

Pensions Age 2025 special focus: Why DEI?



➤ Diversity, equity and inclusion (DEI) is an area of growing importance for those running pension schemes, as the benefits it can provide, both from an operational perspective and by way of improving customer service, is becoming more recognised. Yet there is much more to be done for DEI to be comprehensively implemented throughout the pensions sector. Therefore, *Pensions Age* is proud to explore DEI as its year-long special focus for 2025

Diversity, equity and inclusion – DEI if you will, or EDI, or DE&I, or ED&I, with the ‘E’ sometimes representing ‘equality’ instead of ‘equity’ – is still a new enough idea that the industry has yet to firmly settle on one acronym for the

concept. Yet, behind the buzzwords and acronyms lie attitudes and perspectives that could fundamentally transform the effectiveness of pension scheme management, its member relationships, and ultimately improve saver outcomes. “DEI refers to ensuring fair

➤ Summary

- Diversity, equity and inclusion (DEI) is about improving industry representation of people from diverse backgrounds, ensuring everyone has access to the same opportunities, and fostering a culture of belonging.
- Improving diversity within the pensions industry is expected to have it better meet the diverse needs of pension savers.
- There has been an increased focus on DEI in recent years, not least due to The Pensions Regulator’s guidance.
- Progress has been made to improve DEI within the pensions sector, but there is much more still to be done.



treatment, opportunities, and representation for individuals with a broad range of characteristics, life experiences, expertise, and skills,” Pensions and Lifetime Savings Association director of policy and advocacy, Zoe Alexander, says.

“Within pensions, we need to think about DEI in relation to the end user – the saver – as well as in relation to those working within the industry. In terms of savers, there is a lot more work to do to ensure we are helping those with protected characteristics, both in terms of the policy framework and in the experiences we provide to savers when they engage with their pension scheme. And it is essential that the pensions industry is comprised of people who reflect the diversity of savers, leading to better governance and decision making, and ultimately, stronger outcomes for members,” she adds.

In practice, DEI encapsulates the principles and practices organisations employ, enabling them to provide the right environment so that regardless of age, gender, identity, background, faith, or other life circumstances, individuals

are empowered to thrive and contribute to society, Scottish Widows managing director for retirement, Emma Watkins, explains.

“Diversity focuses on representation – ensuring people from varied backgrounds, experiences and perspectives are included. Equity ensures everyone has access to the same opportunities and promotes fairness, whilst addressing barriers within systems and processes. Inclusion promotes an environment of respect and value for all individuals, where they can feel both a sense of belonging and be fully empowered to contribute to the best of their ability,” she states.

This, in turn, can result in benefits for the scheme’s members, as Aon partner, Susan Hoare, explains: “DEI is thinking about pension projects through different member’s perspectives, which can be achieved by ensuring the trustee board has a diverse range of different perspectives.”

Increasing focus

Despite the improved outcomes DEI can provide, it is only in recent years that the concept has started to take hold amongst UK pension funds.

“There has been a noticeable increase in focus [*on DEI*] particularly over the past five years,” Material Impact research manager, Bruna Bauer, says.

“Our research conducted in 2024 on the topic shows that most pension funds only started considering DEI in the early 2020s. It’s still relatively new for the industry, with progress happening at different speeds and through a variety of approaches.”

WTW pensions governance specialist, Abigail Currie, agrees that “over the past decade or so there’s been a growing global cultural focus on the importance of DEI, together with increased recognition that diversity is crucial for effective decision making and risk management”.

“Naturally then, there’s been an increased focus within the pensions

industry, particularly in respect of outcomes for pensions savers,” she adds.

This increased focus has been driven by a number of factors. For instance, “sponsors are driving change because they are often more advanced in their DEI thinking than trustee boards”, Hoare says.

This DEI drive is also bottom up, “with employees increasingly wanting to work with companies who have robust DEI policies; the evidence being it builds trust and engagement”, Watkins states.

“Trustees are also responding to guidance from The Pensions Regulator (TPR) in March 2023, where they now have support materials to articulate what best [*DEI*] practice looks like. TPR’s General Code of Practice references skills audits for trustee boards and this has led to more formalised assessments of skills and experience of trustee boards. There is a DEI lens to environmental, social and governance (ESG) work carried out and, in particular, this is encouraging boards to focus on DEI from an investment management perspective,” Hoare says.

TPR’s *Trustee Diversity & Inclusion Survey*, published in March 2024, found that there was industry recognition of the importance of inclusive and diverse boards, with 78 per cent of respondents saying they felt a diverse trustee board was important. There was also broad consensus that diverse and inclusive pension boards are important for good decision-making (84 per cent), good governance (83 per cent) and good member outcomes (85 per cent).

