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Governance of supplementary pension schemes: the rôle of the employees representatives

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Tagung **Steuerung der betrieblichen
Altersversorgung in Europa: garantierte
Sicherheit?**

A story of paradoxes

➡ The discourse : employees representatives have to participate in the governance of pensions funds

➡ The reality: almost no influence

- ➡ few rights

- ➡ difficulties in decision/poor training

 - sometimes referred to as the “governance vacuum”


The good or new governance discourse


➡ OECD guidelines and country experience


- Encourage employee/ member nominated representatives, taking into account the need for an appropriate mix of skills and accountability to plan members.
- Define fit and proper' criteria more accurately, extending it to the collective knowledge and experience of the board and calling for suitable training where specific experience or knowledge are not required prior to appointment to the board.

The discourse

- ➔ Members representative in pension fund boards particularly act as intermediaries in the interface between service provider and employee, channeling information to scheme members in a role which has the flexible capacity to serve in members' best interests in varied and changing circumstances.
- ➔ Sophisticated codes of governance for private companies (corporate governance) have been encouraged and developed to provide a self regulatory framework for the structure

 **Austria** The board of supervisors of the pension fund may have two seats fewer for employee representatives than for the sponsoring employer or other shareholders of the pension fund.

 **Belgium** The board of directors of a pension fund must have equal representation of employers and employees.

 **Germany** Supervisory Board: employee representation depends on the number of employees in the pension fund, with a maximum of equal representation. The managing board is appointed by the supervisory board.

 **Hungary** Mandatory pension funds must have

- **Iceland** The board of the pension fund must have equal representation of employers and employees.
- **Ireland** No requirement for employee representation.
- **Italy** The general assembly and the board of directors must each have equal representation of employers and employees.
- **Norway** The board of the pension fund must have at least as many employee as employer representatives.
- **Poland** Not less than half of the members of the supervisory board of the occupational pensionsociety should be nominated by the members of the fund.

➔ **Spain** The majority of the control commission must be selected by plan members and beneficiaries. No requirement for member representation in the board of pension fund management companies.

➔ **Sweden** The board of the foundation must have equal representation of employers and employees.

➔ **Switzerland** The supreme council of a pension fund must have equal representation of employers and employees.

➔ **United Kingdom** At least half of trustees must be member-nominated.

The reality

- ➡ Representation in the sense of democratic participation requires decision-making participation, with voting rights, on all tiers of management, from senior committees to lower
- ➡ What ways of intervention by the employees representatives ?
 - ➡ “Observers” capacity ?
 - ➡ Voting rights ?
 - ➡ What representation ?

The reality

➡ Who governs pensions funds ?

➡ “Fiduciary management” of the pension fund, whereby a commercial provider takes care of not just the operational but also some key decisions of the fund, such as strategic asset allocation and external manager selection and monitoring.

➡ Example : additional branch pensions established via collective bargaining arrangements in France

- ➡ Apparently managed by “IP” institutions

- ➡ In fact “reinsurance contract” with some commercial provider

The reality

➡ Who governs pensions funds ?

➡ In Spain, a diffusion of responsibilities arises because the role of control commissions overlaps with that of the pension fund management company.

- ➡ For example, the “control commission” made up of representative of employers and employees - is expected to prepare the investment principles of the fund jointly with the pension fund managing company.
- ➡ As a result of this requirement, management companies play a key role in the design of the investment policies - an important task which should normally be solely in the hands of the governing board
 - (though, when necessary, after heeding the advice of experts).

Levels of intervention

➡ Example Dutch governance standard :

- ➡ A one-tier board (OTB) or an audit commission designed to oversee the execution of pension fund management, which is made up of executives and a group of non-executive employers and employee representatives, as well as pensioners.
- ➡ An “accountability body”, including representatives of participants, pensioners, and the sponsoring employer.
- ➡ **But** Dutch Central bank (DNB) as of mid 2007 90% had opted for the alternative internal supervision via a visitation commission
 - made up of at least two independent and experienced persons not already involved in the certifying of the fund's figures, looking at performance at least once every 3 years,

Examples



- ▶ Trades unions are typically involved in proposing member-nominated trustees (MNTs)
- ▶ No clear estimate of how many schemes are run by companies with TU representation
- ▶ In the private sector, by 31 Oct 2007, most schemes must ensure one-third of trustees are MNTs (schemes were permitted to opt out of this requirement and many schemes did so)
- ▶ In the private sector, since 2009, scheme members are entitled to half the trustees on governing boards

The way employees representatives are chosen

- ➔ In many countries pension fund board members are often selected on the basis of their status in a trade union or as an employee representative rather than their specific knowledge or experience on pension issues.
- ➔ Conflicts of interest are not effectively identified and tackled: in many countries it is not require to have a code of conduct to manage conflicts of interest within pension funds.

Difficulties in the elections of representatives

- Law in Spain in 2001 that eliminated the control commission of personal pension plans.
- It was felt that there was a general lack of interest by members in electing candidates.
 - Instead, a pensions ombudsman was established, whose role is to attend to complaints by members and beneficiaries and seek remedial action.

Poor training of employees representatives

- ➔ Defined contribution (DC) plans present additional governance challenges arising from the involvement of individual members in some key decisions.
- ➔ Trustees and fiduciaries generally lack suitable knowledge, experience or training, which additionally hinders them from being able to understand and challenge advice they receive from outside experts.
- ➔ In Ireland, the Pensions Board produced a review in 2006 of the trustee structure of governance (Pensions Board (2006)). Pension Board's review found evidence that ongoing, quality trustee training was the exception rather than the rule.

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