Raising the bar: What to expect in 2024

After a busy 2023, there is little indication that things will slow down for pension trustees in 2024. We explore what's to come in the year ahead, and how boards can best prepare themselves

Summary
• The DB Funding Code, Mansion House reforms, and trustee skills and knowledge are all set to be under the spotlight again in 2024.
• While a skills review reflects positively on UK pension trustees, there will likely be a call for more demands, particularly around private markets.
• For most boards, preparedness is key and they have already invested significantly in governance improvements.

This year looks set to be a particularly busy one for UK pension trustees. If 2023 was the year of the consultation, 2024 will be the year of implementation – or at least preparation for implementation.

The Defined Benefit (DB) Funding Code, Mansion House reforms, changes to liability-driven investment (LDI) strategies, and the push for consolidation dominated the headlines last year and will likely do so again in 2024.

For trustees, there is also the prospect of additional skills and knowledge requirements after the Department for Work and Pensions' (DWP) review. The government's overall view of trustees' knowledge and understanding was positive, but it made clear that it expected additional training to ensure boards understood the full range of asset classes available to them – no doubt to support the private markets-related goals of the Mansion House reforms.

Under pressure?

The Pensions Management Institute (PMI) director of policy and external affairs, Tim Middleton, says: "It is clear from the Mansion House consultation that dealt with trusteeship that the government is seeking to drive up standards throughout the trustee universe as a whole and is considering options such as a requirement for a professional trustee to be appointed to every board and the consolidation of smaller schemes.

"Trustees are likely to come under increasing pressure to demonstrate that they have the skills necessary to manage their scheme effectively."

A big part of this is likely to be accreditation, with the government also calling for the launch of a trustee register to be overseen by The Pensions Regulator (TPR). While many professional and lay trustees already have some form of accreditation, for those yet to take this step, the time is now.

The Association of Member-Nominated Trustees (AMNT) co-chair, Maggie Rodger, says achieving accreditation is "an excellent way to show a certain level of training". For those that have completed the Pensions and Lifetime Savings Association's (PLSA) Trustee Toolkit training programme, getting accredited "should not be daunting", Rodger adds.

"However, the biggest barrier for lay trustees is often the cost and time required, if they are not given appropriate support by their employer, especially if their trustee role is unpaid," she continues. "AMNT has been calling for a much stronger stance on protected time off for meetings, preparation and training time as well as the coverage of costs incurred by lay trustees to carry out their duties."

In its response to the government's consultation on trustee 'skills, capability and culture' in September, the PLSA supported the idea of a trustee register. TPR currently runs a register for independent trustees only.

"Collecting this information would serve several purposes, including determining who currently serves as a trustee (either professional or otherwise), any gaps in knowledge and understanding among trustees (and trustee boards) of different scheme type, and what additional support might be needed from TPR," the PLSA said.

The association also called for a review and strengthening of TPR's Trustee

Knowledge and Understanding (TKU) toolkit, which it said was "not sufficiently demanding". The regulator should "consider offering additional guidance or continuing education opportunities for practicing trustees", it stated.

"By introducing a register of trustees and a stronger TKU regime, it would be possible to introduce a form of 'accreditation' for all trustees."

Speaking to *Pensions Age*, PLSA director of policy and advocacy, Nigel Peaple, explains that there are "proactive steps" to prepare for potential changes to standards.

"These may involve investing in continuous training and development programmes for existing trustees, fostering a culture of lifelong learning within the board, seeking professional accreditation or certifications, staying updated with relevant industry guidance and regulations, and reviewing readily available content such as the PLSA's Made Simple guides."

Are you ready?

How can trustees ensure they are best prepared for the challenges ahead? While accreditation is a strong option – and organisations such as the PMI offer this to lay trustees as well as professionals – the first step for most boards will be to understand where their collective strengths and weaknesses lie.

Macfarlanes pensions partner, Faye Jarvis, says: "When thinking about knowledge and skillsets you should consider the trustee board as a whole. Equally, when considering their shortfalls, you need to look at where there are gaps in the collective knowledge. This can be done by developing a skills matrix to record the different skills and experience of each board member."

Middleton agrees that the skills matrix is an optimal starting point. From here, trustees can identify knowledge gaps and address them through training or additional appointments. Training should be a continuous process, ensuring boards are up to date with developments in relevant markets and regulation.

Zedra client director, Colin Richardson, adds that resources such as professional trustees, advisers or TPR documentation can all help identify areas for ongoing development. He adds: "Good boards are doing this on an ongoing basis as best practice and doing so candidly – only in being rigorous and open can gaps be identified and addressed. This is not about judgement, but improvement.

"We are fortunate that we have a wealth of resources available to us – materials and training – so we start from a good base as an industry."

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Pension scheme endgames

After the gilt market chaos of 2022 drastically affected some DB pension schemes' endgame planning, 2023 brought new challenges that may again cause some trustee boards to rethink their journeys.

There continues to be significant demand for insurance buy-ins and buyouts. Research by LCP in October 2023 found that the number of UK private sector DB schemes that were fully funded on a buyout basis had grown to 20 per cent – the equivalent of more than 1,000 schemes with approximately £275 billion of assets between them. A further 1,250 schemes are expected to reach buyout level funding within the next five years, LCP said.

While more entrants are predicted for the insurance market to help meet this demand, there may still be those who cannot access the insurance market and may need to consider a self-sufficiency or run-off approach.

The new DB Funding Code – currently scheduled to come into effect from April 2024 after several delays – is likely to focus many minds on creating a detailed journey plan towards some form of insurance transaction.

On top of this, a change to the way scheme surpluses are taxed may make it less onerous for employers to maintain a well-funded DB scheme. More long-term investors could also create a larger potential market for investing in unlisted UK assets, a key element of the Mansion House reforms.

"After many years of having to manage significant funding deficits, many DB schemes are now in surplus," says Middleton. "Historically, the obvious route to wind-up has been through bulk annuity buyout. However, many trustees are now considering the alternative of run-off with the ultimate objective of returning some of the surplus to the scheme sponsor. Trustees will need to give careful consideration as to which is the more suitable option for their scheme."

Reasons to be cheerful

It may seem a lot for trustee boards to tackle in 2024, especially on top of the day-to-day running of their schemes. Rodger says the new changes as planned will "not be a particular burden" on most trustee boards as they will already be monitoring their own training and skillsets.

She adds: "As in any of these situations, trustee boards should be looking to their advisers to not only help train them in all the aspects relevant to their scheme but also to advise on potential changes of investment strategy, for the board to discuss and review. This means that, apart from the new task of supplying data for the register, they should be ready for these changes."

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