Global Pension Risk Survey 2019

UK Survey Findings

Managing benefits and liabilities

Aon
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Introduction

Welcome to the 2019 Global Pension Risk Survey findings concerning managing benefits and liabilities. These findings form part of our overall 2019 survey of UK defined benefit (DB) pension schemes.

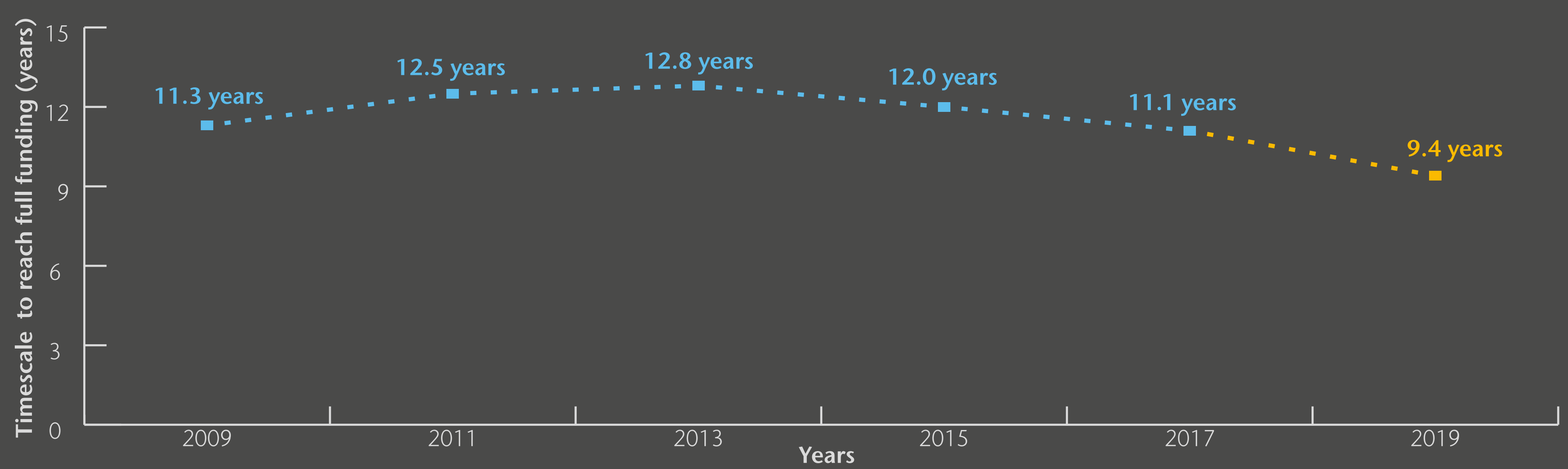
We carry out the Global Pension Risk Survey every two years, and looking back over the last decade, we can see how the pensions landscape has developed. Ten years ago, schemes were dealing with the fallout from the global financial crisis, and over the following years, increasing numbers of schemes closed to accrual in response to rising costs.

As a result, schemes began to set their sights on long-term, lower-risk destinations, but market conditions and, initially, rising longevity seemed to conspire against making progress. The ultimate low risk target forever seemed just out of reach. However, in recent years, schemes' long-term objectives have grown closer than they have ever been (see chart), as schemes mature.

Maturity is a key theme of this survey, as it is of many of The Pensions Regulator (TPR)'s recent statements, including the 2019 Annual Funding Statement. As many schemes see significant amounts of liabilities transferring out, they are maturing rapidly, and decisions around long-term targets, management of liabilities, investment strategy and approaches to hedging longevity risk have come more sharply into focus. Even open and less mature schemes will be affected by these changes as well as by the pressure from TPR to have a long-term target. There are also new issues for schemes to confront in 2019, including cyber risk and (finally) dealing with GMP equalisation after 2018's Lloyds Bank court case ruling.

In this set of findings, we look in detail at how schemes have managed benefits and liabilities. The survey findings relating to the other subject areas in the survey are available separately.

Timescale to reach long-term target as reported in previous Global Pension Risk Surveys



Unless otherwise indicated, all sources are the Global Pension Risk Survey 2019.

