



*Pensions*  
**Law Debenture** *Essentials*

*Getting the best from your advisers and service providers*





**Law Debenture's presence as a trustee provides reassurance for sponsors, the trustee board and members alike. Our experience has been gained over 25 years and today is applied to over 250 pension schemes.**

Trustees bear a huge responsibility for the good management of pension schemes. Advisers and service providers play a vital supporting role. Trustees work with them in many different ways, but however the advice and services are delivered they must be confident that their needs are being met reliably and cost effectively.

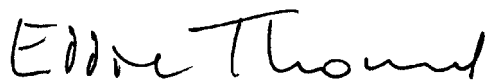
The purpose of this Law Debenture *Essentials*, the third in our series, is to provide a framework for trustees to review the performance of their advisers and service providers. We recommend that trustees do this regularly, for example informal reviews annually, formal reviews every three years, and market testing every six years. We believe that the emphasis should be on identifying areas for improvement rather than on changing advisers and service providers.

We have drawn on our experience as a pension trustee to help other trustees to carry out these reviews. We cover advisers in the form of actuaries, auditors, investment consultants and legal advisers. We also cover service providers in the form of administrators and investment managers. We plan to cover the roles of secretary to the trustees and pension manager in a future Law Debenture *Essentials*.

There are some specialist services such as those provided by medical advisers, insurance brokers and communication consultants which are not covered by this guide. However, it can readily be adapted for such services. Custody services have been covered by a previous Law Debenture *Essentials*.

Our intention is to help the trustees get the best from their current advisers and service providers. However, our guide can also be used as a source of questions to ask when making appointments.

There is no right approach for all schemes, and trustees should use this guide with their own circumstances in mind. The important point is that they should have a programme for regular reviews, and that they should act on the results.



**Eddie Thomas**  
Pensions Director  
[eddie.thomas@lawdeb.com](mailto:eddie.thomas@lawdeb.com) or 020 7606 5451

March 2006

*Pensions*  
**Essentials**  
*Getting the best from your advisers and service providers*

## How to use this guide

We have divided the questions in this guide into two categories covering advisers and service providers with additional specific questions for each as follows:

<b>Advisers:</b>	<i>General Questions</i>	<i>Specific Questions</i>
■ actuaries	A1 – A43	A44 – A49
■ auditors	A1 – A43	A50 – A52
■ investment consultants	A1 – A43	A53 – A61
■ legal advisers	A1 – A43	A62 – A64
<b>Service providers:</b>		
■ administrators	S1 – S34	S35 – S44
■ investment managers	S1 – S34	S45 – S55

*The auditor's role does not fit readily into either category. We have included auditors as advisers.*

*Although trustees normally already monitor the investment performance of their investment managers, we have included them so that trustees can consider other aspects of their performance. We suggest that it may be useful to ask the views of the investment consultant when doing this.*

Trustees should be able to answer most questions, but we have provided an option to say that more information is required. Where there is a lack of detailed knowledge, trustees should be given the appropriate information so they can form a complete view.

This guide is intended for trustees to use. Where others are the usual point of contact, such as the pension manager or the secretary to the trustees, they should also be consulted. Trustees may also wish to seek the views of executive staff, members of the pensions department, and even other advisers. The views of any people who are not trustees should be reported separately as their interests may be different.

Beside most questions there are practical comments. The final column is for responses. We suggest a scoring scale from 1 = poor, up to 4 = very good. For some questions, a “yes” or “no” response is all that is required.

Trustees will find that best value will be derived from this document by considering and answering the questions and then discussing their views with fellow trustees, rather than from any detailed statistical analysis of the scores.

There is always room for improvement; trustees may find it helpful to focus on any areas of weakness or concern, as identified by scores of 1 or 2, and to discuss how these areas might be improved. In nearly all cases it will be helpful to show the results to the relevant party, to seek their comments, and to discuss areas of potential improvement. Exceptionally, it may be appropriate to consider whether a change in the relationship is necessary.

