

The Ambachtsheer Letter

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DESIGNING PENSION FUND GOVERNANCE THAT WORKS: CAN THE LEGAL AND FUNCTIONAL VIEWPOINTS BE RECONCILED?

*“Pension trustees are subject to trust law and have individual responsibilities.
They cannot conduct themselves as you suggest in your book....”*

Pension attorney Ian Lanoff
commenting on views expressed in
Pension Revolution (Wiley, 2007)

Roads to Pension ‘Legitimacy’: Two Differing Viewpoints

The scene was a panel discussion on the future of the pensions industry at the recent State Street Corporation *Vision 2007* client conference. The specific topic was pension fund governance, and the speaker was the formidable Ian Lanoff, legal adviser to some America’s largest pension funds and former Administrator of Pension and Welfare Benefit Programs at the U.S. Department of Labor. Mr. Lanoff made it clear that as a lawyer, he interprets the concept of pension ‘legitimacy’ differently than Peter Drucker did 30 years ago, and than we do today in the *Pension Revolution* book. In short, he sees pension fund governance shaped primarily by legal considerations while we see it shaped primarily by functional considerations.

The importance of the difference between these two viewpoints should not be underestimated. We argue in this *Letter* that shaping pension fund governance from primarily a legal perspective opens the door to serious organization dysfunction which in turn leads to second-best decision-making processes. Such second-best processes are surely not in the best interests of pension plan stakeholders. If instead we want pension plan stakeholders to benefit from ‘best

practice’ decision-making processes, then pension fund governance must be shaped first and foremost by functional considerations. So there you have it: two sharply contrasting views of the essence of pension fund governance. Can the two be reconciled? Read on and find out.