The reason why TPR has dedicated attention to this subject is because “high standards of diversity and inclusion are instrumental to good decision making and ensuring pension savers get good retirement outcomes”, TPR equality, diversity and inclusion lead, Sandisiwe Dhlamini, says.

“That is why we are working to raise standards of EDI in pensions schemes and urge trustees to follow our EDI guidance and take action to ensure their scheme meets our expectations. Working

with industry, we also want to build a collective understanding of why pensions inequalities occur and how to reduce them,” she explains.

Another such body that has been leading the way is the Association of British Insurers (ABI), since its *DEI Blueprint* in 2022 and updated regularly, which aims to make “the insurance and long-term savings industry to be the most diverse, equitable and inclusive sector of the UK economy”.

Its chief sustainability officer, Ben Howarth, notes that, “while the sector has made some progress with DEI in recent years, for example the implementation of more flexible working policies through the pandemic, this progress has not been consistent or uniform”.

Catching up

TPR’s trustee research found that pension scheme boards are lacking diversity despite a desire to improve, with the ‘typical trustee’ still being a white man who is over 45.

It found that just 24 per cent of trustees are women, compared with

52 per cent of the wider population. Meanwhile, 9 per cent of trustees were under the age of 45, compared to 44 per cent of the wider population.

The survey also found that 7 per cent of trustees had a disability, compared to 20 per cent of the wider population, and 3 per cent said they were neurodivergent, compared to an estimated 15 per cent nationally.

“It is essential that the pensions industry is comprised of people who reflect the diversity of savers, leading to better governance and decision making, and ultimately, stronger outcomes for members”

Therefore, “it’s fair to say the pensions sector has some catching up to do,” Bauer says.

Despite this, DEI has generally been well received in the industry, as illustrated by the formation of the Pensions Equity Group, which was set up by a coalition of over 50 pension companies and individuals to tackle pensions inequality in the UK, Sackers partner, Eleanor Daplyn, highlights.

Benefits

It is understandable that DEI would be well received, considering the number of benefits it can provide.

As Currie states, “a trustee board with a wide range of skills, experiences, demographic backgrounds and behavioural preferences is crucial for effective decision-making and risk management”.

She highlights how having the right balance of skills and experiences

generates more informed decisions and provides greater challenge to advisers, while achieving good demographic diversity can help a board understand and represent the interests, views and needs of a bigger proportion of their scheme’s membership.

Wider perspectives support better debate, idea generation, problem solving and decision making, Currie says, and that understanding the board’s behavioural diversity enables the group to understand any specific gaps it may have.

For example, lacking ‘innovators’ could stifle horizon scanning within risk management frameworks, lacking ‘strivers’ could weaken negotiation ambitions and lacking ‘relators’ and ‘supporters’ could make it more challenging to apply a member-focused mindset to communications, she explains.

Effectively considering pension schemes from the members’ perspective enables those managing them to deliver in areas of importance to their members, Hoare states.

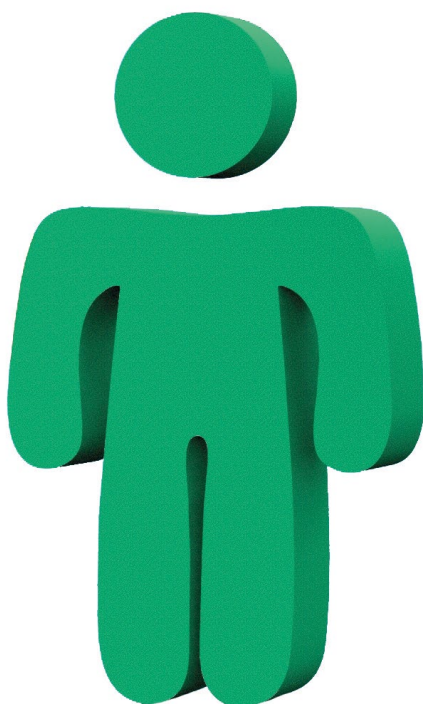
She gives the examples of ESG funds, flexible drawdown solutions, and ensuring schemes provide dependants benefits to non-legal spouses (i.e. unmarried partners) as areas of importance to members.

