Supporting your pensions manager

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The increasingly variable nature of pensions management requirements is causing many trustees to re-think their resourcing model. In this article, we explore some of the drivers underlying this shift, as well as a variety of practical measures to address it. For many schemes, a core ongoing level of support, supplemented by additional resources when needed provides an efficient and cost-effective solution.

1. Why the fluctuations in demand?

Several factors have added to the pressures on in-house pension teams and their ability to progress key pensions initiatives quickly:

- Many schemes no longer have dedicated pensions teams. Instead, the management of pension arrangements may be just one of many responsibilities that in-house resources are juggling in tandem with other employee benefit programmes or broader human resources responsibilities. Trustees can then find themselves competing for their 'fair share' of this resource, and perhaps less able to influence the outcome than senior management with line management responsibility for the relevant personnel.
- There has always been a significant amount of legal and regulatory change in the pensions world, but the lead time between new requirements being announced and guidance on implementation is often compressed. For example, details on how best to implement the recent GDPR legislation were still being produced within weeks of the 25 May 2018 effective date. This can result in intense periods of activity where schemes may have no choice but to reprioritise other initiatives to ensure compliance.
- In some areas, we are seeing much greater regulatory scrutiny of how existing requirements have been implemented. For example, guidance issued by the Pensions Regulator this year in relation to annual DC Chair's statements appears to go beyond the statutory requirements in the scheme administration regulations. In fact, in the second quarter of 2018, the Regulator issued 121 mandatory penalty notices (although 74 were subsequently revoked). In addition, there continues to be a steady drip of guidance as part of the Regulator's 21st Century Trustee initiative. Whilst all of this is ultimately very helpful in improving the governance and stewardship of pension schemes, in the short term it can leave trustees scrambling to keep up in an effort to avoid regulatory censure.
- Recent trends in mortality have contributed to more competitive pricing for buy-ins, buy-outs and longevity hedges. For many schemes, risk management initiatives which previously looked unaffordable, may now be within reach for some or even all of their liabilities. These transactions are typically time sensitive and intensive, and demand is such that insurance companies will only take trustees seriously if the preparatory work has been conducted and key stakeholders clearly on board. Once again, this adds to the pressure on in-house support teams. A key point to note is that it's not simply a question of available resource: trustees frequently need access to personnel with particular skill sets. For example, even with assistance from specialist advisers, the pensions manager/team

must still have strong competencies in areas such as project management, stakeholder management, and contract negotiation in order to coordinate the exercise and ensure maximum value is delivered.

- Conflict management – the pensions manager is frequently required to 'double hat' on behalf of both sponsor and trustee board. Potential conflicts can be most acute in relation to valuations, corporate restructuring, journey planning and liability management exercises. Sometimes those conflicts simply cannot be managed credibly through a single individual, and additional dedicated resource is needed.

2. What can you do?

Notwithstanding all these pressures, it isn't commercially viable for most schemes or organisations to have spare capacity sitting 'on the bench'. So, what can you do?

- If you haven't already done so, define (or refresh) your scheme's strategy. A well thought out strategy that is supported by all key stakeholders will enable you to prioritise actions that will help achieve your key objectives, and to plan your resource requirements accordingly. For example, many schemes are now finding that as they reach full funding on a technical provisions basis, the next phase of their journey plan involves a transition to a low dependency basis, or even buy-out. For such schemes, a strategy review can be very valuable in helping to define the next stage of the journey, and ensuring opportunities are not missed.
- Make sure you understand the real cost of any proposals to reduce or reorganise headcount before you agree to them. Even where a scheme is closed to future accrual and perhaps regarded as a 'legacy' issue, the typical pensions manager is responsible for overseeing the cost of significant funds under management, as well as managing a range of external suppliers and advisers. Scaling back this executive supervision too much can be a false economy - inefficient scheme management can cost far more (for example in adviser fees) than the savings from lower management costs.
- Whilst many schemes need a core level of support to manage predictable activity, one-off exercises often require additional resources and different skill-sets. This can usually be sought from a variety of sources. For example, subject to the constraints of conflict management, your sponsoring employer may be happy to offer resources with particular skills such as procurement, finance or communications. Alternatively, the scheme's advisers may be able to assist. When considering the need to source extra support, a key consideration will be whether to use that additional resource to 'backfill' the routine activity, or to use it to support the ad hoc activity. In our experience, the nature of the activity as well as the background and experience of the existing pensions team are key factors to consider, and each situation should be assessed individually.
- Many trustee boards have a dependency on their sponsoring employer for resources. When making the case for additional support, it's best to undertake this on a commercial basis. Most initiatives are likely to have a quantifiable business case, and/ or clear benefits in terms of risk management. Engaging with your sponsor in a 'business to business' way is likely to result in a better dialogue and a greater chance of a successful outcome.

In conclusion, many schemes are finding that in order to avoid being overwhelmed by sometimes unpredictable waves of pension activity, it's well worth taking a step back to determine what's really necessary and devise a pensions resource 'solution' that ensures key objectives are met in a steady and measured way.