Trustee Pay Survey – 2010

March 2010

PricewaterhouseCoopers

The background to the survey

We are pleased to present the findings from the second PwC survey of trustee pay. We received responses from 48 schemes. Our findings again primarily reflect the policies and practices of larger schemes, with 77% of the responses being from schemes whose assets were £500 million or more; the comparable figure in 2007 was 69%.

Much has happened in the pensions world between 2007 and 2010. There have been two years of financial turmoil leading many schemes to adopting more complex and sophisticated investment strategies as a defence. The credit squeeze has created funding crises for many companies, leading to covenant issues for the underlying pension scheme. Deficit levels have risen and become more volatile, leading companies to pressure trustees to accelerate their programmes to de risk the scheme, through a variety of measures from increasing member contributions and capping benefits, redesign of investment strategy to scheme closures and partial or full buyout.

Particularly in the large schemes, this has not just increased trustee workload but also the level of responsibility and the requirement on them to understand the complexities and to manage them more actively, often by committees. Trustees have confirmed these increasing challenges of the job, telling us that their responsibilities and workloads are increasing both in response to the financial and commercial pressures and also to the many initiatives by the Pensions Regulator. As expected, therefore, we have found that the trend continues to pay trustees for their services and to increase pay levels of those already receiving pay for their work.

Headlines from the survey

- 93% of schemes pay at least one of their trustees; this has increased from 71% in 2007;
- 90% of schemes pay their chair of trustees; this has increased from 61% in 2007;
- overall pay levels have increased considerably over the period. For schemes that pay trustees, the average pay of the chair of trustees has increased by 60% from £25,000 to £40,000 p.a., and for other board members by 38%, from £9,000 to £12,400 p.a.;
- the increase in the pay of the chair of trustees is most apparent in schemes with assets in the £500 million to £5 billion range rather than in the smaller or larger schemes;
- trustees' time commitment has also increased considerably over the period. The average number of days per annum spent on scheme business has increased for chairs of trustees by 25% from 18.7 to 23.3 days p.a., and for other board members by 20%, from 10 to 12 days p.a.;
- 56% of schemes' chairs are now an independent trustee, an increase from 32% in 2007;
- 77% of schemes have at least one independent trustee, an increase from 53% in 2007, and they now comprise 14% of all trustees by number, an increase from 10% in 2007;
- 45% of trustees are not current employees of the sponsoring employer, an increase from 30% in 2007;
- there has been an increase in the linkage of trustees' pay to their performance, with 6% of schemes doing so, compared with 3% in 2007. There is also an increase from 28% to 35% of schemes that monitor performance formally, although 25% now say they do not monitor performance at all, compared with 17% in 2007.

PwC comment

At the time of the Myners report in 2001, it was uncommon for schemes to pay any of their lay trustees. The Myners report recommended that it was good practice to pay trustees in order to foster expertise and business-like fund management.

The Pensions Act 2004 significantly increased pension scheme trustees' responsibilities and introduced the legal requirement to have knowledge and understanding of the highly technical areas of scheme activity such as investment, scheme funding, employer covenant and the impact of corporate activity on the scheme.

The Pensions Regulator has continued this trend, by formalising the Trustee Knowledge and Understanding (TKU) requirement in Code of Practice 07, which it revised in November 2009, and in introducing other codes of practice covering all areas of schemes' activities. More recently the Regulator has introduced the Trustee Toolkit, for on-line training, guidance notes for trustees and, in the professional independent trustee market, new criteria to be applied when assessing whether trustees meet, or continue to meet, the judgement-based conditions for acceptance onto the Trustee Register.

The increasing skills requirement and the need for training, combined with the increased complexity of pensions business, have led to increased workloads on all trustees, whether professional or lay. For an increasing majority of schemes in our survey, trustee pay is now on the agenda together with the related matters of providing assistance and time off for training and meeting preparation, trustee monitoring and performance recognition. We expect that these will become increasing areas of challenge for trustee boards and sponsoring employers in the next few years.

Several chairs of trustee boards have told us that the role is becoming more onerous and akin to that of corporate non-executive directors. At the same time, the pension scheme and in particular its pension deficit continue often to be hugely significant to the entity as a whole, both in terms of the volatility of their impact on corporate earnings and their absolute size on continued corporate viability, in some cases, and more generally on takeover activity.

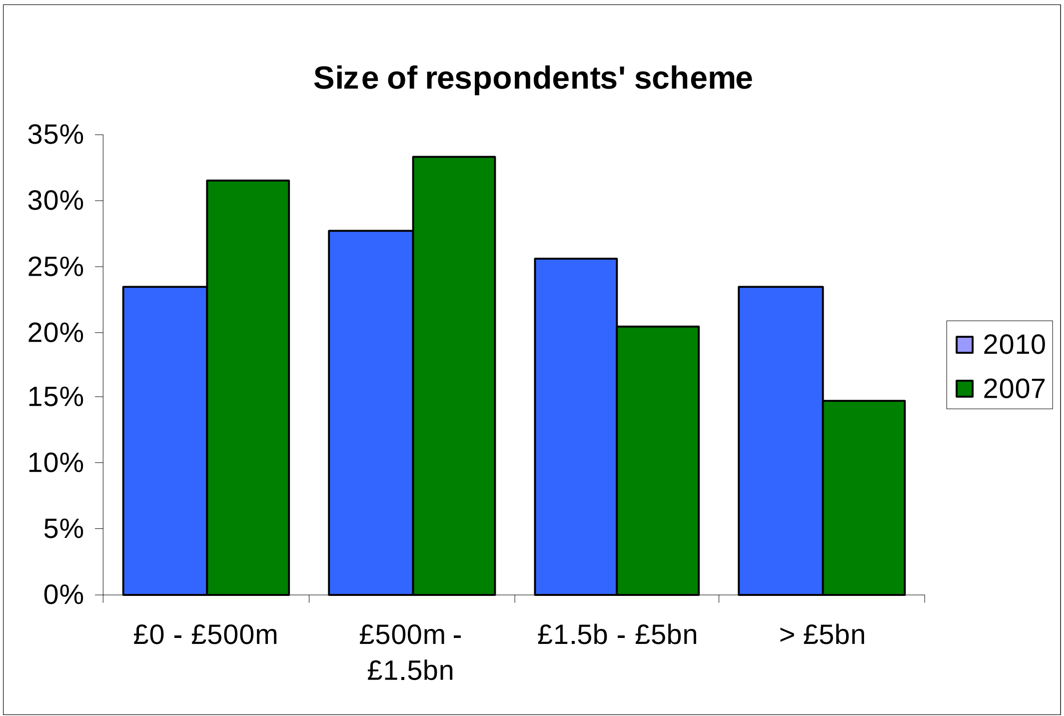
It is therefore hardly surprising that these trends have led to a sharp upward pressure on trustee pay levels, across the board, whilst the enhanced responsibility in particular of the chair is beginning to be reflected in the remuneration structure; the pay of all trustees is increasing but the pay of the chair is increasing at a faster rate.

