A22. How much evidence is there that advice is peer reviewed? 1 2 3 4 N/A
This is one of the ways that advisers can ensure consistency of advice.

Comments:

How is the relationship managed?

Management questions

A23. Where advice is received from different departments within a firm, how well co-ordinated is it? 1 2 3 4 N/A

A24. How often is feedback sought by the adviser?

This might be by a regular discussion between a representative of the trustees and someone who is not the day to day adviser. 1 2 3 4 N/A

A25. How well have any concerns raised regarding the adviser been responded to and resolved?

There should be a clear and effective route for trustees to express dissatisfaction. Is there a clear point of contact for client relationship as opposed to the person(s) providing the day to day advice? 1 2 3 4 N/A

Comments:

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Value for money

Trustee question

A26. To what extent does the adviser provide value for money?

Value for money links quality and cost. Are you aware of the adviser's charging basis and the cost of advice and attendance at meetings?

1 2 3 4 N/A

Comments:

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Value for money continued

Management question

A27. How clear is the basis for charging?

The following should be clear:

- the standard basis
- what is and what is not included
- any charges for additional services
- how and when charges may be increased

1 2 3 4 N/A

A28. Does the adviser provide a reliable estimate of likely costs when asked to do so?

YES / NO

Trustees should ensure that budgets are obtained.

A29. Does the adviser monitor fees against budgets and give warnings of cost overruns?

YES / NO

Are significant unexpected charges avoided?

A30. Are invoices submitted regularly, as agreed?

YES / NO

A31. How good is the explanation given with invoices of how costs have been incurred?

As a minimum, a broad breakdown of costs between the main elements of advice should be provided.

1 2 3 4 N/A

Any charges made for administrative support, general advice, travelling etc. should be reviewed.

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Other matters

Management question

A32. Is there a signed agreement setting out the contractual terms on which advice is provided? YES / NO

A33. Is there a clear written statement from the adviser saying how conflicts of interest will be avoided or handled?

Trustees need to be clear on the extent to which, if at all, their adviser may act for another party on the same matter (e.g. the employer). YES / NO

Where the advisers also advise the employer they should agree to resign as adviser to the employer in the event of a conflict.

A34. Does the adviser undertake to respect client confidentiality?

This is particularly relevant if the advisers also act for the sponsoring employer. It is also relevant in relation to press reports and published surveys. YES / NO

A35. Is it possible to terminate the appointment on reasonable terms?

Issues to consider include the notice period (if any), and the release/transfer of information belonging to the trustees. YES / NO

Comments:

Scoring System

Other matters continued

Management question

A36. Is the adviser's liability limit (if any) reasonable in relation to the financial importance of the matters concerned?

YES / NO

It is appropriate from time to time to ask an adviser to confirm that any liability cap is set at the highest level allowed by the adviser's practice.

A37. Does the adviser have an acceptable level of professional indemnity insurance cover?

YES / NO

A38. How secure do the adviser's systems appear to be?

1 2 3 4 N/A

Security should cover unauthorised access, cyber security and disaster recovery plans.

A39. How well does the adviser appear to use technology for the benefit of the trustees?

1 2 3 4 N/A

Technology should be used to assist the decision making process rather than showing off the latest IT product.

A40. Does the adviser make available written briefings, seminars and other training for the trustees?

YES / NO

Many advisers do so at no extra cost, in the form of newsletters, seminars, etc.

Comments:

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Additional Specific Questions

Actuary

B1. How well does the actuary demonstrate knowledge of the scheme's trust deed and rules?

1 2 3 4 N/A

The actuary should be alive to the specific provisions of the trust deed and rules particularly in relation to the trustees' powers and duties.

B2. How well does the actuary explain funding assumptions?

1 2 3 4 N/A

Trustees are responsible for setting the assumptions.

B3. How well does the actuary keep the trustees informed on topical trends, such as mortality?

1 2 3 4 N/A

New information on mortality statistics emerges quite frequently, and needs to be interpreted in the light of a scheme's characteristics.

B4. Are tables of actuarial factors reviewed regularly?

YES / NO

Factors for commutation, transfer values, early retirement, late retirement and other options can be affected by market conditions and changes in mortality.

B5. How usefully does the actuary contribute to discussions on investment?

1 2 3 4 N/A

This is particularly relevant for discussions of asset allocation and the implications, if any, of a change in investment policy on the actuarial valuation basis.

B6. How well does the actuary respond in special situations?

1 2 3 4 N/A

These can be one-off events such as scheme mergers, bulk transfers, and changes to benefits.

Comments:

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Additional Specific Questions continued

Auditor

C1. Does the auditor invite discussion on the scope of the audit?

YES / NO

The discussion should consider changes in scope which reflect:

- new legislation
- changes to the scheme or the way it is run

C2. How helpful and instructive are the comments in the auditor's management letter on areas of weakness and concern?