### Scoring System

**1 = poor   2 = satisfactory   3 = good   4 = very good   M = more information required**

Copies of this document are available to download at [www.lawdeb.com](http://www.lawdeb.com)  
Click on [Trustee and Other Services, Pension Trusts, Brochure Downloads](#)  
and then on [Essentials](#)

# Advisers: actuaries, auditors, investment consultants, legal advisers

## General Questions

### Delivery

<b>A1</b> How customer focused is the adviser?	Is it apparent that the adviser's principal concern is to provide advice that meets the trustees' needs?	1	2	3	4	M
<b>A2</b> If you have needed to contact individuals, how easy was it?	In practice contact will usually be made through the chairman of trustees, the secretary to the trustees or the pension manager.	1	2	3	4	M
<b>A3</b> How suitable is the range of services offered?	Trustees should neither feel they have missed out on services they need, nor that they are being offered services they do not need.	1	2	3	4	M
<b>A4</b> How suitably qualified and experienced does the adviser appear to be?	The individuals advising should be neither over nor under experienced.	1	2	3	4	M
<b>A5</b> How timely is the advice?	Trustees should have time to consider and discuss advice before they are required to make a decision. Advisers need to have sufficient capacity to be confident of meeting agreed timescales.	1	2	3	4	M
<b>A6</b> When advice will take time to prepare, is a delivery date given, and progress reports provided?	Trustees need to know when to expect advice, and to be alerted if there is likely to be any delay.	Yes/No				
<b>A7</b> How well does the adviser respond to urgent or difficult issues?		1	2	3	4	M
<b>A8</b> How well does the adviser deal with sensitive or contentious matters?		1	2	3	4	M
<b>A9</b> Does the adviser appear able and willing to initiate and raise matters with the trustees?	Advisers should have direct access when necessary to the trustee board, via the chairman or by some other agreed route.	Yes/No				
<b>A10</b> How well does the adviser appear to relate to and deal with third parties on behalf of the trustees?	Third parties include the employer, other advisers, service providers and regulators.	1	2	3	4	M
<b>A11</b> How alive is the adviser to the need to bring in separate experts in areas where they are unable to advise?	This situation may arise where the adviser doesn't have the necessary expertise.	1	2	3	4	M
<b>A12</b> Where juniors are acting, how much evidence of supervision and support by more senior people is apparent?		1	2	3	4	M

<b>A13</b> Is advice usually given by the same individual(s)?	Some changes of individuals are to be expected from time to time, but not frequently. On the other hand, specialists may be needed to deal with particular areas.	Yes/No
<b>A14</b> How well are the trustees consulted about significant staff changes?		1 2 3 4 M

## Quality

<b>A15</b> Is advice perceived to be correct?	Trustees cannot have confidence in an adviser whose advice is found to be wanting.	Yes/No
<b>A16</b> How well does advice address the trustees' needs?	Advice should be technically correct; it should also take into account the circumstances of the scheme and the trustees' concerns.	1 2 3 4 M
<b>A17</b> How well does advice cover the relevant issues and options?	Advice should not avoid or overlook important issues. A good adviser from time to time will be able to suggest options that have not previously been considered.	1 2 3 4 M
<b>A18</b> How consistent is the advice?	Provisional advice should be consistent with subsequent formal advice. Advice should stand the test of time.	1 2 3 4 M
<b>A19</b> How practical is the advice?	Advice should be given with a view to resolving an issue in a practical way.	1 2 3 4 M
<b>A20</b> How well structured is the written advice the trustees receive?	Concise written advice should provide clarity on key issues with well thought out conclusions and recommendations. It should be easy to follow.	1 2 3 4 M
<b>A21</b> How effectively does the adviser participate at meetings?	Advisers should be able to engage in constructive discussion within their area of expertise, without being inhibited, or verbose.	1 2 3 4 M
<b>A22</b> How clearly is oral and written advice communicated?	Advice should be given in plain and intelligible English, avoiding unnecessary jargon and explaining unavoidable technical terms.	1 2 3 4 M
<b>A23</b> Is oral advice confirmed in writing?	Trustees should have a record of the advice given.	Yes/No
<b>A24</b> How well does advice demonstrate an awareness of current issues and developments in pensions?		1 2 3 4 M
<b>A25</b> How much evidence is there that advice is peer reviewed?	This is one of the ways that advisers can ensure consistency of advice.	1 2 3 4 M