As well as the increase in pay levels, the increasing demands of the pension scheme trustee role are leading to the need for an increasingly professional trustee board. Earlier NAPF annual surveys found that 20% of employer nominated trustees said that they had resigned owing to concerns over conflicts of interest and increasing trustee workloads. Their surveys noted the increasing use of independent trustees to combat this and our survey found a strong continuation of this trend.

Trustee performance is now formally monitored in a third of schemes, up from a quarter in our earlier survey. This is still low and likely to be lower still in smaller schemes. However, without formal monitoring of trustee performance, there is a weaker justification for remunerating trustees and more importantly there is a missed opportunity for enhancing trustee effectiveness. These results are consistent with the preliminary results of our latest Governance Survey, where we identified a gap between trustee awareness of the importance of good governance and their taking concrete steps to improve it.

Survey details

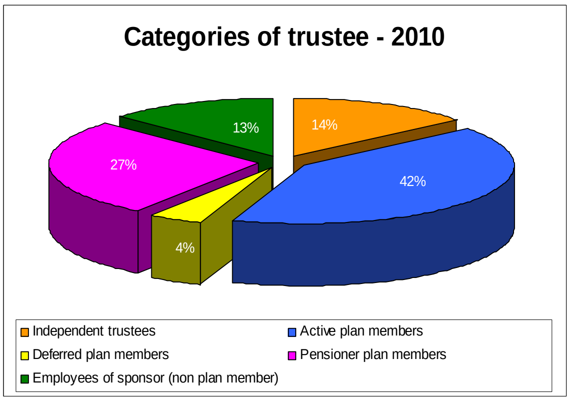
Our survey comprises responses from 48 schemes, compared with 62 schemes in 2007, received during January and up to 18 February 2010. The asset base of the respondents is broadly similar to that of the 2007 survey, although there is a levelling of the spread across the four ranges in the chart below compared with 2007, when two thirds were in the two lower bands.

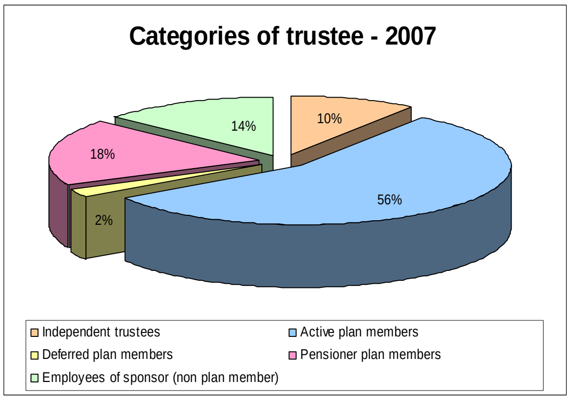


Board composition

The following pie charts, compiled from the results of our 2010 and 2007 surveys, show that the make up of trustee boards is changing. As trustees' duties become more onerous, the trend continues towards the board becoming more "professional". Whilst the active member constituency is still the largest, this has fallen from 56% to 42% of all trustees by number, as the time and technical requirements of the role increase. Instead, their place is being taken in particular by pensioner members, increased from 18% to 27%, and also by independent trustees, increased from 10% to 14%, both of whom may reasonably be assumed to have more time available for the role and, importantly, both of whom are more likely to be paid for their services.

Whilst the levels of employer, non-member and deferred member representation have not changed significantly, the other main trend apparent from the charts is that 45% of trustees are not current employees of the sponsoring employer, an increase from 30% in 2007. This reflects the increasing maturity of scheme and the membership (more pensioner trustees – up from 18% to 27%), increasing regulation and complexity (more independent trustees – up from 10% to 14%) and corporate changes (more deferred trustees – up from 2% to 4%). This reduced influence by the sponsor over the scheme may be an issue, given the importance of the scheme to the sponsor

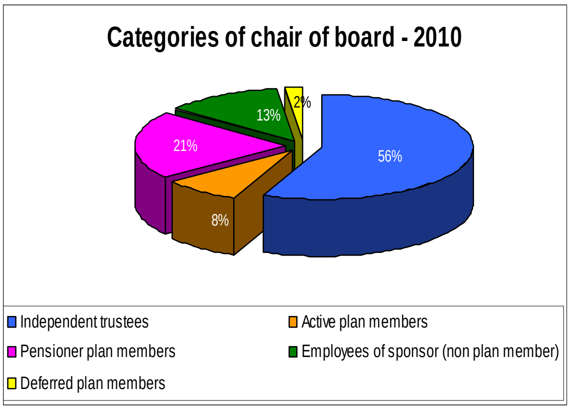


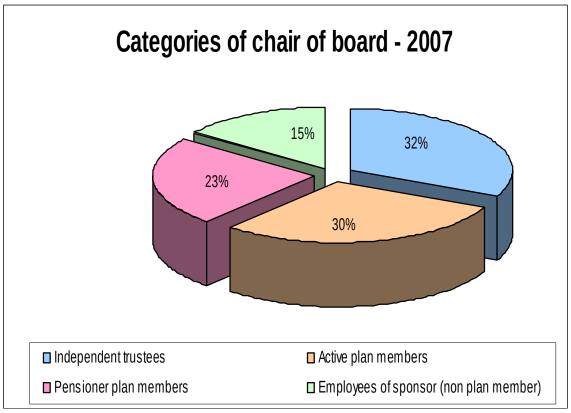


Source of chair

The two charts below show that the chair is an independent trustee for an increasing proportion of schemes - 56% compared with 32% in 2007, whilst active member chairs have fallen to 8%, compared with 30% in 2007. This reflects the increasing demands of the role of the chair of the trustees, in terms of availability of time, professional skills and the need to be independent from the company to avoid a conflict of interest for example during funding negotiations.

Employer, pensioner and deferred member performance of the chair role remain broadly unchanged.

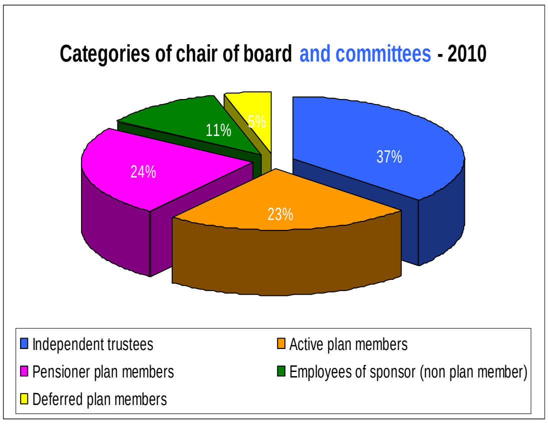


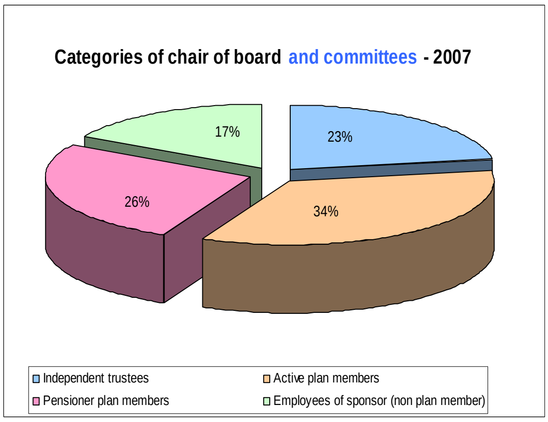


Sub-committee chairs

Over half of the survey schemes operate a sub-committee structure, which is very typical of the larger schemes. The two charts below show similar trends for the chairs of those sub-committees, with an increase in independents from 23% to 37% and a reduction in actives, from 34% to 23%. There is also a reduction in employer representation as chairs of sub-committees, from 17% to 11%, closer to the proportion of their representation as chairs of the main board, again presumably for reasons of time availability.

