

# The silent risk in the boardroom

Most pension boards can point to a familiar pattern of meeting packs getting larger, agendas getting longer, and the regulatory horizon and associated duties constantly expanding. When time runs short, one item is particularly easy to push to 'next time' – who needs to be sitting round this table in one, three or five years' time?

This is rarely a conscious decision. Succession planning simply feels less immediate than pension dashboards deadlines, guided retirement solutions or the latest funding discussions. But if the board itself is not set up for what lies ahead, even the best strategic decisions may fail in execution.

What are the key considerations for boards, working in partnership with sponsors, when building a pragmatic, strategic approach to succession planning?

## A living strategy, not a one-off exercise

The Pensions Regulator's General Code of Practice references the need for structured succession planning, ongoing training and phased handovers to ensure continuity of the board as a key part of an effective risk management framework. This is in much the same way a company would plan for board and senior leadership change. This is not simply about avoiding empty chairs but is about ensuring the governance structure remains robust and suitable, both now and in the future.

That means treating succession planning as a continuous, living strategy – one that enables the board to deliver its agenda over the medium and long-term. In practice, this includes:

- Maintaining an up-to-date view of the board's current skills and experience.
- Being clear on the skills needed for the future.

## How to approach strategic succession planning for pension boards



- Anticipating likely changes – planned retirements, term limits, scheme milestones and corporate activity while being flexible in the event of unexpected changes.

- Agreeing clear principles for appointments, reappointments and rotation. For example, having all your member nominated board members leave at the same time is not helpful for continuity of decision-making.

- Embedding succession discussions into annual reviews and strategic planning days.

A succession plan should sit alongside the strategic business plan, be regularly reviewed, and evolve as your needs and circumstances change.

## A forward looking approach

Effective succession planning requires the ability to think ahead, starting from your medium and long-term objectives.

For defined contribution (DC) schemes, responsibilities are evolving rapidly, including value for members assessments, decumulation pathways and enhanced member communications.

For many defined benefit (DB)

schemes, the focus is increasingly on run-on, journey planning to low dependency or buyout and winding-up. Issues such as surplus distribution, sponsor negotiations and navigating new consolidation or run-on options may feature heavily.

Strategic succession planning seeks to identify the different skills and experience needed to meet the future needs of the board, as well as allowing sufficient time for new members to be recruited, inducted and fully integrated.

By shifting the focus from 'who can fill this vacancy?' to 'what will the board need to look like to deliver our strategy?', boards can make more deliberate and resilient decisions.

## Building a sustainable pipeline

The most common challenge we hear from clients about succession planning is the lack of candidates coming forward. The pipeline can feel narrow and over-reliant on a handful of 'usual suspects' who are already heavily committed.

Building a pipeline of future board members is a shared responsibility between the current board and the sponsor, and collaboration is key. So, what can boards do?

Practical steps include:

- **Broadening access to potential candidates**

Look across different levels and functions, not only senior management or those with existing pensions experience.

The sponsor can help by identifying future candidates and supporting employees undertaking these valuable roles. Being a trustee or board member can be an excellent development opportunity for mid career employees with leadership potential. Tell the sponsor what skills will be important and the likely timeframe – give them a list and ask them to suggest a few potential candidates to approach.

- **Planning beyond one-for-one replacements**

Avoid focusing on just one successor per role. Instead, look to build a small pool of potential candidates for each position, recognising that availability and interest may change over time.

- **Creating early exposure opportunities**

Maintain a long list of potential future candidates based on your discussions with the sponsor and the board's own network. Keep in touch with them, designate a trustee to have regular catch-ups or mentor them. Consider allowing them to shadow or observe board meetings. This helps demystify the role, gives individuals a feel for the culture and workload, and allows the board to see how potential candidates might contribute.

- **Articulate the value of the role**

Review the language you use in member communications, as this shapes how attractive and accessible the role appears. Use positive language and talk with energy when describing the interesting work carried out by the board. This shift highlights the positive impact and purpose of the role.

### **Integrating contingency and key person planning**

Not all board changes can be anticipated. People change roles, relocate, retire early

or face unexpected health or personal circumstances. Corporate transactions or governance changes can also prompt sudden shifts.

A succession pipeline will support boards to put in place the right candidate quickly, while maintaining stability and supporting the scheme's business as usual activities.

## **"Succession planning is not simply about avoiding empty chairs but is about ensuring the governance structure remains robust and suitable, both now and in the future"**

### **Diversity as a strategic asset**

It is widely accepted that diversity delivers more robust decision making on boards. The breadth of challenges pension boards face means we are more reliant than ever on a combined board with a broad range of skills, experiences and perspectives.

Seek to increase diversity by:

- Looking beyond the established cohort when identifying potential candidates – challenge the sponsor on employer appointed board members if that has not been the case.
- Avoiding automatic like for like replacements when someone steps down (e.g. replacing an HR director with another member of the HR team without considering broader needs).
- Considering diversity in the round: professional background, work experiences, age, gender, ethnicity, tenure, and member representation.
- Recruit for transferable skills rather than only for specific expertise.

### **Making succession planning part of everyday governance**

Succession for members of a board requires a strategic and targeted approach, with a medium to long term

focus. Boards that treat succession planning as a living strategy – rather than in response to a vacancy on the board – are better placed to navigate change without disruption and strengthen their governance approach for the future.

Succession planning is a continuous act of strategic governance that is essential for building an effective board for the future and the long term success of your scheme. When done well, it:

- Aligns the way the board is composed now and in the future with strategic objectives and regulatory obligations.
- Strengthens resilience to change and reduces key person risk.
- Supports diversity, inclusion and better decision making.

### **Questions every board should be asking**

- What does our succession plan look like?
- Have we got a pipeline of future board members?
- Does that pipeline possess the right breadth of skills and experience to meet the board's future needs?

If you don't know the answers to those questions, now is the time to act.

Succession planning is not a luxury, it is a necessity. By treating it as a living, future focused strategy – integrated with your business plan and your risk management framework – pension boards can more effectively ensure they have the right people, with the right skills, around the table when it matters most.



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