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Pension schemes are evolving to changing demands

Michelle Burgess, associate partner at Aon, looks at the evolving landscape of pension governance and the challenges faced by pension schemes. With increasing regulatory demands and the need for specialised knowledge, trustees and in-house pension teams must navigate a challenging environment to ensure effective management and compliance

Pension trustees play an essential role as stewards in protecting member's benefits and supporting the retirement outcomes of some 22 million¹ UK workers. Yet, in today's volatile and increasingly regulated environment, the demands on them have reached new highs.

Trustees must not only ensure compliance and manage risks, but also oversee strategic projects and continually anticipate future challenges. For the day-to-day administration of these tasks, many trustees rely on in-house pension teams. This resource is being increasingly stretched and as pressures mount, it can find it difficult to keep up. The use

of external support can be a potential lifeline to help these important functions and maintain momentum on strategic objectives.

A perfect storm

The regulatory pressure on trustees has grown significantly in recent years. The Pensions Regulator's (TPR) General Code of Practice is a prime example of how compliance expectations have risen. This consolidation of existing codes introduces more robust requirements for schemes to have an effective system of governance, risk assessments, cyber resilience, and more.

Adding to these regulatory demands is the pressure for trustees to steer strategic projects, ranging from considering of master trust consolidation, through to developing an endgame strategy. The stakes are high; successful execution paves the way towards a secure future for the scheme, while missteps can delay key projects and potentially lead to poor outcomes for members – the people trustees set out to serve.

Yet, as both strategic and regulatory pressures increase, in-house pension teams are struggling to resource and meet the trustees' needs. Many in-house pension teams work tirelessly, but resources are tight, often making it difficult to handle the peaks and troughs of workloads. Recruitment into this field is difficult in such a busy sector, with in-house teams competing for resources with consultancies, professional trustee firms and insurers. Furthermore, experienced professionals who entered during the Maxwell era are reaching retirement and busy areas such as GMP equalisation and risk settlement are exhausting available resources.

The role of trustees: Balancing oversight and action

When in-house pension teams lack the bandwidth needed to implement projects effectively, it leaves trustees

needing to step into more hands-on roles which may distract from their strategic priorities. Thus, the problem is less about the governance activities themselves and competence of all of those involved, and more about just the sheer volume of work. This makes it hard to progress projects as quickly as trustees and sponsors would like. Many hard-working in-house pension teams are stretched incredibly thin and accept the volume of work that comes their way but it often has an impact on timescales for delivery.

Flexible support models to close the gaps

To address these challenges, trustees and their fellow pension stakeholders need governance models that are flexible and forward-looking. The right solution depends on each scheme's particular needs and goals, so it is important to ask the right questions, not only about what your governance model looks like today, but also how it may need to look in the future:

- What is our long-term vision for pensions governance?
- What skills and resources will we need to achieve that?
- What risks exist in our current approach, and how can we address them?

There is a spectrum of support options, from entirely in-house teams to entirely outsourced models.

1. Fully in-house teams: Ideal for schemes requiring continuity, though this approach is unable to flex to work demands and can involve high key-person risk.

2. In-house teams with contracted support: Supplementing in-house teams with contracted specialists or secondments provides the extra capacity to manage busy periods and specialised projects, while maintaining the continuity offered by the in-house team.

3. Outsourcing of key projects or

functions: The delegation of specific tasks allows trustees and their colleagues to focus on strategic oversight, while using external expertise exactly where it is needed.

4. Full outsourcing: Outsourcing the entire governance function allows firms to focus on their core business activities while tapping into deep pension and governance expertise.

Case studies: Our solutions in action

Aon has partnered with many leading UK organisations to develop governance solutions that suit their needs and manage their risks. Here are just two of our successes.

Helping a large retail client get scheme tasks under control

After losing several key people, this client faced significant operational and compliance risks and struggled to keep pace with simple operational demands. With such high key person risk, the remaining team was unable even to identify which tasks were being neglected.

Aon sent in a multi-disciplinary team to identify the areas where they were struggling and to help stabilise the scheme, with the client only paying for skills and personnel as required, on an ad-hoc basis. Within 18 months, Aon's support allowed the client to rebuild its in-house team and introduce a sustainable governance framework, before we transitioned out seamlessly.

Helping a FTSE 100 client improve its senior decision-making

Struggling to recruit senior and strategic decision-makers, this client relied on a flurry of early career recruitment, resulting in an in-house team full of administrators but without much guidance.

Aon provided a team of seconded professionals who integrated into the in-house team, operating as an extension of the client's business as they delivered

key projects. This flexible arrangement allowed the client to access specific resources as its needs evolved and upskill its existing entry-level workforce. Aon stayed on as a permanent support, which aligned with the client's view of outsourcing to focus on its core business activities without the distractions of ancillary work.

Empowering trustees through tailored support

To thrive in today's environment, trustees must address their immediate governance challenges while anticipating the future direction of their scheme. By using the right mix of in-house expertise and external support, trustees can focus on strategic direction, while feeling reassured that operational tasks are being executed efficiently. Crucially, this right mix varies from business to business.

Aon's team of more than 100 specialists across the UK is exceptionally well connected, meaning they can collaborate and be scaled up or down according to each of our client's needs. With our depth of experience in the pension sector and the breadth of our capabilities, there is unlikely to be a governance problem our experts cannot solve.

Trustees and sponsors may struggle to know where to start with reviewing their governance structure and understanding how their requirements are evolving. Resources including the ²Trustee Effectiveness Hub provide an ideal starting point, but a good external support provider can identify the risks to which a scheme is exposed and suggest potential solutions.



Written by Aon associate partner, Michelle Burgess

In association with

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¹ [https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2023#:~:text=Trends in Workplace Pension Participation,-The workplace pension&text=The overall participation rate of,million\) participati](https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2023#:~:text=Trends in Workplace Pension Participation,-The workplace pension&text=The overall participation rate of,million) participati)

² <https://aon.io/3DtL7SS>