Pensioner and deferred member performance of the chair role of sub-committees remain broadly unchanged.

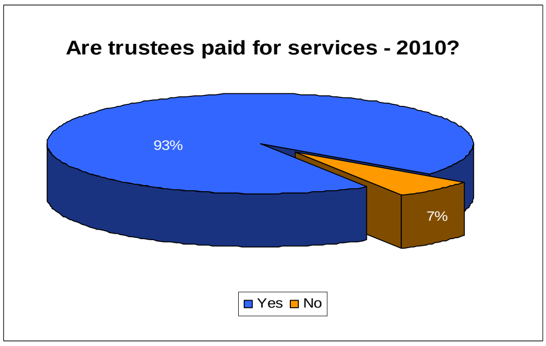


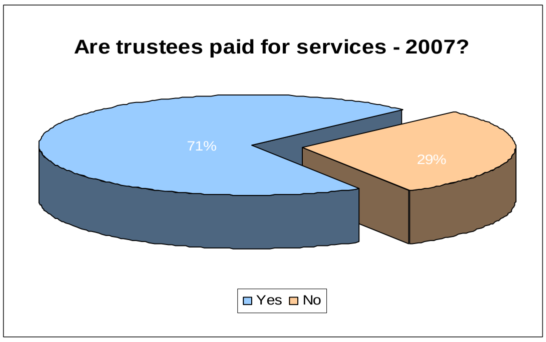


Trustee pay

Which trustees are paid for their services?

We have already noted that 77% of schemes have at least one independent trustee, which has increased from 53% in 2007. Schemes have always paid professional (independent) trustees and, as the two charts below show, schemes are continuing to pay other trustees, in particular pensioner members, so that overall 93% of schemes are paying at least one trustee for their services, compared with only 71% in 2007.





For respondents who pay at least one trustee, the table below provides a further analysis of which trustees are being paid and shows generally that more of the classes of trustees are now being paid:

The respondents that stated that they pay their trustees show that:		
2010	2007	
93%	71%	Pay at least one trustee
66%	35%	Pay the chair and other trustees
17%	22%	Pay only the chair
10%	14%	Pay other trustees but not the chair
21%	28%	Pay only the independent trustees
2%	26%	Pay only the pensioner trustees
23%	54%	Pay only the independent trustee and pensioner trustees
0%	4%	Pay only pensioner and deferred member trustees
14%	4%	Pay all trustees including those in employment

The last line of the table above shows a significant increase in the proportion of schemes that pay all their trustees, including those in employment. We have previously noted that schemes had tended not to pay their active member trustees, explained by employers considering the trustee duties to be an integral and not additional component of the individual's job responsibilities. That position is being steadily eroded, with the recognition of the increasing demands of the role and the recognition that part of this is being performed in the individual's own time, in particular training (for example the Regulator's on-line Trustee Toolkit computer based training modules) and meeting preparation.

How much are trustees paid?

An analysis of those schemes that are paying at least one trustee shows, as expected, an increased level of pay commensurate with the requirements of the role. The chair of the board requires additional skills and responsibilities which are paid at a higher level than other trustees and, as we show later, their time commitment is also considerably higher than for other trustees.

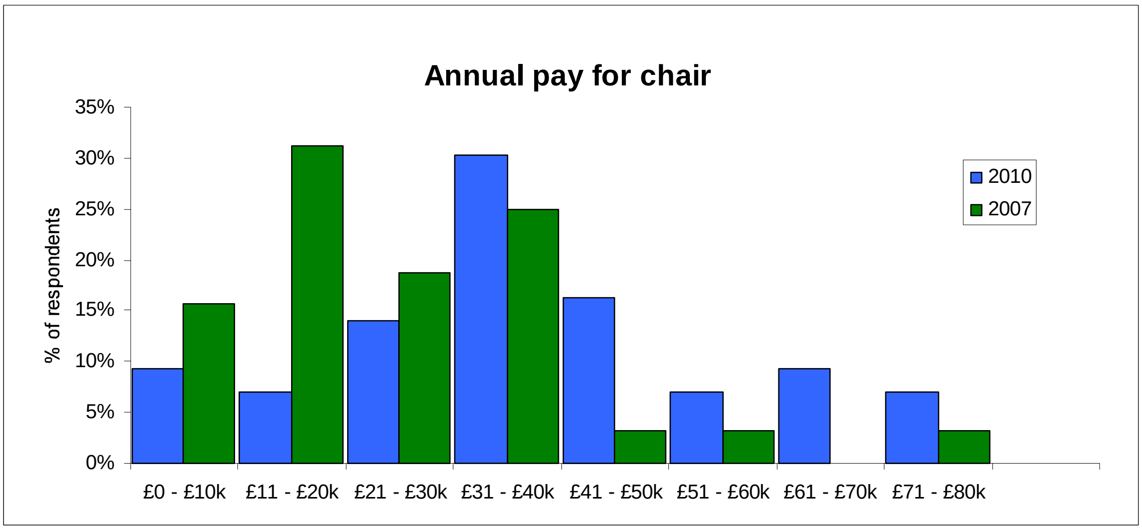
As previously noted, over half of the schemes in the survey have a structure of sub-committees, most commonly for investments and governance/audit but also for benefits, administration/operations, funding and disputes/complaints. This structure creates additional trustee roles as well as committee chairs and increased duties for trustees who sit on both the board and one or more sub-committee. The table below shows that the amount of pay for those roles reflects the levels of responsibility between those of the chair and the trustee board members.

The table below shows a clear relationship between increasing responsibility and higher pay and also a significant increase in pay at all levels over the three year period between the two surveys. In addition, independent trustees are paid more than lay trustees, reflecting the increased level of skills expected from them.