Survey demographics at a glance

170 UK respondents to the 2019 survey

15% of respondent schemes had fewer than **500 members**

28% of respondent schemes had over **10,000 members**

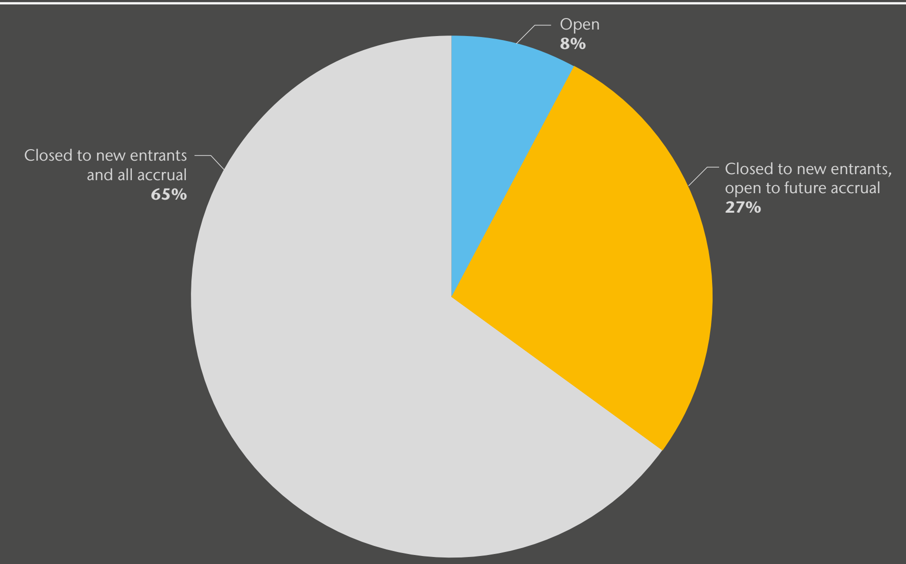
Wide range of asset sizes covered.
From sub-£100m to over £1bn of assets

Nearly 2/3 of responses came from trustees

Managing benefits and liabilities

How has the trend in DB scheme closures played out over the last four years? Our survey results show a significant increase in the proportion of schemes closed to future accrual — 65% in the 2019 survey, up from 45% in 2015 and 53% in 2017.

Scheme status



Aon insight

Almost two in three DB schemes in the UK are closed to all accrual, underscoring the general move in the private sector towards DC for future pension provision. You can read more about global DC trends in our Global DC Pension and Financial Wellbeing Survey. Against this backdrop, it is unsurprising that DB schemes are maturing, a key theme in this survey.

Key findings

65% of UK DB schemes are closed to all accrual

45% in 2015 | 53% in 2017

Only 15% of schemes are unlikely to use a flexible retirement option liability management exercise in next 12–24 months

54% of schemes quote transfer value figures at retirement. **Up from 30% in 2017**

Over 2× the number of schemes offering partial transfers compared to 2017

Alongside the increased proportion of closed schemes, there has been a noticeable change in attitudes to liability management. Looking back at previous Global Pension Risk Surveys, we can chart this back to 2013, prior to the changes introduced by the 2014 Budget. The chart below shows the percentage of respondents unlikely to implement each option.

