

Book Review

Good Governance for Pension Schemes, Paul Thornton and Donald Fleming, Cambridge University Press, 2011, 310pp. (hardback), £95.00. ISBN: 9780521761611

Summary

Perhaps unusually, I want to start this review of *Good Governance for Pension Schemes* with a simple summary of how I feel having just finished it. In essence, for anyone involved in the delivery and governance of any or all aspects of occupational pension schemes, it is a thoroughly good read. In terms of length and structure, it is broken down into easily digestible chapters with plenty of ‘bite-sized chunks’ within each chapter that make it a very easy book to pick up, put down and keep coming back to.

I will look at the content in more detail later but, for those who are new to the profession, particularly if you have chosen a career in pensions consultancy, and equally anyone new to trusteeship, this book provides a great foundation of the history of occupational pension provision and the governance of these schemes, as well as many of the key principles and issues they involve. For those like me who have worked in pensions consultancy for many years, it is a refreshing reminder of where we are and how we got here.

Content

Each chapter of the book is written by a different contributor/contributors, including a range of industry professionals as well as a journalist and group finance director. Despite the wide number of authors involved, the language and tone of the book is relatively consistent, with only a couple of chapters feeling like they do not quite fit the mould.

The book certainly covers the key areas involved with occupational defined benefit (DB) schemes, as well as some of the background history of both UK and, early on, overseas schemes. Following an introduction by the lead authors, the contents (in order) are:

- Regulatory and supervisory context for occupational provision
- Pension funds and capital markets
- Social responsibility and fiduciary duties of trustees
- Good trusteeship
- Conflicts of interest
- The pensions scheme in the employment package
- Employer support and the development of the sponsor covenant concept
- Establishing the funding requirements of pension schemes
- Effective oversight of pensions administration
- Investment governance of DB pension funds
- Hedging investment risk

- Managing longevity risk
- The role of insurance in the occupational pensions market
- Pensions – a corporate perspective
- A note on the investment management of defined contribution (DC) schemes
- Effective investment governance in DC

The book then closes with a chapter that quite successfully draws together and summarises the rest of the content.

Shortcomings

So, it covers all the main areas, is a good read and is reasonably thorough given the length of the book (296 pages) so I do not need to say anything else. Not quite. I have a few, minor, quibbles with this book.

First of all is its name – Good Governance for Pension Schemes – which seems clear enough, but is slightly misleading. Having spent half my life working with trust-based schemes and the other half of my life with contract-based ones I found the lack of coverage for governance in contract-based schemes disappointing. Admittedly, the summary on the back cover does say ‘It provides the reader with an appreciation of the distinctive characteristics of UK occupational pensions schemes...’ but that only comes after ‘...overview of what today constitutes good governance for pension schemes...’, which I would read as pension schemes in general.

I am being picky, I know, but the book should either be called ‘Good Governance for Occupational Pension Schemes’ or have at least one chapter dedicated to the governance of contract-based arrangements. By the time this book went to press in 2011, the Pensions Regulator’s focus had clearly shifted towards these schemes and the governance arrangements surrounding them have, in some cases, become very well developed. Trustees of occupational DC schemes can learn a thing or two about good governance from those running successful contract-based arrangements. Contract-based schemes are mentioned, but really only fleetingly.

Overall, having the variety of expert contributors to the book is a very good thing, but the problem with this approach is that it does not always guarantee things are covered in the most logical order. For example, chapter 13 takes a good look at managing longevity risk and, as you would expect, talks about buy-outs and buy-ins. However, the real explanation of what buy-outs and buy-ins are does not appear until the next chapter. For readers familiar with these terms it does not matter, but for those new to the concepts it does. On balance, it may have been better to swap these two chapters but the overall content of each means it is not necessarily that clear cut.

A similar issue arose early on in the book where one chapter did feel completely out of place – chapter 4, Social responsibility and fiduciary duties of trustees. In my opinion, this should have come after the more general Good trusteeship and the Conflicts of interest chapters, the latter containing the most clear explanation of what is actually meant by fiduciary obligations.

Another minor criticism is that in some chapters the focus on governance is lost. Whilst the explanations about hedging and managing various risks were very good and definitely worthy of inclusion, I think reminding the reader how these link back to governance throughout the chapters would have been helpful.

Finally, on occasions, I did feel disappointed that the content of the chapter did not fully live up to my expectations. For example, the Pensions – a corporate perspective chapter provided an excellent look at the finances of a pension scheme from a corporate perspective but failed to look at some of the other issues such as HR objectives, recruitment and retention and the impact the presence of unions can have on corporate pensions strategy for some employers.

Hopefully it is clear that the shortcomings I have highlighted are far from significant and should not stop anyone interested in corporate pension schemes and their governance from reading this very good book. I hope they merely highlight how it could have been even better.

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