Annual trustee pay by role (£ thousands)						
		Chair of board	Chair of committee	Committee and board member	Board member	Board member (independent trustee)
Upper Quartile	**2010**	**65.5**	**35.7**	**22.3**	**17.8**	**25**
	2007	35	15.5	13	6	11
Median	**2010**	**41.1**	**16.7**	**11.7**	**7.4**	**16**
	2007	25	13.5	7.5	5	9
Lower Quartile	**2010**	**18.9**	**4.4**	**5.8**	**4.4**	**12.5**
	2007	15	9	5	3.5	9

Pay for chair of the board

A more detailed analysis of the salaries of the chair of the main board gives the following distributions for 2007 and 2010:

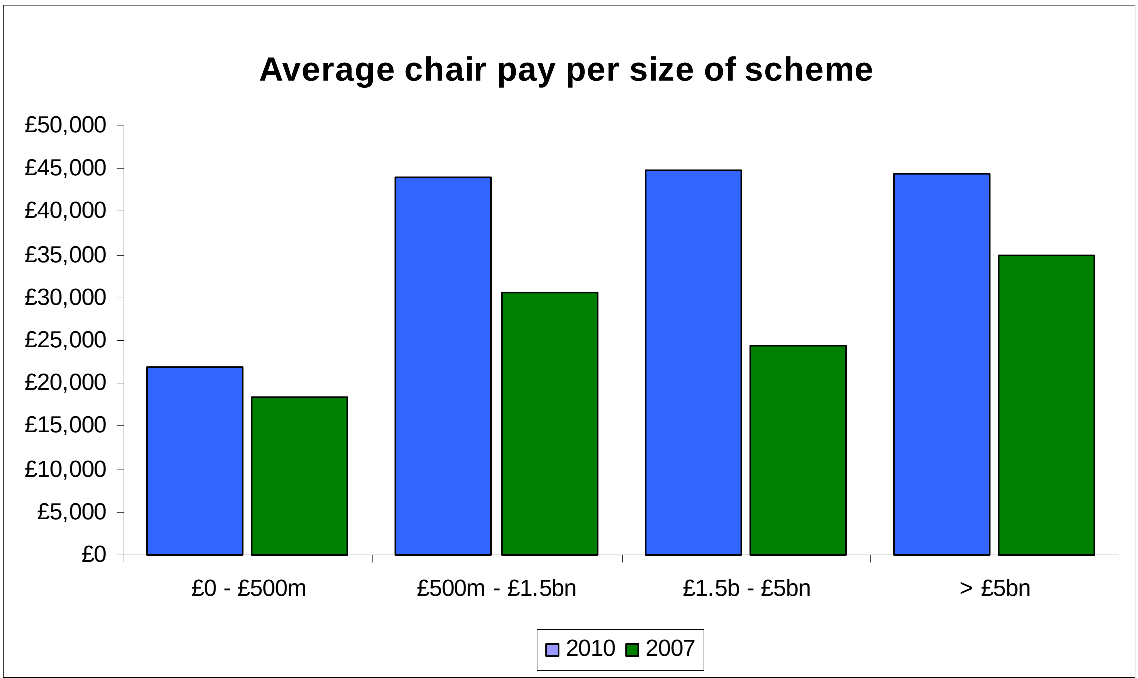


As previously noted, 90% of schemes pay their chair of trustees; this has increased from 61% in 2007.

The three most common pay levels in the above chart for each year give 60% of chairs in the range £21,000 to £50,000 p.a. in 2010, compared with 75% in the range £11,000 to £40,000 in 2007. That means that there has been a significant increase in the level of pay for the chair and, as previously noted, the average pay increased by 60% from £25,000 to £40,000 p.a., which is 5½ times that of board members of £7,400 p.a. This range was similar in 2007, when the equivalent figures were £25,000 and £5,000 p.a. respectively.

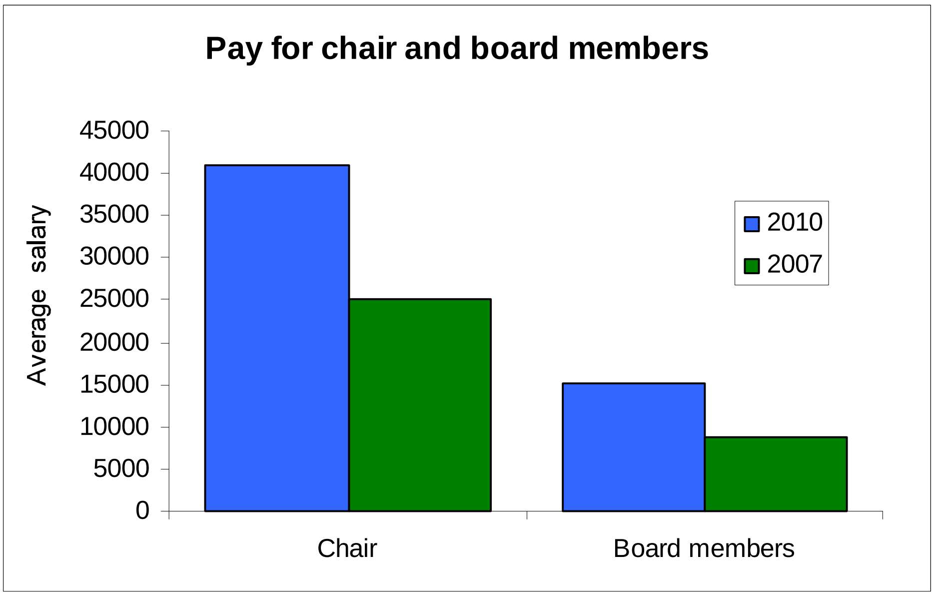
All the ranges above £31,000 p.a. show a greater proportion of chairs in 2010 compared with 2007, reflecting the overall increase in salaries over the period. The reason for the absence of a £81,000 to £90,000 range in 2010, although it was in the previous survey, is that, for the scheme in question, the role previously performed by a single trustee has been split into two independent trustees receiving £50,000 p.a. each and a pensioner trustee receiving £10,000 p.a., a combined equivalent of £110,000 p.a. for the previous role. We have adjusted the 2007 salaries for comparability.

As the following chart shows, the average pay of the chair continues to be positively correlated with the size of scheme. However, whilst the 2010 survey shows an increase in relation to the size of the scheme between schemes in the range £0 to £500 million and schemes over £500 million, the pay levels plateau thereafter, suggesting that the amount of work involved in relation to a scheme in any of the three largest ranges is not perceived to be significantly different. This contrasts with 2007, and shows a convergence of pay rates at the top end, possibly due to greater transparency of pay rates within the pensions industry.



