HYMANS ROBERTSON

The corporate pension viewpoint

What does the future look like?

For several years, the pensions industry has been debating the death of defined benefit (DB) schemes and whether replacement defined contribution (DC) arrangements are likely to secure an adequate level of retirement income for younger generations.

We wanted to know what UK companies are thinking about the future of workplace retirement savings against the background of recent developments. These include the development of collective defined contribution (CDC), improved funding levels in legacy DB schemes and an industry focus on bringing greater innovation to the DC marketplace.

We also wondered how companies view their current pension governance model and the relationship with their scheme's trustees. And how they'd like their governance model to evolve.

To answer these questions, we spoke to 250 finance and pension decision-makers in UK companies. Our survey covered a wide range of topics including:

- respondents' strategic pension priorities over the next few years
- respondents' views on DB endgame strategies
- the impact of the Pension Schemes Act 2021 on company planning and financial activity
- respondents' views on future retirement provision and government policy
- corporate and trustee governance

In this third paper based on our research, we explore company views on future retirement provision, and how companies see trustee governance models evolving in the future.

Research conducted by Censuswide July 2023

The company view on future retirement provision

We started by asking companies what appetite they have to explore new saving designs, beyond traditional DB and DC designs. This could be CDC, a form of 'DB lite' or some other form of risk sharing design.

Starting with DB lite:

23% **of respondents** (57 out of 250)... ...said they didn't know enough about it to make an informed decision.

49 of these **57** said that in principle they would be interested in exploring the option.

91 of the **193** ...remaining respondents, said they were aware of DB lite and would be interested in exploring it further.

Turning to CDC, there was a higher level of interest:

58% of companies were somewhat or very likely to consider it.

Given the interest in these new designs, we asked companies why they have an appetite to explore new approaches (companies could give more than one reason). The main reasons were:

- to help retain staff (cited by **50%** of respondents)
- to encourage recruitment (**44%**)
- to enable staff to afford a comfortable retirement (**39%**)
- to be a paternalistic employer (**36%**)

Thinking more about new designs

Companies are clearly concerned about current retirement provision, and have an appetite to explore a better way. Of course, an appetite to explore new ideas doesn't mean that all (or even many) companies will embrace new designs. But over the coming years this debate is likely to move up the corporate agenda as companies evaluate the role that meaningful retirement provision can play in recruiting and retaining talent, reducing inequality in the workforce and helping a company show that it's a socially responsible employer.

Key to this discussion will be knowing what these new designs look like, why they can deliver better employee outcomes and what new risks company sponsors would be taking on. In recent times, the government has shown a vested interest in the generation of new designs, identifying some approaches used by other countries. It will be interesting to see how government policy evolves to support this further, in particular, during 2024.

The role of trustee governance

We asked companies about their current pension governance models and how they would like these to develop. Overall, respondents felt that their trustee governance models were working well. Only 12% felt their current trustee boards might be a barrier to delivering the company's pension strategy, and 72% were somewhat or very confident that their scheme governance was fit to deliver a DB endgame strategy.

Interestingly, 68% of respondents thought it likely they would use professional trustees more in the future. We asked why (respondents could give more than one reason), and the main reasons were:

- better management of advisers and costs (47%)
- difficulty in finding future lay trustees (43%)
- access to expertise of trustees involved in several schemes (38%)
- expert board-chairing skills (36%)

70% of companies expect to review their trustee structure and performance every six years or less.

A bigger role for professional trustees

Whether managing DB endgame strategies, open DC trusts or new forms of retirement provision, the role of trustees in UK retirement provision will remain central for many years to come. This research suggests that we can expect greater use of the professional trustee model across schemes. This trend could be driven by the lack of options to replace retiring trustees and because of a desire to access professional trustees' expertise and breadth of knowledge.

The use of professional trustees could become a much more dynamic aspect of the future, if companies follow through on their intention to regularly review their trustee boards. In some cases, those reviews can lead to change.

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