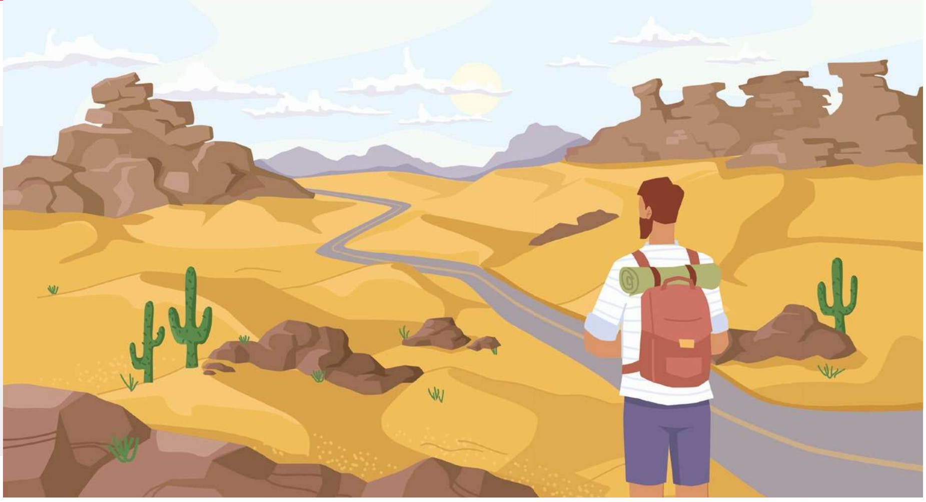

Summary
• 2023 looks set to be busier than ever for pension trustees working in both the DB and DC arenas.
• The constant stream of new regulation is hindering innovation and the value-add that trustees can bring.
• Trustees feeling overwhelmed are not alone and should tap into the resources that are widely available.

Trusteeship in 2023: A rocky road

With the ever-constant regulatory change and uncertain economic landscape, trustees may be feeling justifiably overwhelmed as they look out into 2023. Francesca Fabrizi explores

For many trustees, 2023 may conjure up a sense of doom. The role of the trustee seems to be ever-more challenging, with an economic landscape that remains unpredictable and regulatory change coming in thick and fast, so this year is unlikely to be any less demanding in terms of workload.

"It's hard to believe we can be busier than we were in 2022, but this year we have a huge amount to work on," says Ross Trustees trustee director, Grant Suckling. "From investment strategies and funding codes, to governance practices and environmental, social and governance (ESG) considerations, there are several key themes that are going to dominate trustee in-trays."

The buy-in and buyout markets will also remain a major factor, Suckling adds, along with continued consideration for GMP.

DB highs and lows

Specifically on the defined benefit (DB) side, trustees are still dealing with the fallout from the liability-driven investment (LDI) crisis, says Zedra Governance managing director, Kim Nash, so a lot of trustee boards will be thinking about where they are today, where they want to get to and what steps they need to take to get there. "Some will be revising their strategy, looking at how they're using their LDI funds, for example, what growth assets they need to have in place and how to structure that."

On a positive note, she says, many schemes are seeing their funding levels improve quicker than expected, so may be closer to buyout. "Some might have been working on a three to four year plan that's now looking more like two years. So there's going to be a huge volume of work with schemes trying to get themselves transaction-ready. That involves data and legal work; and talking to the sponsors about where they want to get to and how to get there."

BESTrustees president, Alan Pickering, agrees that, in DB land, journey planning will be top of the agenda; but, while some schemes will be closer to risk transfer than they were before the liquidity crisis, some will have inevitably slipped backwards. "We will need to take stock in both sets of circumstances. In each scheme, it would be useful to get a disinterested party to provide the employer and trustee with a snapshot of the different risk transfer options that exist. We can then concentrate our fire power where it is most appropriate and, in so doing, avoid wasting the time of potential counterparties," says Pickering.

DC priorities

From a defined contribution (DC) perspective, a specific focus for trustees in 2023, argues Nash, will need to be helping members with the cost-of-living crisis – communicating and trying to support members to make the right decisions. "As a trustee, you don't have oversight of a member's individual financial circumstances, so you don't know whether opting out of a pension is a good thing for them to be doing or not. So it's about what information we can provide to help members make decisions for their specific circumstances."