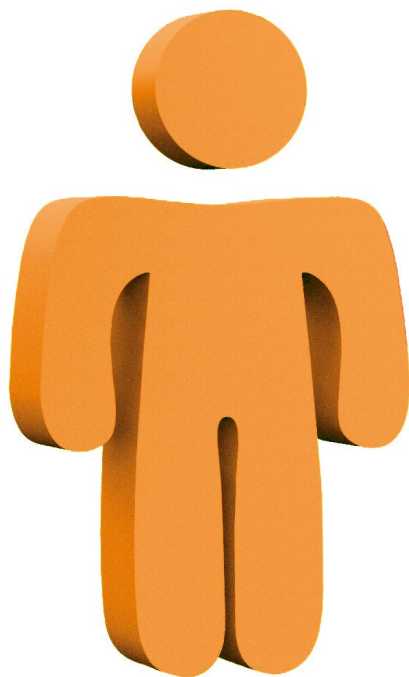
Meanwhile, Daplyn highlights how thinking of the member perspective can improve the communications itself, both in terms of visuals (thinking about colours and spacing for those who are colour blind or dyslexic) and understanding (checking the reading age and how to identify and support any vulnerable members).

Actions

Recent ABI DEI collection data has seen evidence of DEI improvements already being achieved. For instance, it found that the proportion of its member firms capturing social mobility data in 2023 has increased to 51 per cent, up 18 per cent from 2022.

Bauer notes that “a lot of schemes are





starting their DEI journeys by focusing on gender representation because it's easier to measure and track progress. From there, the goal is to expand into other areas like ethnicity, disability, and socio-economic backgrounds. Many funds are also signing up for initiatives like the Asset Owner Diversity Charter, which provides a roadmap for integrating DEI into manager selection, voting policies and engagement practices'.

TPR's research also highlighted how professional and corporate trustees appointed to existing trustee were associated with greater action on diversity and inclusion.

For example, two-fifths of schemes with professional or corporate trustees had taken or planned action to create a more diverse board (41 per cent) or encourage greater inclusivity (42 per cent). This fell to 24 per cent and 25 per cent respectively among schemes with only non-professional trustees, its research highlighted.

Yet there is still much more to be done.

For instance, Pensions for Purpose's *Navigating diversity, equity & inclusion* research from May 2024 found that institutional investors have made

positive progress in embedding DEI principles within their own organisations and in interactions with third-party investment consultants and asset managers, particularly over the past two years.

However, the report found that gaps remain, suggesting that, beyond headline policies or statements, there appears to be a "mismatch" in understanding how these policies translate into practice on the ground.

Therefore, Pensions for Purpose recommended initiating mandatory internal DEI training, incorporating DEI considerations in the manager selection process, engaging with managers on DEI, and to reflect DEI in voting and stewardship.

Barnett Waddingham's *DE&I Implementation Challenges* research from July 2024 found a similar issue, with 91 per cent of its respondents feeling confident in their understanding of TPR's DEI guidance.

The research revealed that 65 per cent of appointed pension scheme trustees had undergone a few training sessions on DEI practices, yet 45 per cent admitted that, despite having a DEI strategy, it had no bearing on their trustee hiring processes, contrary to current TPR DEI guidance.

The research also had 26 per cent state that DEI did not play a part in choosing a chair for the board and 29 per cent said it did not play a part in trustee succession planning.

"DEI reporting is still voluntary, so there's inconsistency in how companies approach it. Measuring equity and inclusion is also harder than diversity, which is more tangible. Another hurdle is integrating DEI into underlying investments, as most asset owners are still at the stage of focusing on their own organisations first," Bauer says.

According to Hoare, "trustee boards should start to include a DEI lens into everything they do, from member communications, through to member

trustee recruitment exercises, trustee effectiveness reviews, appointment of advisers, choice of investments etc. The challenge for boards is often bandwidth, which is why it is more successful to embed DEI into all activity rather than treat as a separate initiative".

Future

Despite the challenges, DEI activity looks set to increase across the sector.

For instance, TPR wants to see more schemes collecting data on the diversity of their trustees (in terms of protected characteristics). Its survey showed that one-third (34 per cent) of schemes had acted to create a more diverse trustee board and/or planned to do so in the next 12 months. The same number had taken or planned action to encourage greater inclusivity.

Currie expects the spread of DEI across the sector to be one of "evolution rather than revolution".

In a similar vein, Daplyn expects broader industry changes to help facilitate the take up of DEI.

She gives the example of 'consolidation' being one of the big trends in the pensions industry, particularly in the DC arena.

"As schemes consolidate, the make-up of their membership becomes more diverse. Trustees of these schemes are having to think more about how best to communicate with such a wide-ranging membership. We have already seen improvements in member communications in these schemes... and we can see this continuing in the coming year," Daplyn explains.

Call it what you like, but DEI is clearly here to stay. *Pensions Age* looks forward to highlighting the benefits it can provide to schemes and its members, as well as assisting its growth across the industry through spreading awareness, by making DEI our special year-long focus for 2025.

 Written by Laura Blows