

BUILDING A BETTER FUTURE FOR DB PENSIONS

After an eventful two years for DB pensions, the Hymans Robertson DB Future Focus Conference took stock of where we've got to and explored what the market could look like in the future.

Together with more than 200 guests, we examined what a better future for DB pension schemes could look like through five perspectives: insurance, scheme members, administration, professional trustees and alternative futures.



BREAKING THE CAPACITY BOTTLENECK: INSURANCE MARKET OUTLOOK

The insurance market is very busy trying to keep up with demand for bulk annuity transactions, even though insurers have been preparing for a busy time. They've invested heavily in innovative deal structures and administration, so trustees can easily execute transactions and insurers can manage member benefits.

The Prudential Regulation Authority (PRA) regulates insurers, and its approach is becoming critical for DB members who transfer to insurers after a buy-out. The PRA isn't facing the same bottleneck as insurers, because it approves insurers rather than individual deals.

Insurers are concerned about member data security, the effect of high interest rates on assets, and longevity risk. Because insurers often don't hold on to longevity risk, reinsurance capacity could become a concern – and the increasingly popular route of funded reinsurance is a particular concern for credit risk.

But on the whole insurers are operationally ready to take on bulk annuity transactions. They care the most about execution certainty, so they'll talk to schemes that are ready to transact, with experienced advisory support, buy-out ready data and benefit specifications and clear and effective governance.

REMEMBER THE MEMBER: THE HUMAN EXPERIENCE

DB schemes wouldn't exist without their members. Trustees have a responsibility to act in members' interests. But they must also speak up for the stakeholders that have the least say in a scheme's journey to endgame.

Schemes should put their limited administrative resource where it gives the greatest value for members, and effectively balance day-to-day admin with time-consuming endgame-related projects. The historical focus on service-level agreements might not be appropriate for schemes on a journey to endgame.

A buy-in changes a member's journey; the member must be told what's happening and reassured that benefits won't change. Beyond that, trustees have a duty to ensure that the insurer can offer a good member experience.

Trustees need to help members make informed choices at the right times. But member engagement can be a challenge, especially for deferred members. Trustees could send them specific messages about how the buy-in process works for deferred benefits, and stay in regular contact with members after they leave the employer. Doing so will reduce the data challenge when the scheme gets to a buy-in.

Member engagement and representation is crucial for all schemes and their members. Trustees can only engage effectively by putting themselves in members' shoes throughout a scheme's journey, and can tap in to the emotional connection that member-nominated trustees have. Above all, trustees must manage member expectations and avoid surprises.

THE CHANGING ROLE OF ADMINISTRATION

The pensions administration landscape is changing as member expectations evolve and as schemes embark on an endgame journey that needs reliable and timely data.

Data that was fit for purpose for day-to-day admin won't always be good enough for the endgame journey. A scheme's 'data journey' can take years – plenty of time for data to degrade. Schemes should start the journey early and carry out a 'data MOT' to review data regularly. Effective data management can also help trustees co-ordinate projects efficiently and cost-effectively.

Data can also help meet member expectations, by feeding digital tools that can help with response times. Technology will continue to be a driver of changes in pensions administration, and the industry has to be alive to opportunities and manage emerging risks, such as cyber risk.

Regardless of their endgame, schemes need to treat data as an asset and invest in it. To ensure they have the best data, trustees need to engage the administrator directly, early and often.



THE FUTURE OF PROFESSIONAL TRUSTEESHIP

Professional trusteeship is a growing area with many opportunities. But as professional trustee firms take on more work, they face a challenge of growing in a risk-controlled manner while retaining their culture and values. Part of this challenge is attracting and retaining talent.

Pensions are becoming more complex with greater oversight and more risks – leading to employers considering professional trustees as potential lay trustees are put off the role. The number of member-nominated trustees on DB schemes shrank by 53% in the five years to March 2023, and so trustees must work harder to engage members. Professional trustees in particular should make an effort to be available and accessible to members.

A great professional trustee can engage all the scheme's stakeholders, and support good governance and lead decision-making in an inclusive way. Many sole trustees work as part of a firm, so can draw on colleagues' knowledge and experience. Employers appointing a professional trustee should ensure the firm's culture is a good fit. Advisers can help in finding trustees with the experience to fill the skills gap on the board, a working approach that meshes with the company, and the flexibility to change strategy as the scheme moves on its journey to endgame.

EXPLORING ALTERNATIVE FUTURES

Many DB schemes are planning to buy out, but not all can or want to. Running on has always been an option, but now a market for other alternative endgames is emerging and surplus sharing is expected to get easier. The larger and better funded a scheme, the more endgame options it has, and the more contingency plans if things go wrong.

Clara completed the UK's first superfund transaction in November, and the day after the conference it announced its second. Since then, several large schemes are showing an interest, say chief executive Simon True.

The next few years could bring more superfunds and other types of commercial consolidator to the market. Choosing an endgame and how to get there affects the quality of life for members and future generations, so trustees and sponsors must take the time to make the right decisions.

But perhaps the most important factor in encouraging schemes to consider alternatives would be a change in the regulator's statutory objectives – from securing benefits for past service to improving pensions for all. With that, more schemes might consider reinstating the social contract by reopening DB or collective DC, for example, or running on.

The session closed with an invitation to think of pensions as a gift from one generation to another. We can educate future generations about how to bestow this gift. With the right education and a change in regulatory objectives, retirement could look even brighter for future generations.

FIND OUT MORE

If you'd like to explore any of these themes further, please get in touch with one of the session presenters.



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