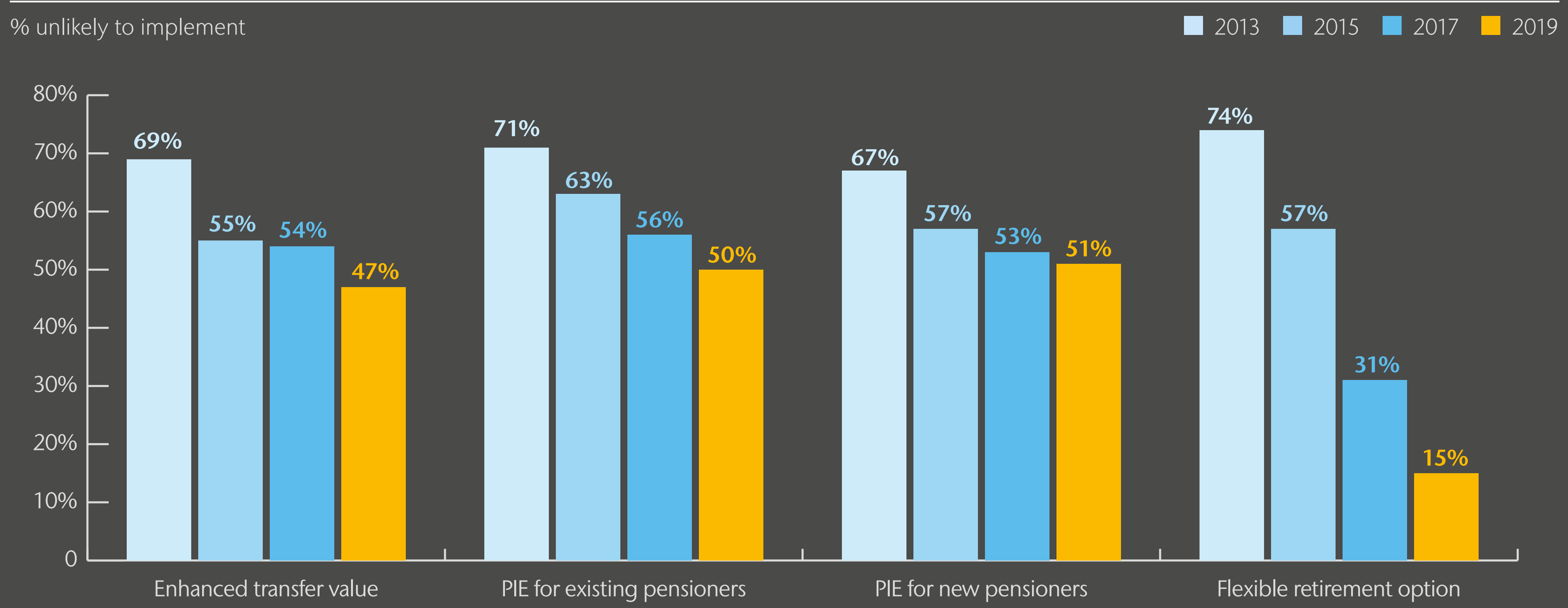
Aon insight

The increasing acceptance of liability management exercises has been dramatic, particularly for the flexible retirement option (communicating transfer options alongside retirement options in the scheme) where only 15% of schemes say that they are unlikely to implement such an option in the next 12–24 months.

Indeed, trustees increasingly regard a flexible retirement option as good governance, making sure members are aware of the full range of options available to them, with any funding improvement or risk reduction a secondary benefit to the scheme.

Steady, although smaller, reductions are also seen for the other liability management actions.

Changing attitudes to liability management



Success story

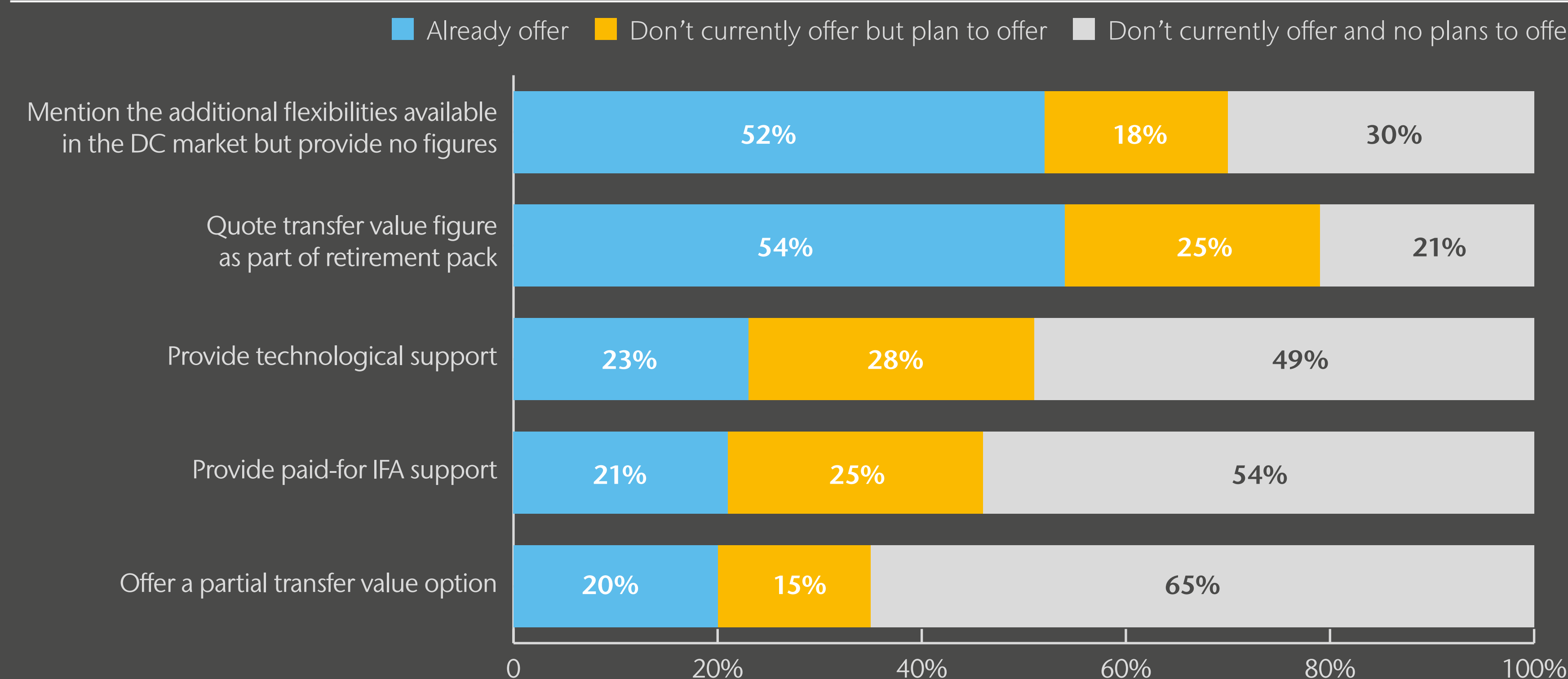
Phoenix Group, together with the Trustee of the PGL Pension Scheme, were keen to provide a range of retirement options for their members and also ensure that members had the necessary information to make fully informed decisions. As well as redesigning their scheme website to provide better information, they introduced an online retirement modeller (Aon Retirement Options Model – AROM) and provided access to an IFA with impartial advice provided at no cost to the member. The scheme saw a change in the retirement choices made by members, which can be attributed to improving the visibility of the retirement options and providing improved support.