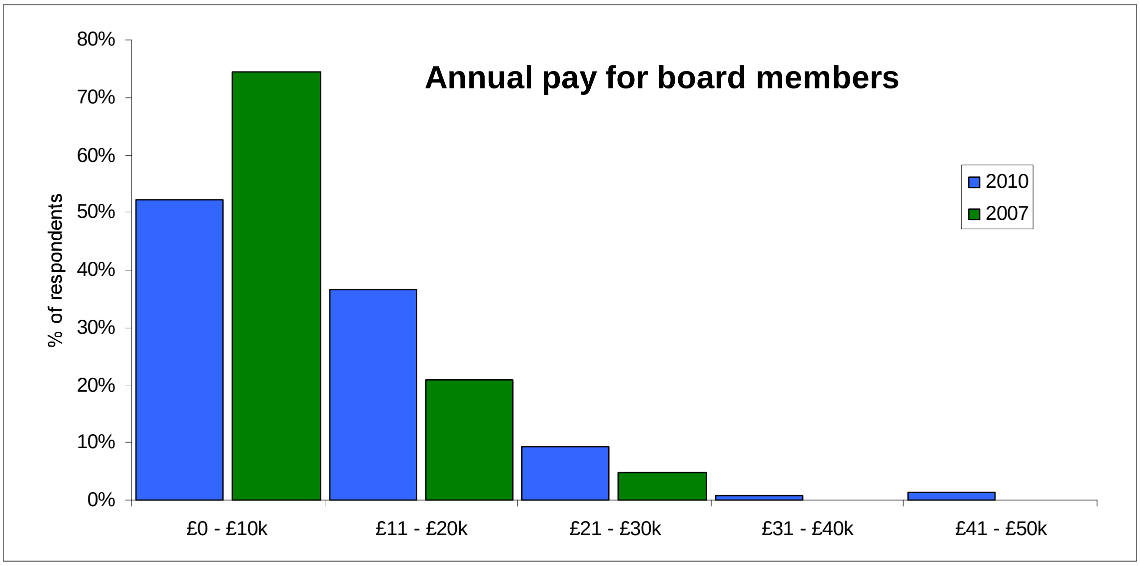
Pay for other trustees

Whilst the average pay for the chair of trustees has increased by 60% from £25,000 to £40,000 p.a., that of other board members has only increased by 38%, from £9,000 to £12,400 p.a., as shown in the chart below.

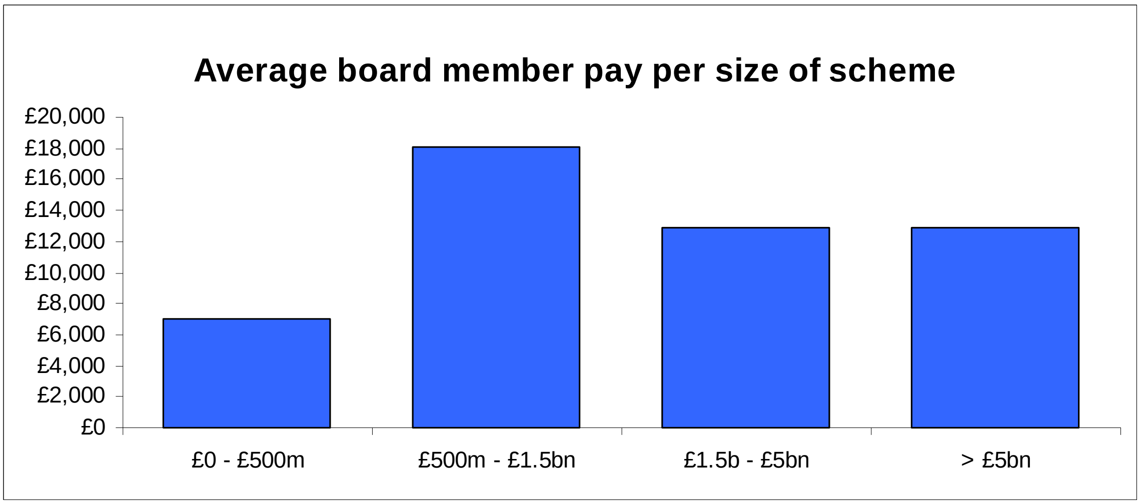


The table on page 7 showed that there is considerable variability depending on the role performed. The chart below shows that there also is a significant overall range.

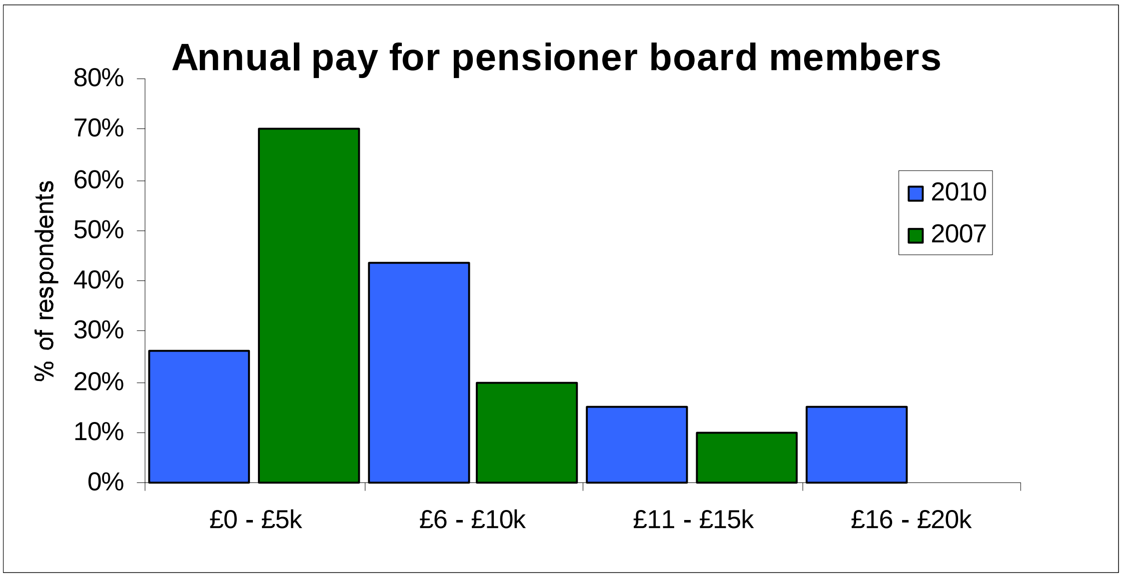
The following chart also shows the increase in overall pay levels. In 2007, 75% of trustees excluding the chair were paid in the range £0 to £10,000 p.a. whereas in 2010 only 51% are paid in this range and 11% are paid over £20,000 p.a., an increase from only 5% in 2007.



The following chart shows that the average pay for board members other than chairs is also correlated by size of scheme and is also similar to chairs in that there is an increase in relation to the size of the scheme between schemes in the range £0 to £500 million and schemes over £500 million but not thereafter. This again suggests that, for other board members, the amount of work involved in relation to a scheme in any of the three largest ranges is also not perceived to be significantly different.



