



Adapting and Enhancing Pension Scheme Effectiveness

What's your New Better?

January 2022



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Pension schemes and those working with them should make good use of the fact that you learn more in crisis than in comfort. Whether a crisis is caused by people, systems, location, sponsors or suppliers, the overall goal is to learn from the incident and think about what you could have done better.

We have set out ten key areas for review, considering how to permanently implement positive actions, to enhance pension scheme operations and continue with the evolution of a new, better, future approach. To make this review meaningful, we recommend you start with your own experiences, highlight any actions you would like to take as well as deciding on when next to review.

After a crisis, reflect on the following as part of your review

- Did you have any close calls?
- Was your decision making robust? Or in hindsight did you fall into the trap of making a quick decision without thinking through all the implications?
- Did you find that you could react quickly and take advantage of opportunities that arose to improve the outcome for your scheme?
- Did you decide when to undertake subsequent reviews?



Strategy

1. Crisis Management Plans

The pandemic increased the focus on all forms of contingency planning.

Within the top 15 risks from the latest Aon Global Risk Management survey, key risks for pension schemes include:

- business interruption,
- cyber security,
- failure to meet member needs,
- damage to reputation,
- risk of an economic slowdown,
- regulatory / legislative changes.

We suggest therefore not only reviewing your procedures and contingency plans for the outcomes from the pandemic but ensuring you're prepared for all possible risks.

Broader risk management guidance, such as the FRC Corporate Governance Code, states that good risk management practices should ensure appropriate systems and triggers are in place. It further states that any concerns are raised to the board, along with reviewing near misses and close calls.

Having experienced a pandemic and recently implemented a response plan, boards are now ideally placed to learn from this and broaden their plans to apply across a range of key risks. But planning does not stop there, a good plan requires regular testing and we recommend all plans are reviewed at least every two years.

2. Delivering Strategy

Many schemes and sponsors priorities have changed.

Volatile investment markets, economic uncertainty and pressures on employer finances have changed the landscape. Strategic projects may have been postponed, budgets cut and contributions reduced, with knock on impacts on member outcomes, funding objectives, and timescales to buyout.

Revisiting your strategic objectives to reflect the current circumstances is vital.

For DB schemes IRM plans may need to be updated, along with revisiting de-risking objectives and funding targets. Schemes may need to develop a strategy to get back on track to accompany existing journey plans.

For DC schemes weaknesses in the investment strategy may have been identified, including trading costs and liquidity constraints. The impact on default strategies may need assessing, along with retirement paths for members approaching retirement.

An important step in delivering against these objectives is breaking them down into bite-sized chunks. Re-scheduling activities will enable you to achieve your strategic and operational priorities. This is likely to require allocation to specific sub-committees or working parties to make this more manageable.

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3. Sponsor Engagement

Schemes have required more timely information from sponsors.

For many schemes, the pandemic has brought trustees and company representatives closer together. For others the position has been changing almost daily or dialogue has been more of a struggle.

Regular dialogue with the sponsor and establishing a clear reporting framework can assist in staying up to date. It can help to identify corporate pressures quickly and input into revisions to strategic business plans and budgets.

4. Communications Strategy

Schemes have found new methods of communicating with members and member engagement has increased.

There is a heightened need for a wider communication strategy for a number of reasons including:

- The increase in scammers targeting pension scheme members.
- Market volatility, which may have had a significant impact on DC members, with those approaching retirement faster than they expected having little time to address this.

Many boards have moved away from paper-based communications with positive outcomes. For example, those schemes who already had member websites were able to get messages to members quickly. We have also seen boards utilise FAQs and online modelling tools, with some schemes also looking into the development of more accessible communications, such as text to speech software, updating imagery and pension Apps.

Developing and evolving a communication strategy which embraces technology and provides easy access to support and guidance to all your members is essential for maintaining member engagement and education.

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5. Risk Environment

Increased remote working and online meetings have changed the security footprint, and the current economic uncertainty may have also changed risk tolerances.

The pandemic has forced rapid changes to the way we work, the way we communicate, covenant, business priorities, third-party provider operations which will have been different for every scheme. Set against a backdrop of the increase in scams, phishing attacks and ransomware demands, this has exposed vulnerabilities that are inevitable with such pace of change.

Revisiting risk exposures and tolerances and maintaining awareness of the risks associated with this changing environment is important.

6. Assess Your Overall Performance

Most trustees and sponsors pulled together and quickly adapted to the challenges.

Many schemes proved to be extremely resilient with their response to the range of issues which have arisen from the pandemic and in some cases had to quickly upskill in new areas such as crisis management, business continuity and running online meetings.

Reflecting on your collective performance, enables you to identify your strengths and blind spots and any capacity issues.

This can be used to:

- Support your succession planning, including consideration of whether a professional trustee could help.
- Review whether you have the diversity of skills, thinking and perspective needed to face future challenges.

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Operations

7. Adviser and Provider Feedback

Significant changes to the working environment put additional pressure on third-party providers, advisers and in-house teams.

Most organisations have adapted well to the significant interruption to the traditional operating model caused by the pandemic, with the movement to remote working having limited impact on core operations. However, some organisations fared less well.

Whatever your position, working with your providers to understand the challenges they faced and to identify any further potential issues will help you to be better prepared in the future. There is also value in understanding their business continuity plans and agreeing escalation procedures and working priorities in the event of disruption.

Our 10 Questions to Rate Your Pensions Administration Crisis Resilience provides some insight into areas for review.least every two years.

8. Meetings

Virtual meetings have worked well for now.

Many schemes have adjusted their meeting cycle from long quarterly face to face meetings to shorter, more frequent video calls. This has worked as an interim measure, enabling boards to maintain a nimble approach, but maybe some things are not as effective.

We suggest that you reflect on the balance of face to face or virtual meetings and decide what will work for you as a longer term solution.

Our Effective Trustee Meetings – Combining virtual with face-to-face guide provides some ideas on how meetings can be reshaped.

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9. Trustee Training

Many trustees have struggled to obtain scheme specific training

With shorter virtual meetings it has been a challenge to allocate time for training on the agenda. The growth in webinars has expanded the ability to participate in trustee training from any location and to hear more diverse views, but this is not scheme specific.

One solution could be to arrange group participation on a relevant webinar followed by a separate trustee discussion immediately after. Cross reference your business plans to identify your scheme specific training needs to refine your 1–2 year training programme.

Long video calls on a dry topic are very unappealing, so the challenge is to identify relevant, engaging and interactive sessions which are tailored to meet specific training needs. Video conferencing technology, when used appropriately can help you go one better than the traditional slideshow, offering polling questions, Q&A functions as well as the ability to demonstrate interactive models. Challenge your advisers to work differently in this new environment.

10. Documentation

Many new processes and procedures have been developed.

Where new policies and procedures have been established, boards are now starting to check that all the decisions have been formally documented, revision dates are agreed and that these documents are appropriately approved and stored for future use.

This might include emergency sub-committee powers, emergency approvals processes, cashflow management policies, revisions to service level agreements with providers as well as cyber security policies and incident response plans.

Making sure all of these are appropriately documented is an important part of the process.

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