"We were very keen to be able to offer our members an improved level of guidance and education on their retirement options and we are pleased that a high proportion of members are making use of these tools to make better informed decisions about their retirement"

Gary Needham, Head of Corporate Pension Operations, Phoenix Group

When supporting members through the retirement process, there is a large range of approaches that schemes can take and we asked about some of the most common options.

At-retirement support



There are several interesting features in these results, relating both to the provision of information and options, and to the support alongside it to help members in making fully informed decisions.

The proportion of schemes quoting transfer value figures at retirement has risen from 30% to 54% between the 2017 and 2019 surveys. Over the same period, the proportion offering partial transfers has risen from 9% to 20%.

Over 20% of schemes now already offer paid-for IFA support, with a further quarter of schemes expecting to do so. Over half of schemes either already provide, or plan to, technological support to members at retirement.

Aon insight

These results demonstrate the rapid development of at-retirement support for members. The majority of schemes now quote transfer values at retirement, and some schemes have followed that through into permitting partial transfer values, so that members can manage their DB savings more easily.

However, IFA advice is required for any transfer of over £30,000, so providing information is only one side of the coin. Schemes are rising to this challenge through, for example, provision of paid-for IFA support. This allows the scheme to fully vet a suitable IFA and provide significantly better value through 'bulk buying' those services than the individuals concerned could manage alone.

Advice from IFAs along with the increased prevalence of technology solutions help members understand their options better — and so make more informed choices.

Managing benefits and liabilities

In more depth

In more depth

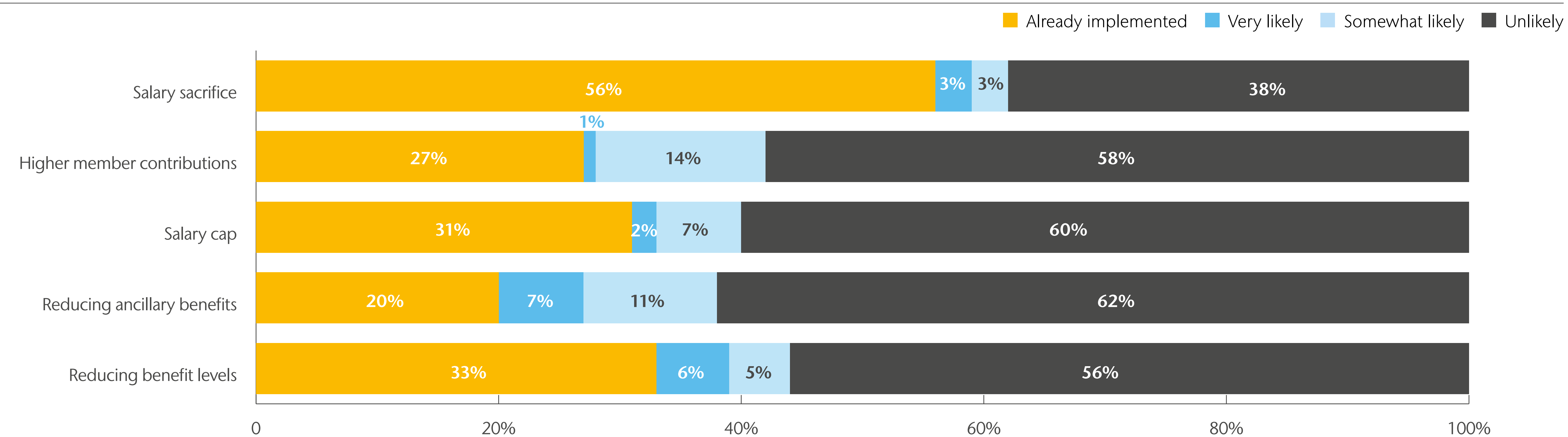
For schemes that remain open to future accrual, we asked about the potential implementation of other actions that schemes and sponsors can take to manage the cost and risk of defined benefit provision. For each action, we asked whether it has already been implemented, whether it was considered very likely or somewhat likely that the scheme would implement it in the next 12–24 months, or whether it was an action that was unlikely to be implemented.