## How the relationship is managed

<b>A26</b> Where advice is received from different departments within a firm, how well co-ordinated is it?		1	2	3	4	M
<b>A27</b> How often is feedback sought by the adviser?	This might be by a regular discussion between a representative of the trustees and someone who is not the day to day adviser.	1	2	3	4	M
<b>A28</b> How well have any concerns raised been responded to and resolved?	There should be a clear and effective route for trustees to express dissatisfaction.	1	2	3	4	M

## Value for money

<b>A29</b> To what extent does the adviser provide value for money?	Value for money links quality and cost.	1	2	3	4	M
<b>A30</b> How clear is the basis for charging?	The following should be clear: – the standard basis, – what is and what is not included, – any charges for additional services, – how and when charges can be increased.	1	2	3	4	M
<b>A31</b> Does the adviser provide a reliable estimate of likely costs when asked to do so?	Trustees should ensure that budgets are obtained.	Yes/No				
<b>A32</b> Does the adviser monitor fees against budgets and give warnings of cost overruns?	Are significant unexpected charges avoided?	Yes/No				
<b>A33</b> Are invoices submitted regularly, as agreed?		Yes/No				
<b>A34</b> How good is the explanation given with invoices of how costs have been incurred?	As a minimum, a broad breakdown of costs between the main elements of advice should be provided. Any charges made for administrative support, general advice, travelling etc. should be reviewed.	1	2	3	4	M

## Other matters

<b>A35</b> Is there a signed agreement setting out the contractual terms on which advice is provided?		Yes/No				
<b>A36</b> Is there a clear written statement from the adviser saying how conflicts of interest will be avoided or handled?	Trustees need to be clear on the extent to which, if at all, their adviser may act for another party on the same matter (e.g. the employer). Where the advisers also advise the employer they should agree to resign as adviser to the employer in the event of a conflict.	Yes/No				
<b>A37</b> Does the adviser undertake to respect client confidentiality?	This is particularly relevant if the advisers also act for the sponsoring employer. It is also relevant in relation to press reports and published surveys.	Yes/No				

<b>A38</b> Is it possible to terminate the appointment on reasonable terms?	Issues to consider include the notice period (if any), and the release/transfer of information belonging to the trustees.	Yes/No
<b>A39</b> Is the adviser's liability limit (if any) reasonable in relation to the financial importance of the matters concerned?	It is appropriate from time to time to ask an adviser to confirm that any liability cap is set at the highest level allowed by the adviser's practice.	Yes/No
<b>A40</b> Does the adviser have an acceptable level of professional indemnity insurance cover?		Yes/No
<b>A41</b> How secure do the adviser's systems appear to be?	Security should cover unauthorised access, and disaster recovery plans.	1 2 3 4 M
<b>A42</b> How well does the adviser appear to use technology for the benefit of the trustees?		1 2 3 4 M
<b>A43</b> Does the adviser make available written briefings, seminars and other training for the trustees?	Many advisers do so at no extra cost, in the form of newsletters, seminars, etc.	Yes/No

## Additional Specific Questions

### Actuaries

<b>A44</b> How well does the actuary demonstrate knowledge of the scheme's trust deed and rules?	The actuary should be alive to the specific provisions of the trust deed and rules particularly in relation to the trustees' powers and duties.	1 2 3 4 M
<b>A45</b> How well does the actuary explain funding assumptions?	Trustees are responsible for setting the assumptions.	1 2 3 4 M
<b>A46</b> How well does the actuary keep the trustees informed on topical trends, such as mortality?	New information on mortality statistics is emerging quite frequently, and needs to be interpreted in the light of a scheme's characteristics.	1 2 3 4 M
<b>A47</b> Are tables of actuarial factors reviewed regularly?	Factors for commutation, transfer values, early retirement, late retirement and other options can be affected by market conditions and changes in mortality.	Yes/No
<b>A48</b> How usefully does the actuary contribute to discussions on investment?	This is particularly relevant for discussions of asset allocation and the implications, if any, of a change in investment policy on the actuarial valuation basis.	1 2 3 4 M
<b>A49</b> How well does the actuary respond in special situations?	These can be one-off events such as scheme mergers, bulk transfers, and changes to benefits.	1 2 3 4 M

