February, 2012

PETRA TRUST

Insights

The Case for Corporate Trustees

In setting up a pension scheme for their employees, employers have to make two decisions. First, they need to choose an appropriate trustee structure and secondly, select the trustee type. Regardless of which trustee structure the employer chooses, they will be obliged to select either an independent individual trustee or a corporate trustee. In this paper we propose that using a structure that involves a corporate trustee is the superior choice.

Although the appointed trustee manages the schemes for the benefit of employees and scheme participants, the choice of what kind of trustee structure the scheme should have, and who the trustees should be, is made by the employer

Trustee Choice – The Employer's Responsibility

Under the Pension Act of 2008 ("the Act") every employer is required to establish a mandatory occupational pension fund scheme (Tier 2), to appoint a trustee to manage it, to make regular contributions to it and to monitor the ongoing performance of the trustee. Employers also have the option of setting up a provident fund scheme (Tier 3) for the benefit of their employees, and are required to facilitate the payment of contributions to any external personal pension scheme that their employees select. Although the appointed trustee manages the schemes for the benefit of employees and scheme participants, the choice of what kind of trustee structure the scheme should have, and who the trustees should be, is made by the employer.

The Role of the Trustee

The pension trustee is responsible for performing four main functions, namely:

- Formulating the investment policy for the scheme;
- Managing the investments of the pension scheme with an emphasis on making strategic asset allocation decisions;
- Appointing and monitoring service providers, in particular the fund managers who are allocated funds to manage subject to trustees' investment guidelines, and custodians who hold the scheme assets; and
- Managing the pension scheme, specifically performing the administration and operations functions, and meeting the regulatory requirements of the Act, NPRA regulations and NPRA guidelines

Types of Trustees

As outlined in the Table 1 below, the Act allows for four different trustee structures for Tier 2 and Tier 3 pension schemes. For all of these trustee structures, either an independent individual trustee, or a corporate trustee, is required. As employers consider which trustee structure would work best for their schemes, one important consideration is that of whether to choose a structure with an independent individual trustee or a corporate trustee.

An independent individual trustee is a person licensed by the NPRA to sit on scheme trust boards. In addition to being resident in Ghana, and being a person of good reputation and character, an independent individual trustee has to demonstrate:

- Knowledge and understanding of the Act and Regulations
- Knowledge of investments: A working knowledge of scheme documents, rules and investment policies and principles

Corporate trustees on the other hand are companies licensed by the NPRA to provide trustee services, after meeting the requirements for independent individual trustees and

Type	Name	Description
1	Single Employer With Individual Trustees	A trustee organized as a board made up solely of individuals, at least one of whom must be a licensed trustee independent of the employer.
2	Single Employer With Individual and Corporate Trustees	A trustee organized as a board made up of individuals and a licensed corporate trust company
3	Single Employer With Sole Corporate Trustees	A sole trustee made up of a licensed corporate trust company, managing the scheme for the benefit of only the employees of the company
4	Multiple Employer Master Trust (Umbrella Scheme)	A sole trustee made up of a licensed corporate trust company, managing a master trust in which multiple companies participate

Table 1

the following conditions:

- They must have a minimum capitalization of one million Ghana cedis
- They must be a company registered with a name including the word 'trust' or 'trustee'
- Their business must be limited to trust business
- They must satisfy the pensions authority that they are capable of being pension trustees.

Why Choose a Corporate Trustee Over an Independent Individual?

Many employers in Ghana consider the use of independent individual trustees because of the perception that using a corporate trustee eliminates the option of having member-nominated trustees contributing to the management of the pension scheme. However, this is not the case because companies may choose to use either Trustee Type 1 or Trustee Type 2 from Table 1 above. In fact we believe that the use of a corporate trustee in the management of a Tier 2 or Tier 3 scheme is a superior option for companies for the following main reasons.

Corporate Trustees Can Deploy Full Suite of Trustee Capabilities

Corporate trustees licensed by the NPRA are required to demonstrate the ability to deploy the full suite of trustee capabilities for the benefit of scheme participants. Selecting a licensed corporate trustee allows the company to enjoy all trustee services through one provider. An independent individual trustee on the other hand would probably have limited ability to provide all the trustee functions, especially those that require significant resources such as fund administration, and manager selection and evaluation. Choosing an independent trustee would mean that the trust board of the scheme would have to identify and select consultants and fund administrators to provide these essential trustee functions.

Corporate Trustee Always Available

The Act and Regulations require that independent individual trustees and corporate trustees must be available at every trust board meeting and

Selecting a licensed corporate trustee allows the company to enjoy all trustee services through one provider

Although the law allows trustee structures that utilize the services of either independent individual trustees or corporate trustees, there is a significant advantage to be gained by using a corporate trustee

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must participate in every decision the trustees make. This is to ensure that there is always an objective contribution to the management decisions taken, and that the expertise that these external trustees have is always available to the scheme. Given its corporate nature, the corporate trustee can always be represented at trust meetings regardless of how often and how unexpectedly these meet occur. The same cannot be said for the independent individual. This can have negative implications for performance and risk management, especially when urgent decisions have to be taken.

Corporate Trustee Not Constrained to a Number of Clients

The Act and Regulations restrict the number of schemes an independent individual trustee may manage. This means that of the limited pool of potential individual independent trustee candidates, even fewer will be available to deploy their services to a particular scheme. These restrictions do not apply to corporate trustees as they are able to scale their services for the benefit of all their clients.

Corporate Trustee More Likely to Remain in Business

As licensed regulated entities who have met minimum capitalization requirements and who are required to only be in the business of trusteeship, corporate trustees are more likely to remain in the business for the long haul. Even when a corporate trustee ceases to exist, the pensions regulator will oversee an orderly process by which another licensed company will succeed or be assigned the scheme relationship. Independent trustees on the other hand, may die or exit the business, leaving the scheme with no independent representation.

The Case is Clear – Corporate Trustees Offer a Significant Advantage

Although the law allows trustee structures that utilize the services of either independent individual trustees or corporate trustees, there is a significant advantage to be gained by using a corporate trustee. As companies consider the appropriate trustee structure for their Tier 2 and Tier 3 schemes we encourage them to choose one of Trustee Types 2, 3 and 4 which gives them the opportunity to benefit from the services of a corporate trustee.