



GOVERNANCE

It's time to talk

Relationships between sponsoring employers and those with fiduciary responsibility for pension schemes can be imperative in ensuring good outcomes for members, businesses and trustees. Jack Gray investigates how to build a successful relationship and how best to get through a crisis together

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The structures of pension systems across Europe differ greatly, but the importance of a good working relationship between employers and those with fiduciary responsibility for their pension schemes is universal. Understanding how best to work together in ensuring the health of both the company and pension scheme can lead to more positive outcomes and help both parties get through a crisis effectively.

There are obstacles in maintaining a productive relationship. Regulation around pension scheme funding and employers' responsibilities is ever evolving. The Covid-19 crisis has put a strain on employers, trustees and the relationship between the

two. Keeping the company afloat while not negatively affecting the pension scheme has been a delicate balancing act for many, with any perceived unfairness in either direction potentially souring relations.

However, there are potential ways to prevent or overcome strained relationships, with a good understanding of each others' constraints and responsibilities through effective communication seemingly key in a good working relationship.

Despite differing pension sector structures, all pensions are designed to do the same thing: produce a good outcome for members. "Across Europe you have a real spread of completely independent trustees and fiduciary responsibility on employers," comments Mercer chief actuary, Charles Cowling.

"But you've got, within the European directives, a common framework of encouragement of proper governance and there have to be appropriate people with oversight of pension arrangements. Whether they are trustees or somebody who has fiduciary responsibility within the employer, the IORP principles apply."

Communication is key

The majority of experts agree that effective communication is the most important thing in ensuring a positive relationship between employers and those responsible for the pension scheme. LCP Ireland partner, Roma Burke, explains: "For me it's all about good dialogue. Just like exercising, if you don't do it regularly, it can be a real uphill challenge to get on a good track.

"We see trustees facilitating dialogue by inviting sponsors along to trustee meetings, via regular updates as well as trustee/employer liaison committees. All of these

routes help to maintain a positive environment for both trustees and sponsors to work together."

Despite operating under a different system to the traditional trustee/ employer structure, Norwegian public sector occupational pension provider, KLP, agrees that good communication is vital. "The customers who have a public service pension in KLP are also KLP's owners," says KLP customer section director, Cathrine Hellandsvik.

"So when customers and owners are the same, we also have the same goals; greatest value creation for the customer/owners. We believe that close cooperation is important. We need to know them well so that we understand what they are interested in and what issues they are facing so that we can contribute and be the best partner possible."

Irish Association of Pension Funds (IAPF) CEO, Jerry Moriarty, notes that having good communications and putting protocols in place around the sharing of information are some of the best practices for working together.

"A common understanding of when and why information is needed will help trustees ensure they meet their regulatory requirements," he adds.

A level of understanding

Effective communication can be the foundation for understanding the opposite party's situation, and this understanding can be critical in ensuring a positive relationship. Knowing what can and cannot be done in certain instances, understanding the trustees' or sponsors' priorities, and being informed on the constraints each other are operating under can avoid undue strains.

"You need to understand each other's problems, perspectives, responsibilities and constraints," explains Cowling. "You have to

work within what is necessary for each to do their job. Trustees have got to be aware of business priorities and business cash, and understand the constraints that a business may be under in delivering to shareholders, parent companies, boards and so on.

"At the same time, businesses need to understand trustee responsibilities, the constraints that trustees are under to deliver the regulations and the operational constraints of delivering things within disclosure deadlines."

Understanding each other not only helps in building a positive relationship, it can also help in navigating a crisis. Over the past year, businesses have had to deal with the Covid-19 pandemic. The crisis has tested relationships between trustees and employers as sponsors look to keep their companies afloat while trustees attempt to minimise the impact on pension schemes, all while communicating virtually.

Reviewing practices and agreements to ensure they can continue to operate securely in a virtual environment is key for trustees and sponsors to work together effectively, says Moriarty. "It will also be important for trustees to understand how Covid-19 is impacting the employer's business and whether that raises any risks for the scheme," he notes.