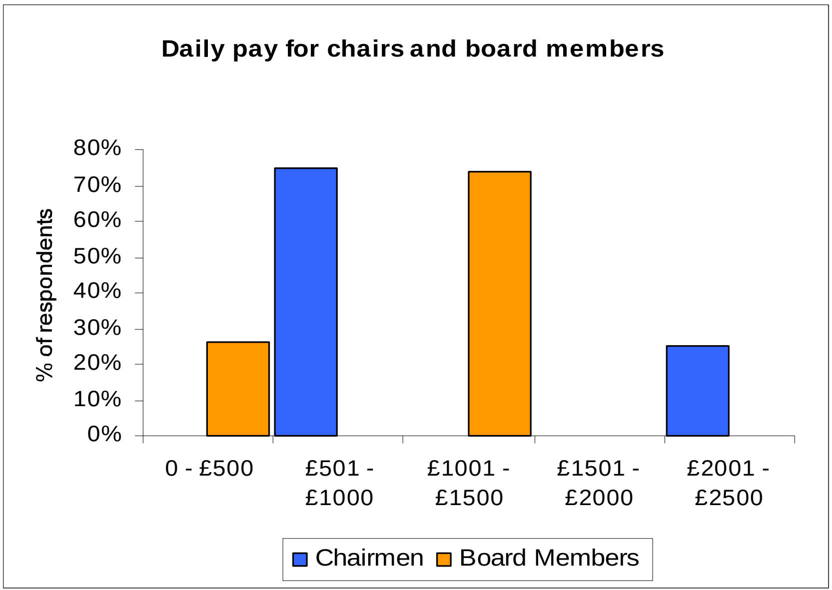
The table on page 7 showed that independent trustees are paid more than other classes of trustee, with an average lower quartile pay of £12,500 p.a. compared with £4,400 for other trustees and an average upper quartile pay of £25,000 p.a., compared with £17,800 p.a. for other trustees. Within the other classes of trustee, pensioner members are the most likely to be paid and the chart below shows their increase in overall pay levels. In 2007, 70% of pensioner trustees, excluding those paid for a chairing role, were paid between £0 to £5,000 p.a. whereas in 2010 only 29% are paid in this range and 30% are paid over £11,000 p.a., an increase from only 10% in 2007.



Other pay bases than an annual rate

Daily rate

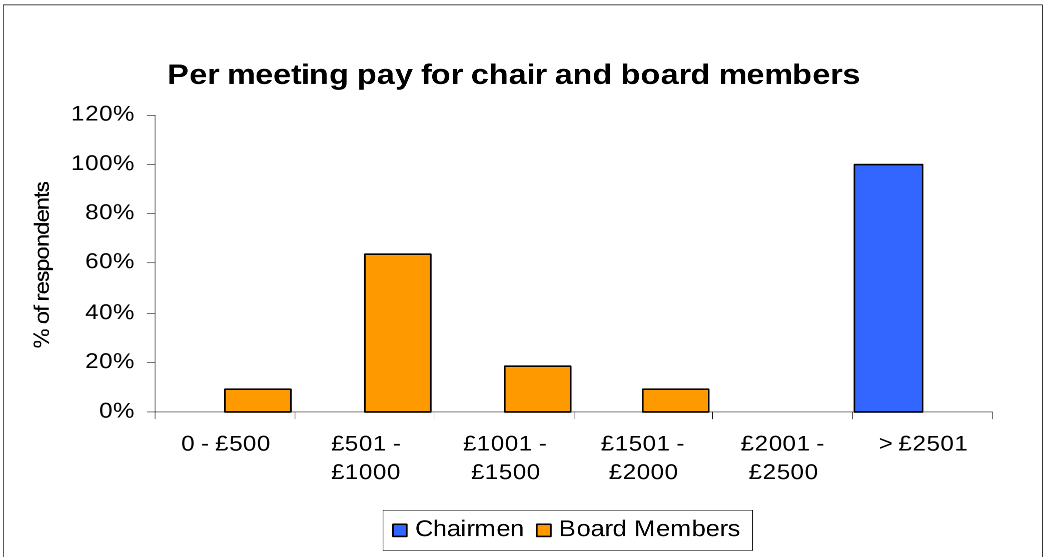
Most schemes in the survey pay their trustees an annual rate for performing the role; however five schemes from the respondents (10% of the total) pay some or all of their trustees daily rates as follows:



Two of these five schemes their chair only the daily rate, as quoted above. However, the other three pay their chair an annual pay, so the above rates apply only to the other trustees.

Per meeting rate

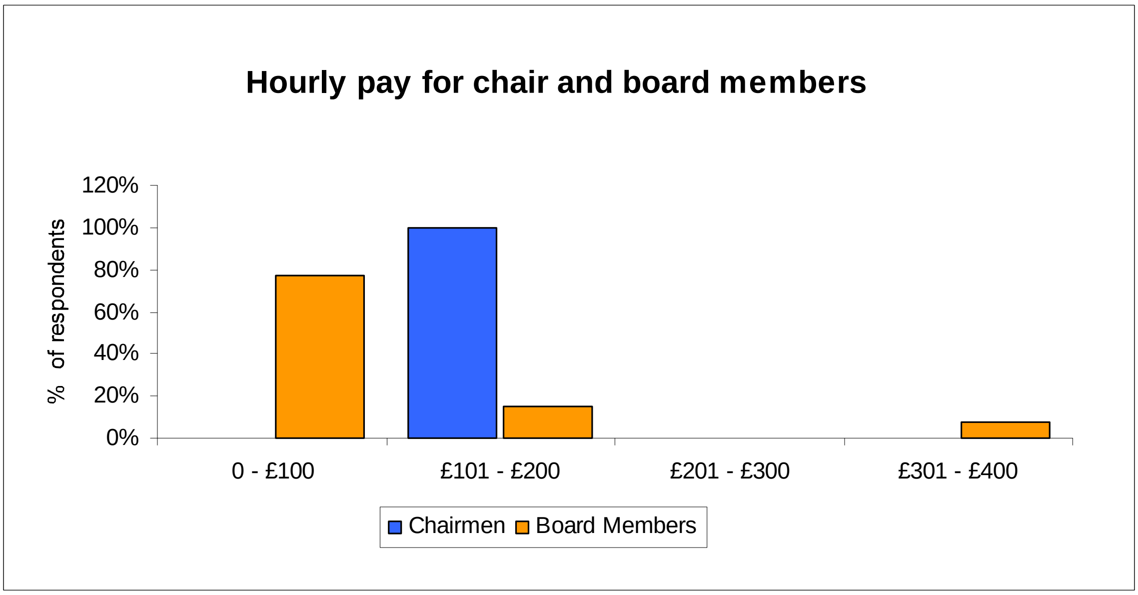
Five schemes from the respondents (10% of the total) pay some or all of their trustees a rate for each meeting attended as follows:



Four of the five schemes in question above pay only the other trustees the per-meeting rate, and pay their chair an annual pay. However, the other scheme pays their chair and the other trustees the per-meeting rate.

