

The Myners Principles and occupational pension schemes

Volume 2 of 2 – Findings from quantitative research

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This research examined the extent to which occupational pension schemes have voluntarily changed their investment decision-making practices in accordance with the Myners Principles and the Code of Investment Principles set out in the Government's 2001 response to Myners.

A survey among 1,580 occupational pension scheme trustees was commissioned by the Department for Work and Pensions and HM Treasury as part of a two year review of pension schemes' progress against Myners recommendations. Complementary qualitative research based on 14 case studies was published in November 2003¹.

The research was carried out on behalf of the DWP and HM Treasury by Consensus Research International.

Key findings

- There has been significant voluntary progress towards adopting the Myners Principles. Pension scheme membership size is the strongest predictor of progress. Larger pension schemes (with 1,000 or more members) were much more likely to have taken steps than small schemes.
- Schemes were more likely to have taken action in quantifiable areas of investment decision-making, such as asset allocation and

benchmarking; and less likely to have taken steps in areas such as trustees' expertise, performance measurement and activism.

- In the two years after the publication of the Myners Principles the majority of trustee boards had formally considered five key issues covered by the Principles and had taken formal minuted decisions to act on two Principles: Asset Allocation and Clear Objectives. The majority of members, however, belong to schemes that took formal decisions on five Principles. Eighteen per cent of all schemes took no action on the Principles during the two years following their publication.
- On average, trustees spent 10.6 hours per year in board meetings and devoted fewer than four of those hours to investment matters. The time spent varied from 2.3 hours in Small schemes (12-99 members) to 5.3 hours in Large schemes (1000 -4999 members) and 9.8 hours in Very Large schemes (5,000 or more members).
- Only 25 per cent of schemes said their trustees took part in formal training programmes other than induction training.
- Responsibility for pension scheme responses to the Myners Principles most often lay outside the board of trustees, with Investment Consultants frequently taking the lead.
- The research estimated that the Myners Principles apply to some seven per cent of 'live' occupational pension schemes containing 64 per cent of scheme members.

¹ Horack, S. et al (2003) The Myners Principles and occupational pension schemes: vol. 1 of 2 Findings from case study research, DWP Research Report No. 195, Leeds, CDS.

Summary of research

Background

In 2001 the Myners Review² set out a series of best practice principles for investment decision-making by pension scheme trustee boards. The Government's response to the Review included a commitment to an assessment, after two years, of the effectiveness of the principles in bringing about change. This survey and the complementary qualitative research published in 2003 were commissioned as part of the assessment.

The survey

The survey was carried out in 1,580 occupational pension schemes found to be within the scope of the Myners Principles – that is schemes where investment decisions are made through trustee boards (7 per cent of 'live' schemes but containing 64 per cent of members). Trustees were interviewed by telephone following screening interviews.

The survey aimed to provide a comprehensive picture of current practice in investment decision-making; the extent to which voluntary changes have been made since March 2001; whether the Principles have been successful in bringing about change; difficulties pension schemes experienced in adopting the Principles; and, what further action is required.

There was no systematic baseline of trustees' investment decision practices pre-Myners against which to measure change. The survey was thus designed to obtain responses about changes in practices, and the timing of those changes.

Resources, trustee training and expertise

The majority of schemes to which the Principles apply are small in membership (79 per cent have

999 or fewer members) and small in assets; 67 per cent of these Smaller schemes have less than £10 million to invest. The majority of all schemes, 63 per cent, invest only in pooled funds. Only 36 per cent of schemes hold any assets apart from quoted equities and fixed income investments (gilts and bonds) and cash.

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Adoption of the Principles

Scheme membership size was the single most important factor in explaining progress towards adopting the Myners Principles. Larger schemes, with more than 1,000 members and in particular those with 5,000 or more members, have greater resources of all kinds. They were significantly more likely to act on all the issues drawn from the Principles than Smaller schemes. Larger schemes have made more progress than Smaller ones, and the Very Large schemes with 5,000+ members are more advanced than Large schemes with 1,000 to 4,999 members.

Schemes where only limited progress had been made were associated with trustees' lack of knowledge about the Principles, inertia, and smaller scheme size (in turn, also associated with DC schemes).

The three Principles most widely considered by pension schemes were Asset Allocation, Benchmarks and Clear Objectives. There was less progress on Effective Decision making/trustee expertise, shareholder activism, performance measurement, transparency and regular reporting. Only three topics had been considered by fewer than 40 per cent of the trustee boards: Performance Measurement (of Investment Consultants) Performance Measurement (of Trustees) and Activism.

² Institutional Investment in the UK; HM Treasury 2001.

