**Summary**
• TPR's proposals for DB scheme trustees to produce a statement of strategy is just the latest in a long list of reports, statements and submissions schemes need to produce for compliance purposes.
• There is concern within the industry about the cost and effort required to produce data requested for the statement of strategy.
• The ever-increasing demands on trustees are exacerbating the problems many schemes face in recruiting new trustees.
• These reports and submissions will help improve regulation and can have positive consequences, but it is important for regulators and trustees to maintain a focus on improving member outcomes.

# Oversight overload

**With the list of reports, statements and submissions that trustees need to produce growing longer every year, David Adams asks if these requirements are fulfilling useful purposes for members**

Being a pension scheme trustee is difficult, and it gets just a little bit harder every year. There are good reasons for that: Trusteeship is important, and the consequences of trustees failing to fulfil their duties can be disastrous. But as each year brings new regulatory duties, and with many DB schemes finding it particularly difficult to find and retain new trustees, are trustees now being asked to do too much, and for the wrong reasons?

The latest reason to ask that question is The Pensions Regulator's (TPR) proposals for a statement of strategy for DB schemes. If implemented they will mean DB scheme trustees must complete a statement outlining long-term funding and investment strategies, progress in implementing those strategies and details of associated risk management. TPR has created templates for the statements and recently closed a consultation on the proposals, to which it is expect to respond to soon. In theory, trustees will begin submitting statements of strategy from September 2024.

When the consultation was announced, TPR interim director of regulatory policy, analysis and advice, Louise Davey, said the proposals were designed "to make it as easy as possible for trustees to comply with new legislation, and ultimately to show how they are acting in the best interest of savers".

Some trustees and their advisers might have greeted the words "as easy as possible" with a hollow laugh. The most commonly expressed complaint about the proposals relates to the amount of detailed data the regulator wants to be included in the statements. But the real problem facing trustees is that this is just the latest in a long list of other reports and submissions already required by the regulator, or by law.

DB scheme trustees' responsibilities already include working through the process of actuarial valuations every three years and monitoring the health of the employer covenant. If a scheme is in deficit, trustees must provide the regulator with a detailed recovery plan. Trustees of both DB and hybrid schemes must also complete an annual scheme return; while most schemes must also demonstrate an effective system of governance (ESOG); and document risk management via an own risk assessment (ORA).

Elsewhere, trustees of DC schemes must comply with requirements aimed at assessing the value a scheme is providing for its members, publishing the results within an annual Chair's Statement. TPR, the FCA and the DWP have created a new value for money (VFM) framework, which will require trustees to publish annual assessments of value delivered through investment performance, services, costs and charges.

## Devil in the detail

Many of these assessment and submission processes may have beneficial effects, in terms of improving the governance and funding of the scheme, and, it must be hoped, improving outcomes for scheme members. But are they all necessary?

Professional trustee firm Vidett client director, and accredited professional trustee, Sophia Harrison, sees some merit in the proposed statement of strategy.

"It's quite good from an integrated risk management perspective," she says. "But what's been requested by the regulator is a very detailed snapshot that even by the time it's received could be out of date. There's not enough focus on contingency planning – which is arguably actually much more interesting to the regulator. For example, the covenant could change very quickly and then the scheme's in a very different place."

As soon as the consultation emerged, Hymans Robertson head of DB actuarial consulting, Laura McLaren, released a statement suggesting that completing the regulator's template with all the detail requested would be "onerous for schemes and disproportionate to what TPR needs to regulate them, especially in an environment with many well-funded DB schemes targeting buyout".

McLaren dismissed the proposed statement as having "little value for the schemes themselves beyond compliance". Most damning of all, Hymans Robertson estimated that completing the statement could add 20 per cent to the costs of valuations. McLaren tells *Pensions Age* that this figure is based on the amount of time needed to obtain all the data requested; and could apply to most schemes, of almost any size.

"We would say, strip right back to the basics required for compliance and perhaps think about a short statement schemes can produce that does more to engage members in strategic discussions," she says.

Aon associate partner, Shelley Fryer, says she and her colleagues hold similar views. "I think we're in line with the view that it's asking for more data than is necessary, at least for the majority of schemes," she says. "Can we see a benefit for the trustees, or the scheme, or the employer? They need to understand their plan, but they don't need to have provided their cashflows in the form the regulator has asked for. Our preference would be that the regulator asked for a more high-level summary first, then asked for more data later if necessary."

Ever-increasing compliance requirements and costs are also likely to encourage sponsors of DB schemes to seek a risk transfer solution, suggests Harrison. "Increasing reporting requirements, particularly the level of detail being requested, will increase costs and result in more sponsors saying 'I have no more interest in running this scheme on'. It's just pushing more schemes towards risk transfer."

WTW head of scheme funding, Graham McLean, feels the change in funding levels of many schemes during the past two years should be factored into setting compliance requirements.

"You have a lot of schemes that are better funded than they used to be," he says. "They are running lower levels of risk and relying less on the sponsor, but the amount of information they are required to produce is increasing. There is a concern on the part of trustees that that is not adding value to decisions that they make, or improving member outcomes."

"There's a danger that the pendulum is swinging a bit too far towards box-ticking and it's using up bandwidth that could be used elsewhere," says McLaren.

### A focus on what really matters

The bandwidth that a trustee, particularly a lay trustee, can dedicate to meeting these compliance demands might be particularly limited. The ever-increasing complexity of trusteeship is already having a negative impact, warns Association of Member Nominated Trustees (AMNT) executive committee member, John Flynn, who is also an accredited trustee.

"Trusteeship is so complicated that people just won't stand to be trustees," he says. "Across all pension schemes people are having trouble recruiting trustees." It is true that many mature schemes are making more use of professional trustees, but this is not necessarily the right option, or possible, in every case.

Flynn thinks a better balance could be found in terms of adjusting regulatory requirements. "When a pension scheme goes wrong and the story ends up in the papers, people clamour for more regulation, but I don't think there's enough sitting back to constructively criticise *[regulation]* you've already got," he says. "There has to be a lighter touch regime."

But Fryer points out that while some regulatory requirements around ESG have proved onerous for trustee boards they have also had some positive effects. "What we have seen is that ESG and social investment are now on trustee agendas," she says. "It's a focus for them and for managers in a way that it wasn't before."

Both the regulator and trustees must remember the real purpose of all these submissions and reports, says McLean. "Trustees have to look at whether they have something that tells members what they need to know – rather than relying on having ticked all the boxes under the legislation or regulation," he says.

"Things like the Summary Funding Statement are useful – members need to understand how well funded their scheme is and what the strategy for delivering their benefits is – but only if trustees think about who is going to read the statement and how useful it is to them."

A well-regulated pensions system is extremely important, but trustees need to ensure they retain a focus on that underlying purpose, says Harrison. The risk of compliance becoming a box-ticking exercise, she suggests, "is that people don't then take a step back and think about the bigger picture". After all, as the original idea for the statement of strategy demonstrates, that strategic oversight is what pension scheme trusteeship is really supposed to deliver.

**Written by David Adams, a freelance journalist**