## Auditors

<b>A50</b> Does the auditor invite discussion on the scope of the audit?	The discussion should consider changes in scope which reflect: – new legislation, – changes to the scheme or the way it is run.	Yes/No				
<b>A51</b> How helpful and instructive are the comments in the auditor's management letter on areas of weakness and concern?	The management letter is the auditor's report on the audit, and trustees should consider each issue raised.	1	2	3	4	M
<b>A52</b> Does the auditor draw timely attention to developments in reporting and auditing requirements, good practice in risk management, and the control environment?		Yes/No				

## Investment Consultants

<b>A53</b> Does the advice given reflect the importance of understanding and managing risk?	The trustees' risk tolerance should be agreed prior to deciding the asset allocation.	Yes/No				
<b>A54</b> How clear is the advice on asset allocation?	This is often the most important investment decision taken by trustees. It may be appropriate to take account of the relative value of different asset classes.	1	2	3	4	M
<b>A55</b> How good is the depth and breadth of the consultant's investment manager research?	For instance, are the consultants in a position to discuss the appointment of some of the smaller specialist managers?	1	2	3	4	M
<b>A56</b> How well has the consultant demonstrated an ability to select successful managers?	The consultant should be expected to have recommended managers who achieve their target.	1	2	3	4	M
<b>A57</b> How well does the consultant help the trustees to provide a comprehensive framework for discussions with investment managers?	It can be helpful if the consultant sets the agenda and suggests key questions.	1	2	3	4	M
<b>A58</b> How good is the advice on the management of underperformance and termination of mandates?		1	2	3	4	M
<b>A59</b> When required does the consultant implement investment decisions effectively?	Consultants may be asked to help with implementing changes in asset allocation and investment managers.	Yes/No				
<b>A60</b> How well does the consultant keep abreast of new developments?	Developments include alternative asset classes (such as hedge funds) and instruments (such as swaps), as well as business or staff changes at investment managers.	1	2	3	4	M
<b>A61</b> How well does the consultant liaise with the scheme actuary?		1	2	3	4	M

## Legal Advisers

<b>A62</b> How well does the adviser bring changes in law and regulation affecting pension schemes to the trustees' attention?		1 2 3 4 M
<b>A63</b> How well does the adviser anticipate the scheme's requirements?	The adviser should not seek to generate unnecessary work or to charge for work that has not been requested.	1 2 3 4 M
<b>A64</b> How well does the adviser help the trustees to resolve disputes?	Advisers should help to resolve disputes in a cost-effective and timely manner.	1 2 3 4 M

# Service Providers: administrators, investment managers

## General Questions

### Delivery

<b>S1</b> Is the provider customer focussed?	It should be apparent that the provider's principal concern is a quality of service that meets the needs of the trustees.	Yes/No
<b>S2</b> If you have needed to contact staff how easy was it?		1 2 3 4 M
<b>S3</b> How suitably experienced do staff appear to be?		1 2 3 4 M
<b>S4</b> How well does the provider respond to urgent or difficult matters?		1 2 3 4 M
<b>S5</b> How well do staff appear to relate to and deal with third parties on behalf of the trustees?	Third parties include the employer, members, advisers, other service providers and regulators.	1 2 3 4 M
<b>S6</b> Do junior staff appear to be adequately supervised?		Yes/No
<b>S7</b> Are the services usually provided by the same individual(s)?	Some changes are to be expected from time to time, but not frequently.	Yes/No