Compared to the 2017 survey results, the proportion of schemes that consider themselves very likely or somewhat likely to implement these changes has fallen across all categories.

Aon insight

These results suggest the days of tinkering with benefit design might be coming to a close and that only the ultimate option of closing to future accrual remains.

Benefit actions



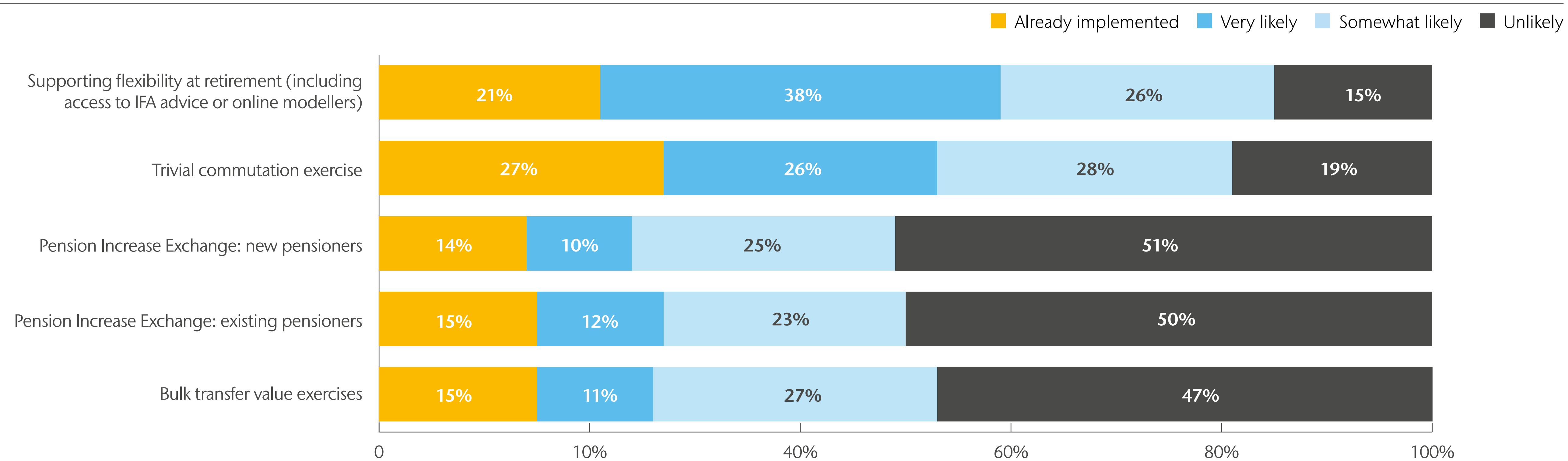
The chart below shows the five most common liability management exercises. We asked respondents whether they had already carried them out for their scheme, whether they were very or somewhat likely to implement them in the next 12–24 months, or unlikely to implement them.

Aon insight

These results demonstrate just how embedded liability management is now — and in all its guises, with essentially half or fewer of respondents saying they would be unlikely to implement each of the different options.