Managing a crisis

Covid-19 has shone the light on cooperation between those responsible for pension schemes and employers. Getting through a crisis together again comes back to having open and good dialogue, notes Hellandsvik. Providing solutions to one another can strengthen the relationship and help navigate the crisis to the benefit of both parties, as she explains: "Our employer

Relationships

customers came across a number of new issues during the pandemic, and we tried our best to clarify these issues in the area of pensions. It is about seeing what the owner customers need and trying to meet this need within the framework we have available.”

Although the Dutch pension system differs from the traditional trustee/employer structure and they do not have as much direct communication, compromising during a crisis to provide solutions to funding issues can help strengthen the relationship.

Willis Towers Watson Netherlands pension actuary, Wichert Hoekert, comments: “As in the Netherlands trustees are at arm’s length from the employer, their cooperation mostly relates to pension contributions. During the crisis, what we have seen in some instances is that pension funds have accepted delayed payment of contributions.”

During a crisis, the structure of a pension system can impact relationships. If necessary changes are difficult to make due to red tape, it can put strain on relationships, while a more streamlined process can cause less friction. In Finland, employers’ federations and employees’ labour unions control half of the seats at the board level of pension companies, which are the main way statutory earnings-related pensions are administrated in the private sector.

“It is somewhat easier to achieve quick, system-wide reactions because benefits, contributions and solvency rules are all, in the end, based on legislation,” explains Tela public advocacy manager, Janne Pelkonen. “Although some might argue there are also downsides to this, in the case of Covid-19 ‘totality’ of the pension system made it possible to coordinate a common solution for corporations.”

Red tape

Changing regulation can further test employer/trustee relationships as both parties can be subject to further constraints on what they can do and additional requirements. This again demonstrates the importance of good communication and understanding.

“You’ve got a mixture of governance structures but you have common themes of regulation getting ever-more complicated and that regulation requiring the trustees to become more knowledgeable,” says Cowling.

Hoekert adds the Netherlands is on the brink of a transition period as the government introduces pension

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reforms, which may require sponsors and trustees to adjust their current financial set-up to move towards the targeting contribution level outlined in the new contracts.

“Although during the change process there may be conflicting interests, we think close cooperation between sponsor and trustees is preferable and can really improve overall efficiency,” he states.

Burke notes that, in her experience, the impact of changing regulations for trustees has depended on how involved the employer has been. “For some schemes, the employer has been very ‘hands off’ in their dealings with trustees on changing regulations,” she explains. “They leave it to the trustees to get on with the job.

“In other cases, employers have

been more engaged and provided support – for example helping with the procurement of additional services. A lot of employers are regulation-weary and I’m sure that trustees are aware of this. I therefore think that trustees do a lot of the heavy lifting and shield employers from the reality of the onerousness of the changing regulatory burden.”

If it’s broke, fix it

Crises, regulations and a lack of understanding can all contribute to strained relationships. Poor relationships can make working together difficult and lead to poorer outcomes for both sides. Burke says this can be managed via meetings that have been set up specifically to enable both sides to set out their views and concerns.

“Without a doubt, where these meetings have taken place, they have been successful. The people involved get the opportunity to air their views, listen and be listened to and engage in debate,” she says.

Additionally, according to Moriarty, bringing in external, independent people to a board of trustees can help mend strained relationships.

“Communication makes a massive difference to repairing strained relationships,” adds Cowling. “If you have a professional trustee that can explain what they are doing in other situations that are similar, that creates reassurance.

“Different countries in Europe have difference governance of investment policy and that can be an area of tension between trustees and employers in terms of who wants to take risk. Again I think the same basic principles apply: having a good dialogue, speaking regularly, understanding each others’ perspectives, making sure you have regard for each others’ perspectives and keeping people informed.” ■