### Quality

<b>S8</b> To what extent are there agreed service standards?	There should be a written service level agreement (SLA) or contract setting out performance standards for key areas of service provision, covering timelines and quality of service.	1 2 3 4 M
<b>S9</b> How well does the service measure up to the required standards?		1 2 3 4 M
<b>S10</b> Is the service provided free from serious errors?	Errors may be administrative, arithmetical, or in reporting.	Yes/No
<b>S11</b> Is there evidence that services are quality-checked?	External reports (such as 'FRAG' reports) can provide valuable external assessment controls, and can augment internal quality control processes.	Yes/No
<b>S12</b> How useful are the reports on the service provided?	Reports will usually be quarterly or half yearly and should focus on the service provided in a comprehensive and objective way. They should avoid unnecessary background information.	1 2 3 4 M

<b>S13</b> Do the trustees have the opportunity to meet the provider at least once a year?	In some cases, trustees may wish to meet their service provider more frequently.	Yes/No
<b>S14</b> How effectively do staff contribute at meetings?	Staff should be able to engage in constructive discussion at meetings without being inhibited or verbose. They should be able to answer specific questions.	1 2 3 4 M
<b>S15</b> How well does the provider communicate?	Communications with members and trustees should be in plain and intelligible English avoiding unnecessary jargon.	1 2 3 4 M
<b>S16</b> How up to date does the provider's technical knowledge appear to be?		1 2 3 4 M
<b>S17</b> How up to date does the provider's IT appear to be?	Hardware and software should both be considered.	1 2 3 4 M
<b>S18</b> How secure do the providers' systems appear to be?	Security should cover unauthorised access, and disaster recovery plans.	1 2 3 4 M

### *How the relationship is managed*

<b>S19</b> Where services are received from different departments within a firm, how well co-ordinated are they?		1 2 3 4 M
<b>S20</b> How often is feedback sought on the services provided?	This might be by a regular discussion between a representative of the trustees and a person who does not provide the service on a day to day basis.	1 2 3 4 M
<b>S21</b> How well have any concerns raised been responded to and resolved?	There should be a clear and effective route for trustees to express dissatisfaction.	1 2 3 4 M

### *Value for money*

<b>S22</b> To what extent is the service value for money?	Value for money links quality to cost.	1 2 3 4 M
<b>S23</b> How clear is the basis for charging?	The following should be clear: – the standard basis, – what is and what is not included, – any charges for additional services, – how and when charges can be increased.	1 2 3 4 M
<b>S24</b> How well does the provider adhere to the agreed charging basis?	Trustees should be satisfied that the calculation of costs is being monitored and reviewed by the provider.	1 2 3 4 M
<b>S25</b> How reliable are cost estimates for additional work?	Trustees should ensure that quotations are obtained for extra work and that costs are monitored against quotations.	1 2 3 4 M
<b>S26</b> How well are significant unexpected charges avoided?	All cost increases should be discussed and agreed in advance.	1 2 3 4 M

## Value for money

S27 Are invoices submitted regularly as agreed?		Yes/No
S28 How good is the explanation given with invoices of how costs have been incurred?	As a minimum, a broad breakdown of costs between the main elements should be provided.	1 2 3 4 M

## Other matters

S29 Is there a signed agreement setting out the contractual terms on which the service is provided?		Yes/No
S30 Does the provider undertake to respect client confidentiality?	This is relevant in relation to press reports and published surveys.	Yes/No
S31 Is it possible to terminate the appointment on reasonable terms?	Items to consider include the notice period (if any), and the release/transfer of information belonging to the trustees.	Yes/No
S32 Is the firm's liability limit (if any) reasonable in relation to the financial importance of the service provided?	It is appropriate from time to time to ask the provider to confirm that any liability cap is set at the highest level allowed by the provider's firm.	Yes/No
S33 Does the provider have an acceptable level of liability insurance cover?		Yes/No
S34 How well does the provider appear to use technology to the benefit of the trustees?		1 2 3 4 M

## Additional Specific Questions

### Administrators

The questions in respect of administrators are equally applicable to in-house and out-sourced administration. It is assumed that in either case a specific service-level agreement is in place.

