



#### ► Summary

- Covid-19 may have permanently changed the way trustees approach their work.
- Alongside adapting to new working habits, trustees have a swath of new regulations to understand and follow in 2021.
- As the world moves towards digitisation, cyber risks could become more pronounced.
- Trustees will also need to evidence that they are taking more action in the fight against climate change.

# Adapting to new surroundings

✓ **Along with the rest of the world, trustees have had to adapt to ‘the new normal’ amid the Covid-19 pandemic. Jack Gray investigates whether this will continue into 2021 and other trends trustees will have to contend with**

**A**s we move into 2021, the working landscape looks very different for trustees compared to this time last year. The coronavirus pandemic has

altered working habits, with most trustee meetings now taking place virtually. Some schemes have changed their investment strategies to protect their schemes and members from the impact

of the pandemic, and as the sector adapts to a more environmentally-aware world. The shifting focus to fighting climate change, alongside the Pension Schemes Bill and court cases, has brought new requirements around responsible investment, guaranteed minimum pensions (GMPs) and defined benefit (DB) pension scheme funding.

#### Going green

The government and Pensions Minister Guy Opperman have made no secret of their desire to make pensions “safer, better and greener” through the Pension Schemes Bill and changes in regulation. The Department for Work and Pensions (DWP) has proposed requirements

for larger occupational schemes and authorised master trusts to publish climate risk disclosures and have effective climate-related governance, strategy and risk management in place from October 2021. October 2021 will also be most trustees’ first experience in publishing an implementation statement that describes how climate-related policies in their statement of investment principles have been followed and disclosing trustee voting behaviour, alongside their scheme annual reports and accounts.

“A key trend for member-nominated trustees will be the continued rise in environmental, social and governance (ESG) factors in pension schemes’ investment decisions,” comments Association for Member Nominated Trustees (AMNT) co-chair, David Weeks.

“Government and regulators both promote this flow. AMNT members were firm supporters in a recent survey and AMNT’s Red Lines Voting Campaign continues to urge strenuous engagement with the issues. The next step should be to improve the ESG databases and scoring methods. The step to avoid will be too much intrusion by the lawyers.”

The shifting focus to more

environmentally-friendly pensions is also recognised by 20-20 Trustees head of business development, Dana Day, who says that people are going to increasingly look to pension trustees to help in the fight against climate change.

She continues: "Trustees are going to be increasingly held accountable for the actual environmental and social improvement that the approximately £37 trillion of institutional pension assets worldwide can achieve.

"Where does the buck stop? We could easily spend days debating the role that pension assets could play in slowing climate change and all types of social inequality. That's not this article.

"The challenge I think that is coming to trustees is, if not us, then who? We are the masters in many ways of where and how trillions of pounds are invested. If we are not finding a way, with all of those assets, to make demonstrable improvements, then who will? I think growing segments of the population are going to look to trustees with that very question, and we'll need to have a compelling answer."

### Red tape

Possibly the most impactful piece of pension legislation in years will come into effect in 2021 – the Pension Schemes Bill. The bill includes a requirement for trustees to create a funding and investment strategy for ensuring that pension benefits can be provided to scheme members in the long term, which will require collaboration with the sponsoring employer. This will include a written statement setting out the strategy and how successfully trustees feel it is being implemented.

The bill also introduces new criminal offences that trustees may fall afoul of if they are not prepared for the changes. These new offenses have led to concern from within the industry, including Weeks, who explains: "Two clauses ring alarm bells for trustees. Clause 107 introduces new criminal offences, which

seem to be woefully hazy in definition about whether activities were conducted in 'good faith' or not.

"Clause 123 relates to DB schemes' funding and the adequacy of their risk management strategies. It may, potentially, have the unintended effect of unnecessarily closing some schemes that still remain open. We look forward to swift action to quell these concerns."

Aegon Master Trust chair and Sackers partner, Ian Pittaway, notes that the burden of further regulation on own trusts is increasing the drive towards consolidation. "The requirement for smaller schemes to assess value for members will accelerate demand marginally but it was already happening," he states. "In five to 10 years, you won't see many own trust defined contribution (DC) schemes, other than the ones with assets of more than £1 billion."

Day adds: "If we count what is easy for us to measure, what we measure becomes what counts.' This phrase rings in my ears as we tick off the boxes for the ever-growing number of statements, policies, procedural requirements and accreditation evidence that are now part of being a trustee and running a DB or DC scheme.

"As the UK pension industry continues to trend toward compartmentalised measurable achievements, there is a risk we take our eye off the ball and pat ourselves on the back for all of these ticked boxes, when schemes and sponsors continue to struggle and members have to fight harder than they should for benefits due.

"Requirements and standards are good; we need to continue to develop them. But they need to be baseline, not the end goal. It's easy to lose sight of that – we have to be careful not to."

GMPs remain high up the agenda for 2021 following the recent court ruling that DB scheme trustees that provided GMPs should revisit and, where necessary, top-up historic cash equivalent transfer values that were calculated on an

unequalised basis if an affected member makes a successful claim.

### Virtual adoption

Due to the Covid-19 pandemic, trustees had to adapt the way they work to reduce the number of face-to-face meetings in 2020. Although there is light at the end of the tunnel following the approval of a vaccine, it appears as if virtual meetings could be here to stay. A recent AMNT survey found that 42 per cent of MNTs planned to introduce virtual meetings to replace some face-to-face meetings in the longer term and 18 per cent said they would replace most face-to-face meetings with virtual ones.

"It is difficult to imagine returning to the traditional governance models of three/four half/full-day meetings per year in person," says Ross Trustees trustee director, Grant Suckling. "When it is safe again to do so, we can see every other trustee meeting taking place in person, with in-person meetings focused on training, strategy and long-term planning and covering more strategic topics such as covenant, investment and funding. This would leave shorter, online trustee meetings in between with a focus on important operational, business as usual, matters such as administration, audit, communications, governance and legal."

Suckling also predicts that as sponsors focus on driving their businesses forward, the demand on lay trustees' time will increase and further support will be sought from professional trustees.

"The appointment of a professional independent trustee frees up existing resource and helps meet any skill gaps on existing boards," he adds. "It also provides experience and independence from the employer at a time when conflicts are widespread. Such appointments should lead to quicker, more effective agile decision-making that can take advantage of favourable market opportunities."

➤ Written by Jack Gray