1 2 3 4 N/A

The management letter is the auditor's report on the audit, and trustees should consider each issue raised.

C3. Does the auditor draw timely attention to developments in reporting and auditing requirements, good practice in risk management, and the control environment?

YES / NO

Most audit firms provide this as part of the management letter

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Additional Specific Questions continued

Investment Consultant

D1. Does the advice given reflect the importance of understanding and managing risk?

YES / NO

The trustees' risk tolerance should be agreed prior to deciding the asset allocation.

D2. How clear is the advice on asset allocation?

1 2 3 4 N/A

This is the most important investment decision taken by trustees. It is vital that all trustees understand the opportunities and the risks involved.

D3. How good is the depth and breadth of the consultant's investment manager research?

1 2 3 4 N/A

For instance, are the consultants in a position to discuss the appointment of some of the smaller specialist managers?

D4. How well has the consultant demonstrated an ability to select successful managers?

1 2 3 4 N/A

The consultant should be expected to have recommended managers who achieve their target.

D5. How well does the consultant help the trustees to provide a comprehensive framework for discussions with investment managers?

1 2 3 4 N/A

Is the consultant proactive in flagging underperformance and making recommendations?

D6. How good is the advice on the management of underperformance and termination of mandates?

1 2 3 4 N/A

These can be one-off events such as scheme mergers, bulk transfers, and changes to benefits.

Comments:

Scoring System

Additional Specific Questions continued

Investment Consultant

D7. When required does the consultant implement investment decisions effectively?

YES / NO

Consultants may be asked to help with implementing changes in asset allocation and investment managers.

D8. How well does the consultant keep abreast of new developments?

1 2 3 4 N/A

Developments include alternative asset classes (such as hedge funds) and instruments (such as swaps), as well as business or staff changes at investment managers.

D9. For DC schemes or DC AVC arrangements does the consultant provide relevant, concise advice that assists in the design of the benefit structure?

1 2 3 4 N/A

This could be default investment fund, or impact of pension freedoms etc.

D10. Does the consultant introduce new concepts in a timely and appropriate manner such as the introduction of investment platforms?

1 2 3 4 N/A

D11. How well does the consultant liaise with the scheme actuary?

1 2 3 4 N/A

Comments:

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Additional Specific Questions continued

Legal Adviser

E1. How well does the adviser bring changes in law and regulation affecting pension schemes to the trustees' attention?

1 2 3 4 N/A

Is the adviser proactive, and does the adviser consider the individual circumstances of the scheme when informing the trustees about legal or regulatory changes?

E2. How well does the adviser anticipate the scheme's requirements?

1 2 3 4 N/A

The adviser should not seek to generate unnecessary work or to charge for work that has not been requested.

E3. Does the adviser provide sufficiently commercial and/or practical advice which is not just legally correct but workable for the scheme?

1 2 3 4 N/A

E4. How well does the adviser help the trustees to resolve disputes?

1 2 3 4 N/A

Advisers should help to resolve disputes in a cost-effective and timely manner.

Comments:

Scoring System

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Additional Specific Questions continued

Covenant Adviser

F1. How well does the adviser appear to understand the sponsor's business and the markets in which it operates? 1 2 3 4 N/A

A superficial analysis is not of much assistance to the trustees.

F2. Does the adviser provide clear analyses of the sponsor's position within the Group and where the trustees rank as creditors? 1 2 3 4 N/A

It is important for trustees to understand where they rank relative to other creditors.

F3. Does the adviser provide credible assessments of the value available to the trustees in the event of the sponsor's insolvency? 1 2 3 4 N/A

F4. Does the adviser provide the trustees with useful insight into what level of contributions might and should be affordable for the sponsor? 1 2 3 4 N/A

The trustees need to make demands for contributions that are realistic.

F5. Does the adviser contribute effectively to discussions and negotiations with the sponsor, if required? 1 2 3 4 N/A

If asked to help, the adviser should be able to add considerable value to the negotiations.

F6. How well does the adviser provide input to discussions with the sponsor on alternative security? 1 2 3 4 N/A

Comments:

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Our team



Mark Ashworth
Chairman

mark.ashworth@lawdeb.com



Michael Chatterton
Managing Director

michael.chatterton@lawdeb.com



Saadia
Ahmed



Steve
Balmont



Sean
Burnard



David
Curtis



Gerry
Degaute



Inder
Dhingra



Anna
Eagles



David
Felder



Andrew
Harrison



Mike
Jaffe



Rodney
Jagelman



David
Kidd



Charles
Morgan



Vicky
Paramour



Catherine
Palarca



Andrew
Parker



Robert
Thomas



Venetia
Trayhurn



Kathy
Turpin

Plus a
Support
team
of six

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