Hourly rate

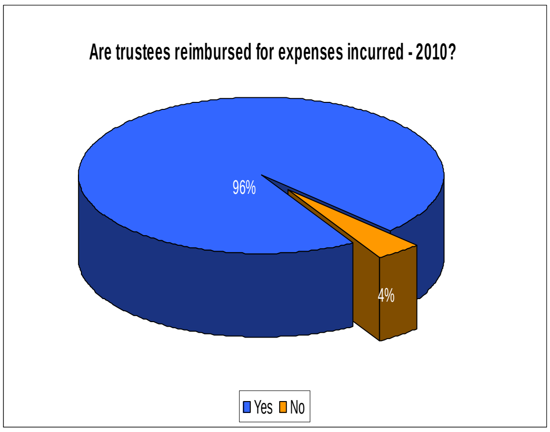
Three schemes (6% of respondents) pay some or all of their trustees an hourly rate for services performed, as follows:

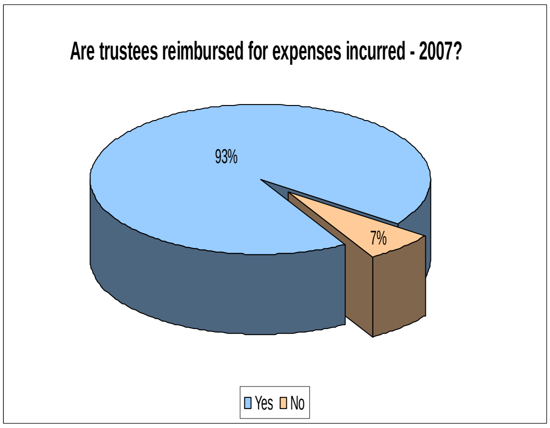


Two of the three schemes in question above pay only the other trustees the hourly rate, and pay their chair an annual rate. However, the other scheme pays their chair an hourly rate, the pensioner trustees an annual rate but do not pay other, active member trustees; it also has no independent trustee.

Reimbursement of expenses

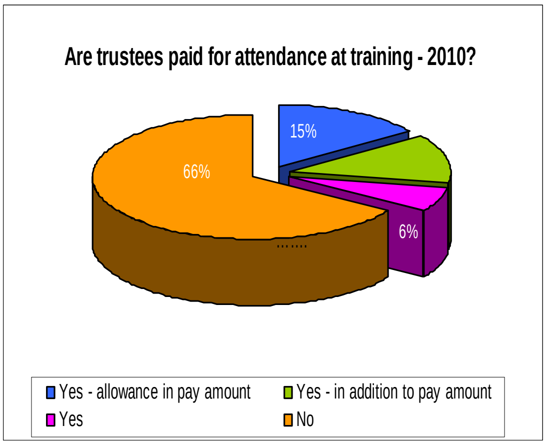
Only two schemes (4% of respondents) state that they do not reimburse trustees for expenses, as summarised below:

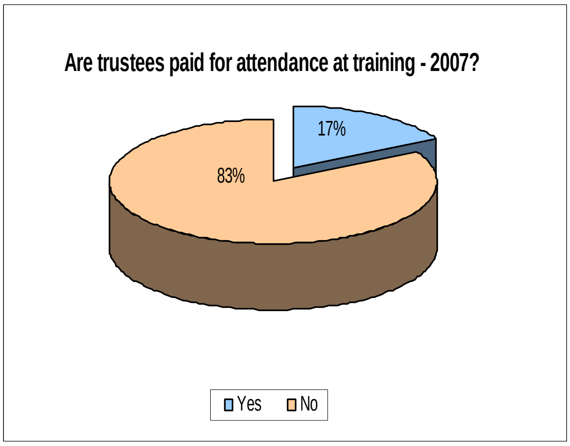




Reimbursement for attending training

With the recognition of the increased importance of training in developing trustee knowledge and understanding, an increased proportion of schemes now pay their trustees specific additional amounts to attend training – 34%, doubled from 17% in 2007.

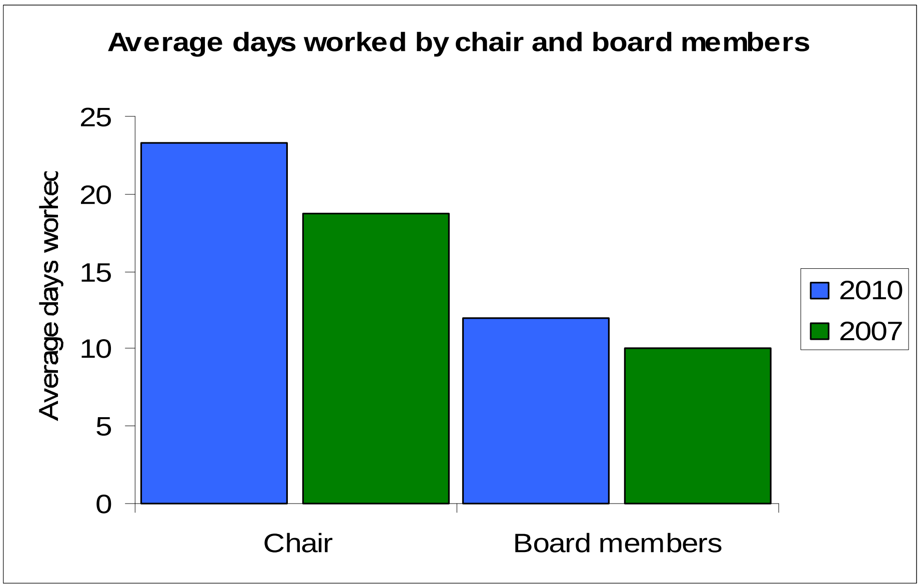




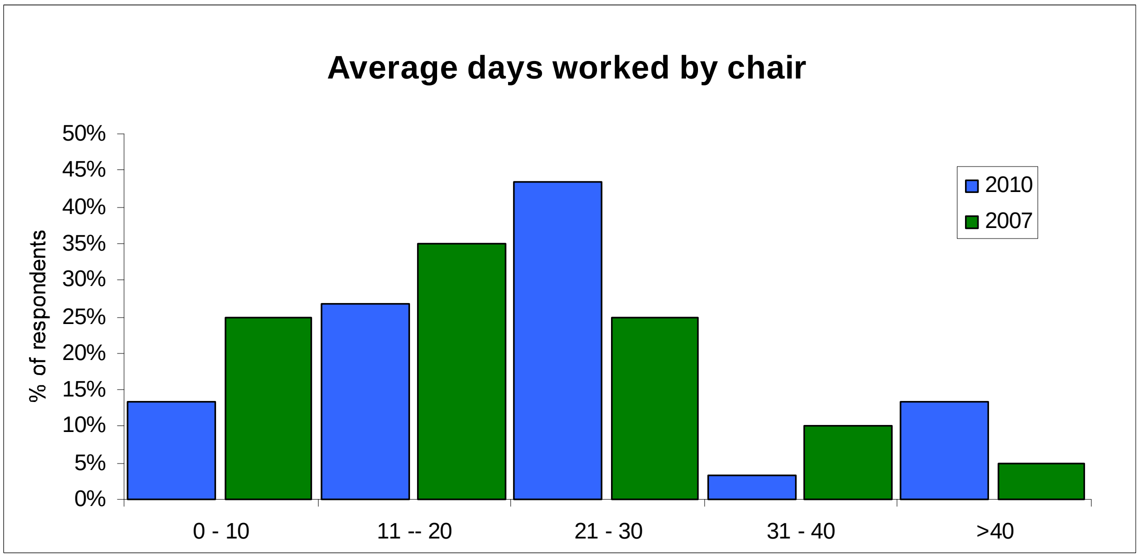
Trustees' time commitment

With the increasing regulation of pension schemes and the increasing complexity of their business, as previously noted, it is hardly surprising to see that trustees' time commitment has increased considerably from 2007 to 2010.

