

Clarity and precision on all the pensions issues



By John Hutton

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Pensions have never been far from the headlines in recent years – for good reasons. Well-publicised scandals over the misuse of pension fund assets, the inappropriate selling of personal pensions and a rising (and well-founded) fear that we are not saving enough for our retirement have produced a plethora of policy responses and new regulatory standards. This journey is far from over.

New regulation is looming from Europe and auto-enrolment – the Turner Commission’s plan for tackling the problem of under-saving – is just around the corner. Demographic trends will also drive a growing appreciation of the importance of pension reform. Britain is becoming an ageing society. We have to ensure that we make proper provision for these extra years of life that we can all look forward to enjoying. Pensions are destined therefore to remain in the spotlight of media and public concern as policymakers continue to ensure the highest standards of probity and trust are maintained.

As if this was not enough to occupy the minds of those entrusted with the arduous responsibilities of pension scheme governance, markets have shown extraordinary volatility in recent years, making the job of balancing assets and liabilities, particularly in defined benefit schemes exceptionally challenging. Effective pension scheme governance has therefore never been more important to the health and well-being of both our economy and our society than it is today.

So the publication of a book on the subject is apposite. In *Good Governance for Pension Schemes*, Paul Thornton and Donald Fleming have brought together an impressive list of thoughtful contributors from all the key disciplines that impact on the work of pension administrators – legal, financial, actuarial and regulatory. The result is an excellent compendium of advice and best practice based on a full and fascinating analysis of both markets and regulatory frameworks.

Much of the book’s focus and emphasis is on the governance of defined benefit (DB) schemes. Although the future for private sector pensions is now clearly set on a defined contribution trajectory, with investment risk being effectively transferred from employers to employees, it is always worth reminding ourselves that there are millions of workers and pensioners in the private sector who still depend on a DB pension for some or all of their retirement income and will do so for decades to come.

Good governance, as John Ashcroft (formerly of The Pensions Regulator), Juan Yermo and Fiona Stewart (Organisation for Economic Co-operation and Development) rightly point out in their contributions can lead to both improved returns for scheme members and lower administrative costs. However, the benefits of good governance go well beyond the economics. It can help foster greater trust and confidence in pensions as a whole – a vital part of encouraging the new savings culture our times call for.

The material on managing investment and longevity risk, authored by Roger Urwin (of Towers Watson), Dawid Konotey-Ahulu (Redington Partners), Chinu Patel (independent consultant) and David Collinson (Pension Insurance Corporation), goes right to the heart of the issue of good governance and to the book itself. All DB schemes require effective means of controlling and managing risks. These risks are real and formidable and need to be understood by scheme administrators and scheme members alike. The details of risk analysis, liability driven investing and profiling, and hedging are set out with clarity and precision, providing a useful reference point in a subject that is often impenetrable to most of us.

Overall, this scholarly contribution merits a place on the desk of everyone working in the field of pension governance today.

Lord Hutton of Furness is a former Labour MP and cabinet minister, who led the commission reporting into public sector pensions for the coalition government

Good Governance for Pension Schemes, Paul Thornton and Donald Fleming (Gazelle Corporate Finance), Cambridge University Press, ISBN 978-0-521-76161-1, £95.

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