Although Myners recommended that schemes consider the full range of asset classes, only a minority have considered private equity or higher risk options such as hedge funds.

When asked who took the lead in ensuring that the scheme was compliant with the Myners Principles, over half of trustees (55 per cent) said the Investment Consultant, scheme administrator, actuary, pensions manager, or secretary to the trustees. Around a third (32 per cent) said trustees, the board as a whole, or the Investment Subcommittee.

The Myners Review called for boards to make considered and informed decisions about acting on the Principles. In the two years after their publication the majority of boards had given formal consideration to five key issues covered by the Principles and taken formal, minuted decisions to act on two Principles: Asset Allocation and Clear Objectives. The majority of members, however, belong to schemes that took formal minuted decisions to act on five Principles.

Seventy per cent of trustees said that there was little requirement for their schemes to act on the Principles because they were already compliant. The schemes described in this way nevertheless decided to act on 4.88 Principles, on average, whereas schemes described by trustees as being less advanced acted on only 3.32 on average.

Schemes reporting they were compliant before publication of the Myners Principles showed greater progress towards the Principles than average. These schemes may have acted more quickly on Myners than less advanced schemes.

Fewer than half of all schemes (44 per cent) put the Principles on the board's agenda and carried out a full review of compliance, Principle by Principle. However, an additional 38 per cent of schemes reviewed compliance informally. Only 31 per cent of boards that conducted a compliance review published results and made them available to members automatically or on request. Half of the boards that conducted a compliance review, formally or informally, documented the results in private board minutes

and did not communicate the outcome of the review to members or make it available to them on request.

Expert Advice

Eighty per cent of schemes employed an Investment Consultant, but more than half of all schemes (53 per cent) used just eight organisations.

The survey confirmed findings from the complementary case studies that boards often depended on Investment Consultants, with long standing contracts based on trust. Only 28 per cent of schemes held a competitive tender for Investment Consulting services in the two years following publication of the Principles. In the same period 44 per cent of schemes put an Investment Management contract out to tender.

Ninety six per cent of schemes employed an actuary. Two thirds of the actuaries belonged to the scheme's Investment Consultant organisation.

Only 15 per cent of schemes reported currently employing a specialist Asset Allocation Adviser (with relatively little variation by scheme size). Those who did reported positive results.

Trustees' perceptions of Myners Principles

Twenty five per cent of trustees considered they were fully in accord with the Myners Principles and 46 per cent said they were mostly in accord. This correlated closely with scheme size. Schemes failing to act were more likely to be smaller and DC schemes (which also tend to be smaller than DB schemes).

Fourteen per cent described their schemes as only partly in accord or still to make real progress, while 15 per cent said they did not know how far their schemes had progressed.

Under half of all schemes agreed with the statement that the Principles have resulted in extra bureaucracy and hassle, but among very large schemes 56 per cent agreed. Half (49 per

cent) of all scheme respondents considered that addressing the Myners Principles had made little or no difference to the scheme. Very Large schemes had the clearest perceptions of benefit, with 53 per cent recognising at least some benefit to the scheme.

Transparency and reporting

Despite emphasis in the Principles on transparency and reporting to members, just over half of all schemes (53 per cent) documented their approach to the Myners Principles in their Statement of Investment Principles (SIP) or accounts, in a bulletin for members or in a statement in board minutes. Fewer schemes (40 per cent) had documented in their SIP or another document accessible to members the extent to which the scheme followed the Principles, and only one scheme in five (22 per cent) documented the extent to which the scheme had departed from the Principles, and why.

Socially Responsible Investment

Few schemes overall (18 per cent), but 39 per cent of very large schemes, had an explicit policy of their own on socially responsible investment (SRI). Most schemes (52 per cent) accepted the policies of their Investment Managers. Twenty six per cent of trustees said their schemes had no policy at all on SRI, while five per cent said they did not know their scheme's position on SRI.

Influence of the Myners Principles

The research assessed the impact of Myners on a principle-by-principle basis, concluding that:

- On Asset Allocation, where markets and maturity also provided an impetus for action, Myners has added little.
- In the areas of Clear Objectives, Appropriate Benchmarks, Explicit Mandates, and Effective Decision-making Myners has reinforced and added to existing priorities.

- On Transaction Costs, Myners has had a sizeable impact in terms of both absolute numbers and the proportion of activity it has stimulated.
- In the areas of Activism, Performance Measurement (of Investment Consultants) and Expert Advice, Myners has not yet had a wide impact, generating some activity but among only a small number of schemes.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 713 2. Price £51.00. Research Report 213. July 2004).

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