Trustee topics for 2022

What will be the big issues for pension trustees in the coming year? *Pensions Age* spoke to a range of companies and industry bodies to gain some insight into the challenges and the hopes

New governance requirements, evolving investment strategies, and the need for good quality data to help drive initiatives such as the pensions dashboards and GMP equalisation: These will be among the priorities that pension trustees will be grappling with in 2022, according to industry experts.

Prominent among the issues raised are governance and investment strategies specifically around DB pension schemes. The new DB Funding Code of Practice consultation from The Pensions Regulator is expected in 2022, and this forms the backdrop for many comments about the year ahead.

Cardano Advisory director, Emily Goodridge, says she expects that the role of covenant assessments will change, with less focus on the rating and more on what sponsor-strength means for the strategies set by DB trustees. "TPR's much-awaited new DB Funding Code of Practice can be expected to require a better articulation of how scheme risks are supported by the covenant, forcing trustees to justify their risk management and journey planning decisions. Even where schemes meet TPR's lower-scrutiny 'fast track' criteria and covenant may be less of a concern, trustees will be reminded it is only a regulatory risk filter and that doing the right thing to protect members will mean going further."

Meanwhile, Aon partner and head of UK retirement policy, Matthew Arends, observes that 2022 will mark 25 years since the implementation of the "little-lamented" Minimum Funding Requirement (MFR), adding: "My fear is that TPR's new DB Funding Code will turn out to be MFR2 and we will, in effect, turn back the clock 25 years on the funding regime. TPR can avoid this by dropping its requirement to measure bespoke compliance with the new regime by reference to the new fast track compliance option. Fast track has a lot of attractions and meets the stated policy aim, but not if it is also used as a yardstick for bespoke compliance."

Many schemes are now much better funded than they were, according to Willis Towers Watson head of retirement, Great Britain, Rash Bhabra, and the focus is therefore increasingly on each scheme's ultimate objective. "2022 should be another busy year for the risk transfer market as schemes reach important milestones on the road to making pensions secure. More effort is also going into enhancing members' experience. Where this involves communicating and expanding options available to reshape retirement benefits it can lead to a reduction in risk," says Bhabra.

End game

Adding a buoyant buyout market and the likelihood of more and more schemes discussing end game strategies to the introduction of the funding code leads APPT chair, Harus Rai, to conclude that

Hopes for CDC schemes

"One big hope for 2022 is that Royal Mail's collective defined contribution scheme is both successfully launched and acts as a positive first mover to encourage others. There's also the hope that the government's commitment to introduce regulations for other types of CDC scheme, such as master trust CDC schemes, and to provide increased flexibility for the concept, bears fruit in 2022."

Aon partner and head of UK retirement policy, Matthew Arends

"we are likely to see a lot of work being done over the next 12 months to make sure schemes are 'buyout ready'".

There is a clear trend, according to Arends, towards more UK DB pension schemes opting for buyout as their long-term target rather than self-sufficiency. Arends says that consequently it's hard not to imagine that trend resulting in significant bulk annuity transaction volumes in the next 12 months. "While more schemes are undoubtedly seeing the way to buyout as their correct course of action, for others it's helped clarify their wish to run on a low-risk basis, either temporarily or in perpetuity, even if they could afford to buy out."

Goodridge goes on to predict that potential regulatory approval of the first DB consolidators in 2022 will kickstart a wave of consolidation discussions driven by covenant concerns, while the Pension Schemes Act 2021 will double down on DB pensions governance requirements for corporates and require greater information sharing and communication between trustees and their sponsors.

Economic indicators

For PTL client director, Clare James, the one important action that all trustees of DB schemes should be considering as soon as possible is reviewing their investment strategies to ensure they are fit for purpose, against the backdrop of a changing economic outlook, with rising inflation and consequent expected rises in interest rates.

Those economic indicators include an annual CPI increase to October 2021 of 4.2 per cent, the highest level it has been since November 2011, says James, while the RPI, to which pension benefits are more often linked, increased by 6 per cent in the year to October 2021.

"Trustees would therefore do well to review the level of interest rate and inflation risks they are running in their schemes and consider what, if any, action may be appropriate," she says. "For example, there might be scope to adjust the level of LDI inflation hedging to increase the level of inflation protection afforded to the scheme."

Data quality

Both the perennial subject of GMP equalisation and the approaching introduction of the pensions dashboards are identified by many commentators as being of importance in 2022, and facilitating those initiatives will be the collection, storage and use of good quality data.

"Vital to the successful execution of nearly everything, quality of data seems to become more important each year," says Arends. "The task of addressing data accuracy will not look so dull if a scheme faces the nightmare of inaccurate data when it comes to complete a member options exercise, buy a bulk annuity, perform GMP equalisation and so on. And don't forget that the pension dashboards are all about data. The bottom line is that having better, cleaner data is key to schemes' ability to make better decisions on their way forward."

Bhabra says the company's surveys show that equalising pensions in a way that balances pragmatism with risk is a major item in most trustees' in-trays, and he hopes that legislation to make GMP conversion easier should help schemes settle on a preferred approach.

Rai also identifies both GMP equalisation and pensions dashboards as key subjects of focus for trustees in 2022. With the former, many schemes will be engaged in dealing with the practicalities, deciding not just on which method to adopt, but also putting in place the building blocks to tackle the issue over the next 12 months.

"There is no overnight fix and, for those schemes affected, this is a huge project that will take diligent planning and execution. It has the potential to be an expensive exercise, so careful managing of budgets will be required."

Rai observes that the pensions dashboards will require input from individual schemes, that there are probably more questions than answers currently, but that things should become clearer over the next few months. "Over the course of 2022, schemes will need to consider not just how they ensure that they provide the information that is needed within any stated timescales, but also how they ensure that the quality of those inputs meet the standards that will be required by the DWP."

There is no doubt that after a challenging 2021, trustees will be kept on their toes throughout 2022 also, needing to pay close attention to new regulations and new expectations.

Written by Andy Knaggs, a freelance journalist

Responsible investing

"Discussions on how pension schemes can support the drive to tackle climate change have resulted in several consultation papers being published and more are expected over 2022. In the next 12 months, schemes will continue to monitor these carefully to understand the impact any changes might have on them, as well as putting in place procedures and policies to tackle these."
APPT Chair, Harus Rai

"One of the most significant new responsibilities for trustees will be the extension of Taskforce for Climate-Related Financial Disclosures (TCFD) reporting. From October, schemes with assets over £1 billion will be required to comply, and smaller schemes will also need to start preparations for when these new duties are cascaded further."
Pensions Management Institute director of policy and external affairs, Tim Middleton