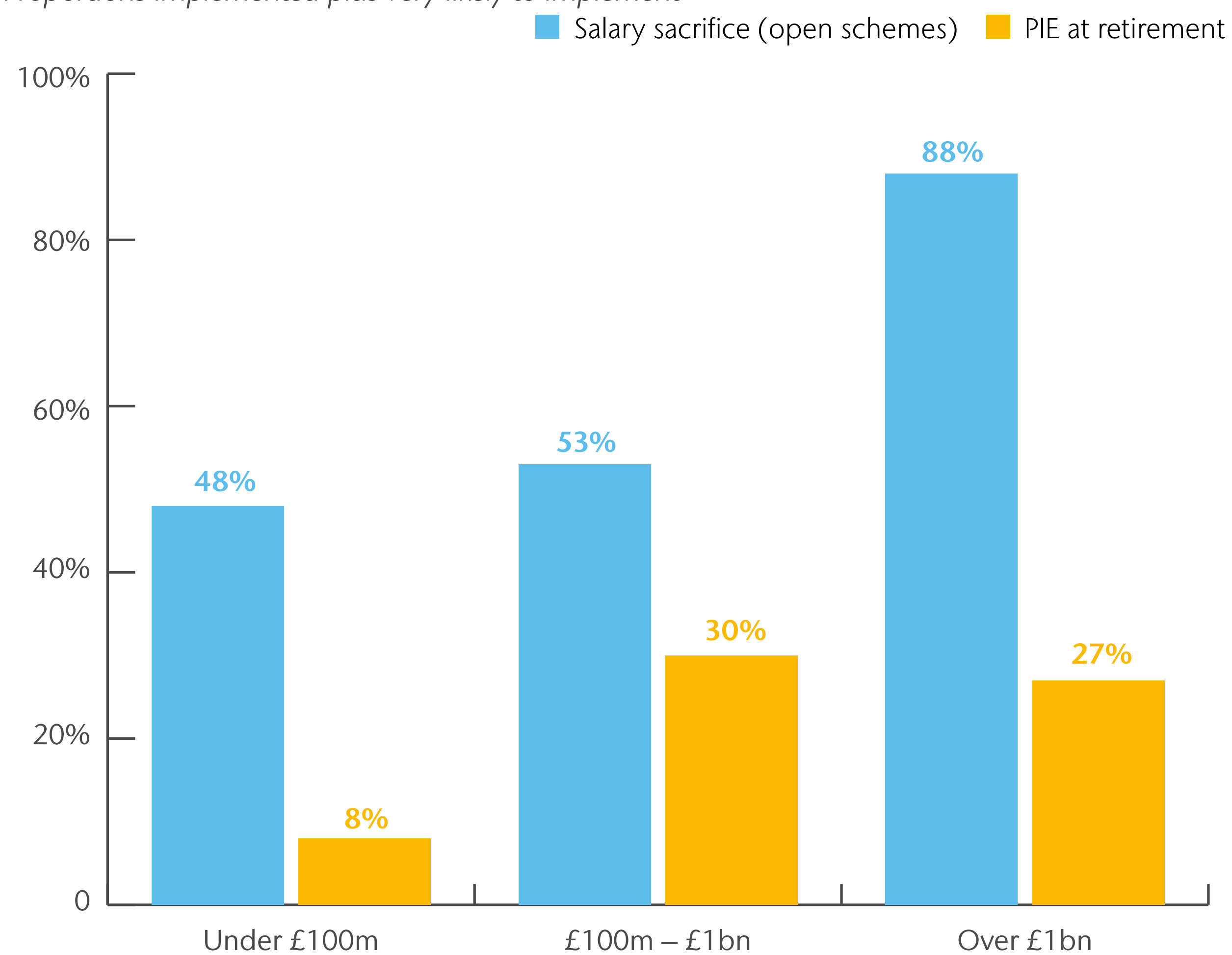
Schemes that are planning to implement these actions in the near term should, however, make sure that they are aware of the requirements of The Pensions Regulator's Code of Practice to ensure exercises are run properly. Careful project management is key to ensuring that liability management exercises are successful and deliver the desired outcomes for both trustees and sponsors.

Liability management actions



Liability actions by size

Proportions implemented plus very likely to implement



However, when we look at the survey responses by size of scheme, we see an interesting difference in levels of implementation (measuring those respondents who had implemented or were very likely to implement). This chart shows salary sacrifice and PIE at retirement, but similar results were apparent for many of the other benefit change and liability management options.

Aon insight

These results show that smaller schemes are much less likely to have implemented (or be very likely to implement) salary sacrifice and PIE at retirement than their larger counterparts. This suggests that they are potentially missing out on providing more efficient accrual of benefits to members and on offering their members the full range of choices at retirement.

Aon has launched an implemented solution to make actions such as PIE or transfer value exercises accessible to smaller schemes in a cost-effective and efficient manner.

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