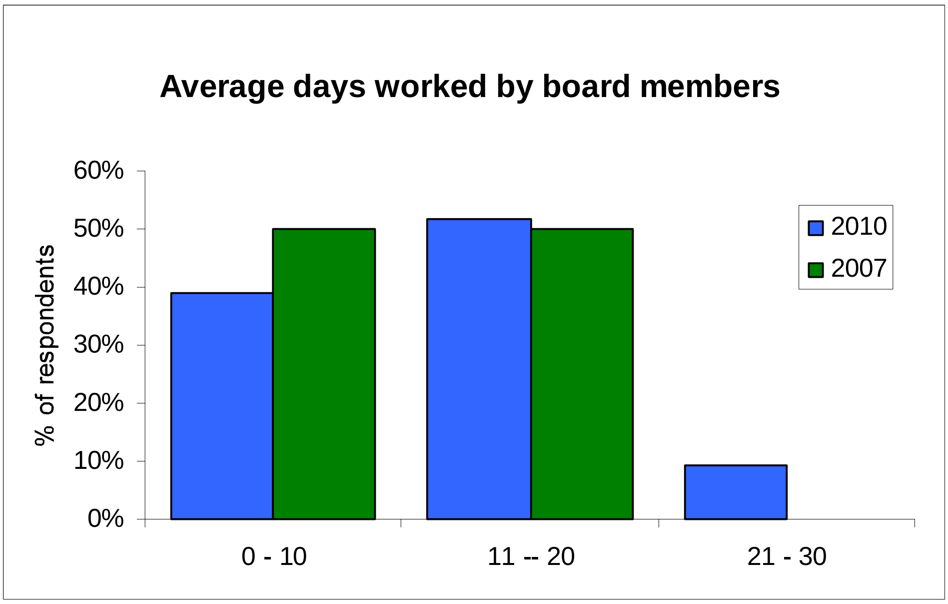
As the following chart shows, the average number of days per annum spent on scheme business has increased for chairs of trustees by 25% from 18.7 to 23.3 days p.a. and for other board members by 20% from 10 to 12 days p.a.



In almost all cases there is a trend towards more time being spent. 60% of chairs now spend over 21 days per annum on scheme business, compared with only 40% in 2007.



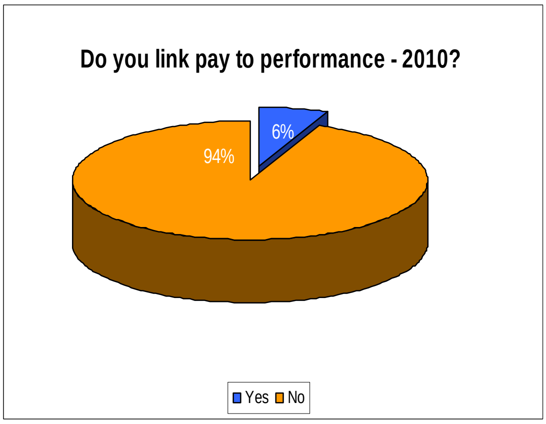
Although there is still a large spread in the time spent by chairs on scheme business, the spread is less for other board members. The chart below shows that 61% of board members now spend over 11 days per annum on scheme business, compared with only 50% in 2007.

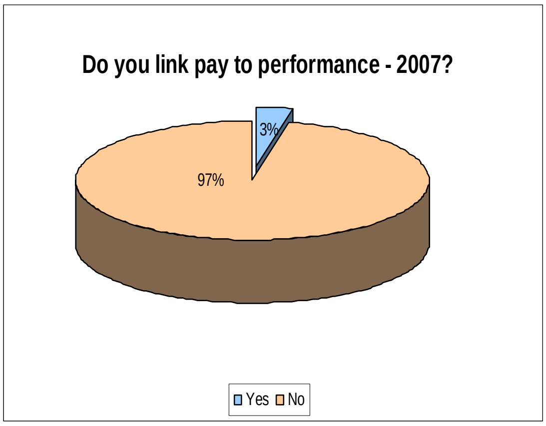


Monitoring of trustees' performance

How is trustees' performance monitored?

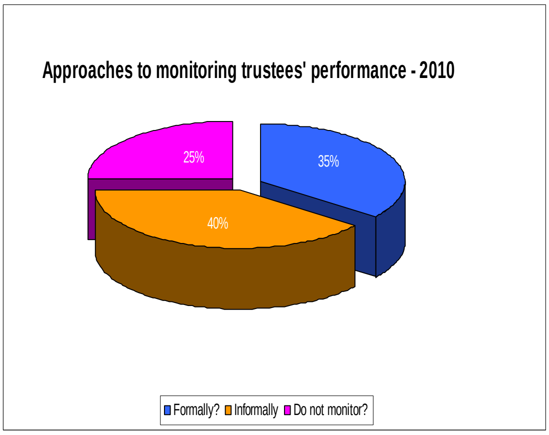
There has been an increase in the linkage of trustees' pay to their performance, with 6% of schemes now doing so, compared with 3% in 2007, although this was still only three schemes from the 48 respondents.

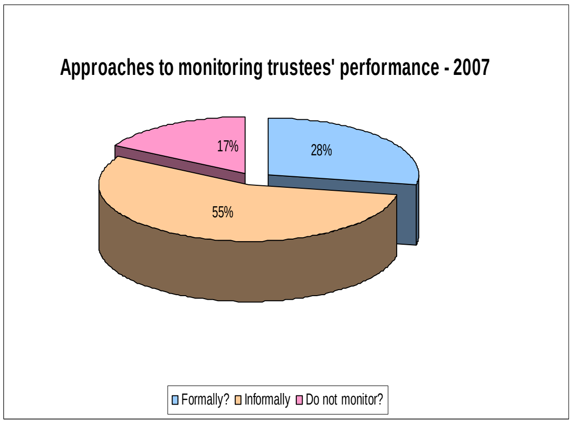




One scheme told us that, for active member trustees, although they receive no fee, their contribution is communicated by the chair to their line manager, to incorporate in their annual bonus assessment.

The two charts below show that there was an increase from 28% to 35% of schemes that now monitor performance formally, although 25% say they do not monitor performance at all, compared with 17% in 2007. This is consistent with our latest governance survey where preliminary indications are that it remains a small proportion of schemes where the trustees are set individual objectives. However, over half of the schemes surveyed have objectives at a trustee board level.





One scheme that does formally assess trustees explained the process whereby all trustees complete 360 degree appraisals of themselves and trustee colleagues. The scheme's executive team also provides input and the chair issues an annual performance letter to all trustees and interviews any with performance issues. Other schemes also refer to self-appraisals, feedback and written assessments as part of their performance monitoring processes.

Who to contact

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