

Navigating an evolving landscape

MAY 2025

PENSIONS LEADERS ROUNDTABLE

We're focused on bringing the industry together to talk about shared experiences. We recently held a roundtable with a small group of pensions leaders with a mix of trustee and corporate roles, focusing the discussion on run-on, surplus and buy-out.

Pensions leaders have a delicate balancing act, supporting trustee boards, sponsors, and members as well as their own team members. This balancing act becomes more complex during periods of change where stakeholder objectives may vary and we explored this during the discussion.

There are many areas that need consideration

When asked about scheme strategy, for example buy-out or run-on, the answers were not binary. Instead there was more commitment by the companies and schemes represented in the group to run-on with optionality – with the 'commitment to run-on strengthening with improved valuations'.

It was commented that 'there is no real reason to rush into anything' i.e. to commit to buy-out or to run-on but instead, noting that the political landscape had changed, there was a shared view that it would be prudent to see how the government moves over the next few months to change the regulations governing surplus distribution.

Data is another key area raised at the roundtable. 'The industry is at a crossroads. The broad industry messaging conveyed the importance of buy-out'. However, there have been many challenges with data and getting the data right during the period ahead of any legislation being enacted around use of surpluses is now seen as a key priority before moving ahead with any decision, whether to buy-out or run-on.

A surplus brings its own complexities

'Being in surplus also changes our focus and, in some respects, it has become more difficult... When in deficit, it was easier to navigate decision-making'.

What constitutes a good surplus, and how to manage this was a topic of discussion – raising many questions. For example, how comfortable are trustees in using some of the surplus to fund DC contributions? And is it prudent to move a DB surplus to DC, which might then create a higher risk of a DB deficit downstream?

When looking at any decisions involving DB, members of the group felt it was always important to start from the premise of security. 'If the covenant has not changed, then it does not really matter if the scheme has moved from a deficit to a surplus'. The focus is still very much on supporting the DB scheme now and in the future and not place this in jeopardy by using the surplus.

Other pressures also come into play once moving into surplus. For example, questions arise about discretionary increases in benefits. However, it was agreed by everyone that maintaining security of member benefits should always be the first priority.

But what does it mean to have a good surplus? 'Gilts plus a half is not sufficient enough to provide a level of security', even if the scheme is in surplus. 'You need to be running a bit of investment risk if you want to move to a really healthy funding buffer'.

What's keeping everyone up at night?

Managing data was a key area of focus. Generally, there is still a huge amount of work to be completed on data, even before schemes consider buy-out. This means addressing data weaknesses and ensuring data is accurate and complete. This includes removing inconsistencies, such as the calculation of benefits, verifying existing data and where possible, ensuring sufficient data is held to automate benefits. Data quality is paramount and underpins everything, from good governance to operational resilience and driving strategic decisions. Even before any buy-out decision is considered, schemes should be looking at having good quality data.

'Managing a big percentage of late retirees' was also cited as a complexity and an example of something that needs researching into to find out the reasons why members delay taking benefits, with levels managed down ideally ahead of buy-out.

Other challenges exist. Significant focus is on preparing for pension dashboards with looming deadlines, and GMP equalisation, the latter being made more complex with the differing views of trustees compared to corporates. Both consume a lot of time and resource.

A key point raised during the roundtable is flexibility – 'we don't want to be tied down'. The sands continue to shift with the current regulatory environment and 'it could be 2027 before we see really firm guidance around surpluses'. Until then, 'we have to navigate around the current environment, where trustees are also expected to continue making difficult decisions'.

It was agreed that the pace of change is extreme and during periods of change, the more stable the wider operating environment the better.

Keeping an eye on member expectations

Turning back to surplus, there is a groundswell of opinion amongst trustees that members should get the benefit of the surplus. 'Some trustees are leaning towards a discretionary uplift – the challenge remains however, whether there is an expectation of a one-off or ongoing uplift'.

Understanding where trustees are coming from is also important. Context and knowing the history of

the scheme is key. For example, some trustees may have historically always favoured an enhancement to benefits and continue to do so, irrespective of whether a scheme is in deficit or in surplus.

'The third, a third and a third' school of thought was also discussed, where one third goes to members, one third remains with the scheme and one third goes back to the sponsor.

Digital first

The roundtable concluded by looking at the evolving communication needs of members. Digital first strategies have grown significantly and now, for example, enable members to 'retire online'. However, this brings its own challenges. 'Only a small percentage of members retire using online tools and we don't expect this to change.' It was commented that 'member experience needs to be omni-channel', which caters for the different ways members like to access their pensions. Members are all different, and some feel more comfortable to speak with someone to provide some help and guidance and then go through *hard copy* paperwork when they come to take their benefits rather than progressing a digital journey.

Documentation can also be technical and quite complex to members where English is not their first language. 'Could artificial intelligence (AI) be used to translate these documents into other languages to make them easier to follow?', and 'could AI be used in call notes when speaking with members, so we can spend more time on the phone with members?'

Consideration also needs to be given to neurodivergent members, so they feel equally confident when they are ready to take their pension benefits. Thinking about the diversity of member profiles was recognised as an important consideration in communications.

Summary

The roundtable only scratched the surface of the issues, challenges and opportunities faced by DB schemes currently. It is though clear that the changing landscape requires very careful navigation, with the general consensus being that there is no reason to rush into anything for the time being at least.