S35 Does the administrator regularly provide a compliance certificate?	A compliance certificate should confirm that the administrator has administered the scheme in accordance with: <ul style="list-style-type: none"> <li>– the trust deed and rules,</li> <li>– the terms of its appointment,</li> <li>– the agreed service levels,</li> <li>– pension law and regulations.</li> </ul>	Yes/No
S36 Is the preparation of the scheme's annual report and accounts undertaken in a timely way?	The report and accounts should be produced to enable the audit to be completed in advance of the seven month deadline.	Yes/No
S37 Are cash flow projections provided?		Yes/No

<b>S38</b> Is the scheme bank account operated with an appropriate credit balance?	The credit balance should not be too high and there should not be a need for short-notice transfers from the investment managers.	Yes/No
<b>S39</b> Does the administrator ensure that contributions are paid promptly?	The administrator should alert the relevant employer before any contributions become overdue, and should notify the trustee immediately of any delays.	Yes/No
<b>S40</b> How responsive is the administrator to changing its systems to reflect regulatory or scheme-specific changes?	Administrators should actively seek any instructions and decisions that are required. System changes should be introduced in good time before changes become effective.	1 2 3 4 M
<b>S41</b> How well does the administrator keep the trustees updated on new system developments and suggest other relevant services?	Developments may include: – online access for the employer and trustees, – interactive online access for members such as benefit projections and the ability to change defined contribution investment options, – a dedicated members' helpline, – a workflow system which logs and tracks all work.	1 2 3 4 M
<b>S42</b> Are trustees kept informed of any team changes?	The trustees should be consulted over significant changes in personnel and advised promptly about less significant changes.	Yes/No
<b>S43</b> Do the trustees have any doubts or concerns about the administration system?	The concerns may include the way that this is maintained, supported and developed.	Yes/No
<b>S44</b> Does the administrator make available member communications which can be tailored to meet the scheme's requirements?	Draft templates can help to ensure consistent standards of communication and can avoid the need to write each communication from scratch.	Yes/No

## Investment Managers

The following section is intended to cover both active and passive managers although some questions will only apply to one approach.

<b>S45</b> Do the trustees understand the manager's investment approach?	This should be clearly explained by the managers.	Yes/No
<b>S46</b> How clearly does the manager explain its approach to risk management?	The manager should report on risk levels in a clear, consistent and comprehensive way.	1 2 3 4 M
<b>S47</b> Does the manager take sufficient risk given its agreed investment targets?	Managers will need to take a certain level of risk to have a good prospect of achieving their out-performance targets. The trustees need to have confidence in the ability of their manager to turn risk into return.	Yes/No
<b>S48</b> Does the manager discuss and agree in advance the agenda for its presentations to the trustees?	It is good practice for the trustees with their investment consultant to control the agenda.	Yes/No
<b>S49</b> Are the reports prepared for the trustees clear and personalised?	Generic background material should be kept to a minimum.	Yes/No

<p><b>S50</b> Does the manager keep trustees informed of personnel and other organisational changes?</p>	<p>Good performance can depend on an individual.</p>	<p>Yes/No</p>
<p><b>S51</b> How clearly does the manager explain underperformance?</p>	<p>The reasons given might include asset allocation, stock and sector selection and currency exposure.</p>	<p>1 2 3 4 M</p>
<p><b>S52</b> For defined contribution investments is the manager adequately equipped to interface with the scheme's administrators?</p>	<p>Efficient administration is a key element in the success of defined contribution schemes.</p>	<p>Yes/No</p>
<p><b>S53</b> Is the manager effective at communicating with defined contribution members?</p>	<p>It is important for managers to play a full part in the communication process.</p>	<p>Yes/No</p>
<p><b>S54</b> For defined contribution investment does the manager have a range of appropriate investment funds?</p>	<p>Investment choices should usually include lifestyle options.</p>	<p>Yes/No</p>
<p><b>S55</b> Does the manager provide on-line access to records for defined contribution members?</p>		<p>Yes/No</p>



[www.lawdeb.com](http://www.lawdeb.com)

**The Law Debenture Pension Trust Corporation p.l.c. Fifth Floor, 100 Wood Street, London EC2V 7EX**

**Tel +44 (0)20 7606 5451 Fax +44 (0)20 7696 5292 Email [eddie.thomas@lawdeb.com](mailto:eddie.thomas@lawdeb.com)**

