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Operational risk focus:

The importance of holistic succession planning



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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.



➤ **Written by Aon partner, Michelle Burgess, and Aon head of DC governance, Madalena Cain**

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What should boards think about regarding the future skills and experience they will need, as the demands on both DB and DC schemes evolve?

Boards need to look beyond today and work back from where the scheme is heading. That means being clear on the journey, for example, whether that's DB buyout or DC consolidation, and then keeping an up to date view of their skills and experience against that direction. The question is 'what will we need more of over the next few years?' and that might include decumulation experience, stronger member engagement, greater confidence with data and technology, and people who bring broader perspectives and can challenge constructively.

Understanding the current mix of skills and experience on the board, and keeping that under regular review, is an essential part of strategic planning. It ensures the board's composition is aligned with the strategic plan and viewed through a genuinely forward-looking lens.

A common challenge for boards when thinking about succession planning is recruiting new trustees. But what aspects of succession planning are most commonly overlooked?

Some of the more common blind spots that we see in practice include not having a pipeline at all, lack of early exposure and mentoring, and (inadvertently) under selling the role.

Boards can really strengthen their approach by keeping a small pool of interested candidates warm, offering chances to observe meetings or be mentored so people understand the culture and expectations beforehand. There are also real opportunities to promote the important role of the trustee through member communications, even when you're not actively recruiting, so the value and appeal of the role are consistently visible to members.

Planning ahead

➤ Pensions Age speaks to Aon partner, Michelle Burgess, and Aon head of DC governance, Madalena Cain, about what trustee boards should consider when implementing succession planning

Is there a difference in the understanding and implementation of succession planning across the market, for example between DB and DC schemes, or between long-established boards and somewhat 'newer' entities such as DC master trusts or DB superfunds?

Yes, there's variation, but it's often more about the maturity of governance than scheme type.

Long-established boards will often have an informal sense of 'who might be next', especially where there are long-tenured trustees, but it's not always written down or genuinely strategic – it tends to be about filling the next vacancy rather than planning for the skills and experience the board needs in three, five or 10 years' time. In many cases, these boards have an opportunity to embed a more structured and future-focused succession strategy.

Newer vehicles, such as DC master trusts and DB superfunds, are often very conscious of regulatory scrutiny and commercial risk, so succession is more

likely to be baked into their governance frameworks from the outset. For these types of boards, it's important that succession planning remains agile to changing needs of the board as these evolve and change over time.

Why should all types of trustee boards consider succession planning – what are the risks for schemes that do not take a structured, forward-looking approach to succession planning?

Without this type of approach boards are exposed to key person risk, loss of momentum on major projects and less robust decision making. It can also be a real drain on bandwidth, with trustees spread too thin; but if vacancies are then filled in a rush, the board can find itself repeatedly firefighting recruitment and handovers and losing focus on the opportunity to bring key skills and characteristics to support the board into the future. This can pull attention away from the scheme's strategic priorities and ultimately lead to an ineffective board.

How should the relationship element between the board, its sponsor and its advisers be considered when undergoing succession planning?

Succession planning works best where the sponsor and the board see it as a shared endeavour. Sponsors should work with the board to understand the current skills and experience, and agree what's needed to support the board into the future. The sponsor has a key role in identifying future potential candidates and then supporting the time commitment so that the trustee role is seen as highly valued by the sponsor and represents a development opportunity.

Advisers also play a role at the boardroom table and will complement the board's mix of skills and experience. Having insights into the board's level of understanding in key areas and decision-making styles helps advisers to deliver advice effectively. Boards may consider whether the delivery, style or approach of their key advisers supports them with effective decision-making. When thinking about succession planning it's important to understand how collective decision-making styles evolve over time with board changes and ensure that the adviser support continues to be effective.

What practical role can technology play in supporting succession planning, for example in knowledge retention and reducing key person risk?

It has the capacity to play an increasingly important role in succession planning, especially with the growth of AI. For example, AI-enabled



tools can scan training records and experience profiles against the scheme's priorities and flag where there are skills gaps or concentration risks, helping boards focus in on the types of people and experience they will need for the future.

It can also support clearer onboarding pathways and better knowledge sharing. Digital induction packs, e-learning and recorded training sessions help to standardise onboarding and give new trustees a stronger foundation, so they can be more effective more quickly when they join, while also reducing key person risk by making knowledge less dependent on a small number of long-standing trustees.

If a board recognises that its current approach is not fit for purpose, what are the first steps it should take to build a more robust succession plan?

A good starting point is to take stock of where you are by understanding the current board's skills, experience,

diversity and tenure, and set that alongside upcoming future milestones for the scheme including any regulatory or best-practice developments on the horizon.

From there, define what you'll need for the future by aligning with your business plan and agreeing the core skills, behaviours and perspectives needed to support the board with achieving the best outcomes over the medium to long term. This will help the board articulate its principles for appointments, re-appointments, rotation and avoiding 'cliff-edge' departures.

The key point for all boards is that robust succession planning is an ongoing strategic governance task which is crucial for ensuring the board is able to effectively deliver its agenda of work.

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