Trustee focus should also be on building confidence among DC members, which today is more of a challenge than ever, given recent history. "People are generally distrustful of pensions," observes Nash. "They've also seen the negative press around DB pensions, and your typical member is not going to understand the differences between DB and DC and what was happening in the markets. So there's work to be done to build understanding, and build confidence in those people that can continue to keep saving."

Retirement support

Alongside all of this, Pickering argues that a focus for trustees in 2023 should be on member outcomes and providing a joined-up journey between accumulation, consolidation and pay out.

Nash concurs that the pensions industry needs to get much better in terms of that glide into retirement for people and support them around what steps they need to make the right decisions.

"Part of that is communication and part is product development – how can you package up investments in a way that makes it easy for DC members to make a choice? That's going to take some innovation as well," she states.

Compliance versus value-add

But while innovation in pensions is arguably needed more than ever, the constant stream of new regulation is acting as a hindrance to the development of new ideas, warns Nash. "If we look back over the past 12 to 18 months, providers were having to make changes to their processes to meet regulations, so resource was being used there rather than on the developmental side, so innovation has been slower than it could have been."

The extra regulation around pensions is also adversely affecting the value-add that trustees can bring: "This year is nothing new in principle, in terms of regulation," argues Pickering, "but it is excessive in terms of quantity. Each intervention is well intentioned but often fails to take account of the implementation challenge. Because we are suffering from overload, compliance rather than added value may be the new order of the day. This would be very sad."

Indeed, one of the biggest challenges as a trustee, agrees Nash, is striking that balance between compliance and strategic thinking.

20-20 Trustees trustee director, Jim Robson, agrees that while legislation is designed to improve governance and outcomes for members, in most cases it makes sense, but in other areas less so. "If we look at the market turmoil at the end of September/during October last year, was this down to a lack of legislation? Or possibly a lack of understanding. I expect that there will be some fall out from what happened and the Work and Pensions Committee is gathering thoughts and evidence as we speak."

What Robson hopes does not happen, however, is that the mis-communication around LDI and its purpose leads to legislation that makes it harder for trustees to get on and manage schemes in the best interests of members. "Overall, we have a reasonable balance, and it's all about how trustees allocate their time and risk budget to ensure compliance, but that legislation doesn't stop them from focussing on the big ticket items and driving schemes towards their longer term objectives."

Trustees' wishlist

Looking ahead into 2023, while many trustees might therefore be hoping for less red tape, Suckling in general welcomes the extra regulation. "For a long time, the pensions trustee industry operated with limited regulation which meant, for many schemes, good governance often fell towards the bottom of the agenda.

"Our philosophy has always been that running pension schemes in the most professional way possible is beneficial to everyone involved, and as long as extra regulation is helping bring up standards across the industry, then this can only be a positive."

Instead, at the top of his wishlist for the new year is an increase in the number of experts in the industry.

"As many schemes are now fully funded, we should also be looking to find alternatives to buyout, should one day we find ourselves with capacity constraints in the insurance market," Suckling adds.

Robson echoes this argument, wishing that 2023 would not only bring with it more time but also more resource.

"There is a full agenda for 2023, and a lot of issues to address. We are seeing a lack of resource in all areas – administration, investment consulting and the insurance market to name but three."

Schemes also need to think about how they can do things differently, he says.

"We need to reflect that schemes mostly operate on a cycle of four meetings a year. That makes decision making and implementation too slow in my book. Schemes should really look at their governance model and perhaps consider moving to more frequent, shorter and more focused meetings. This really helps order the agenda, and what areas can be delegated to allow the trustees to focus on strategic matters," Robson adds.

There is no question, concludes Nash, that the demands on the pension trustee have been increasing year-on-year and that, compared to 10 years ago when she entered trusteeship, the role today feels "fundamentally different in terms of what the requirements are and what you're expected to do".

But for the trustee who might be feeling overwhelmed looking into the year ahead, the message she would offer is that they are not alone: "You are working as team, as a trustee group. You have your adviser there, whose job is to support you and help you to understand. If you do not understand something or you feel it's too complicated, that's a failing on your adviser's part.

"So link in to the resources you've got around you. Ask questions and take the support that's on offer to you. You are not alone."

Written by Francesca Fabrizi