

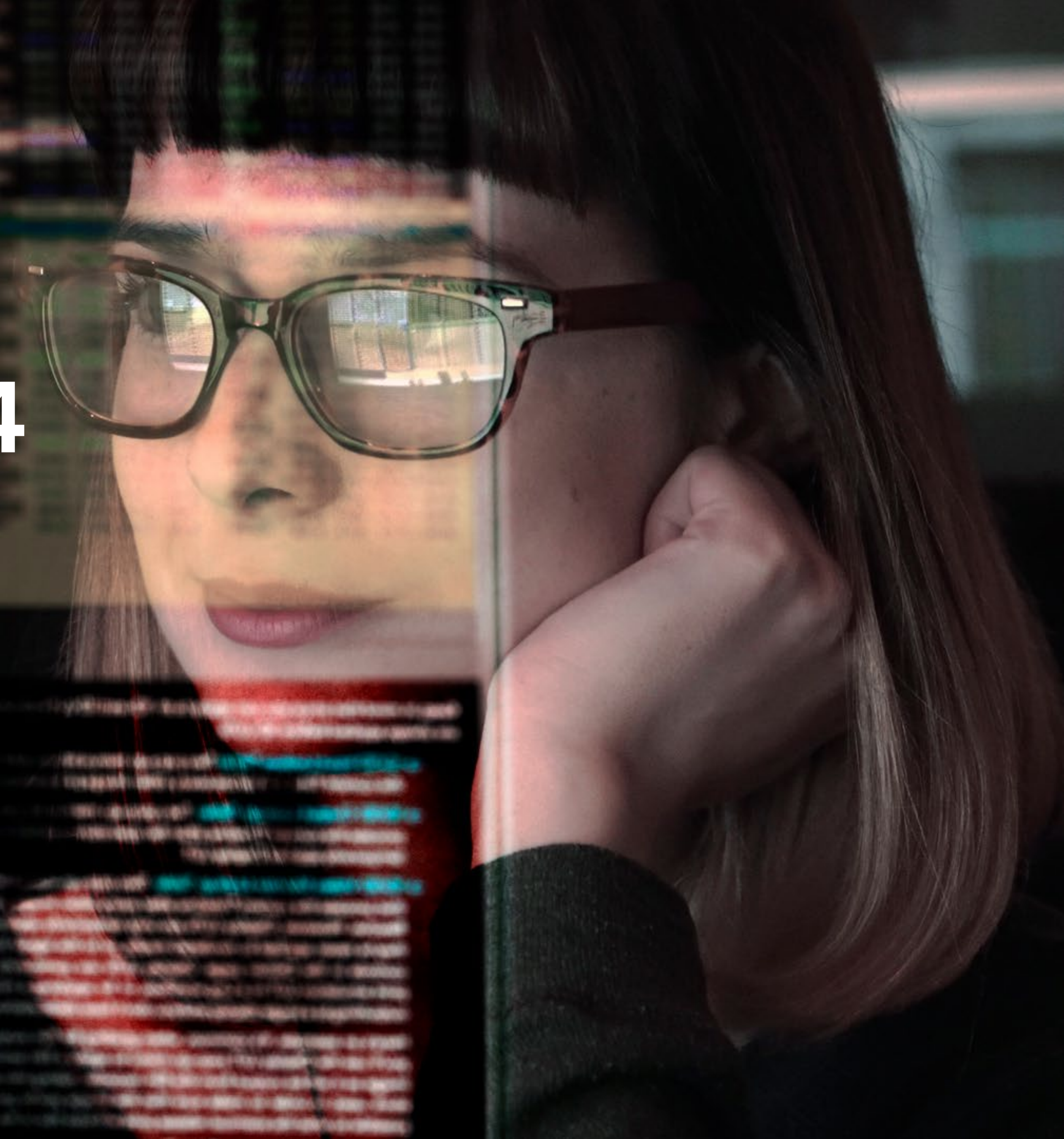


# Global Pension Risk Survey 2023/24

The Risk Prioritisation Challenge

For professional clients only

UK Survey Findings





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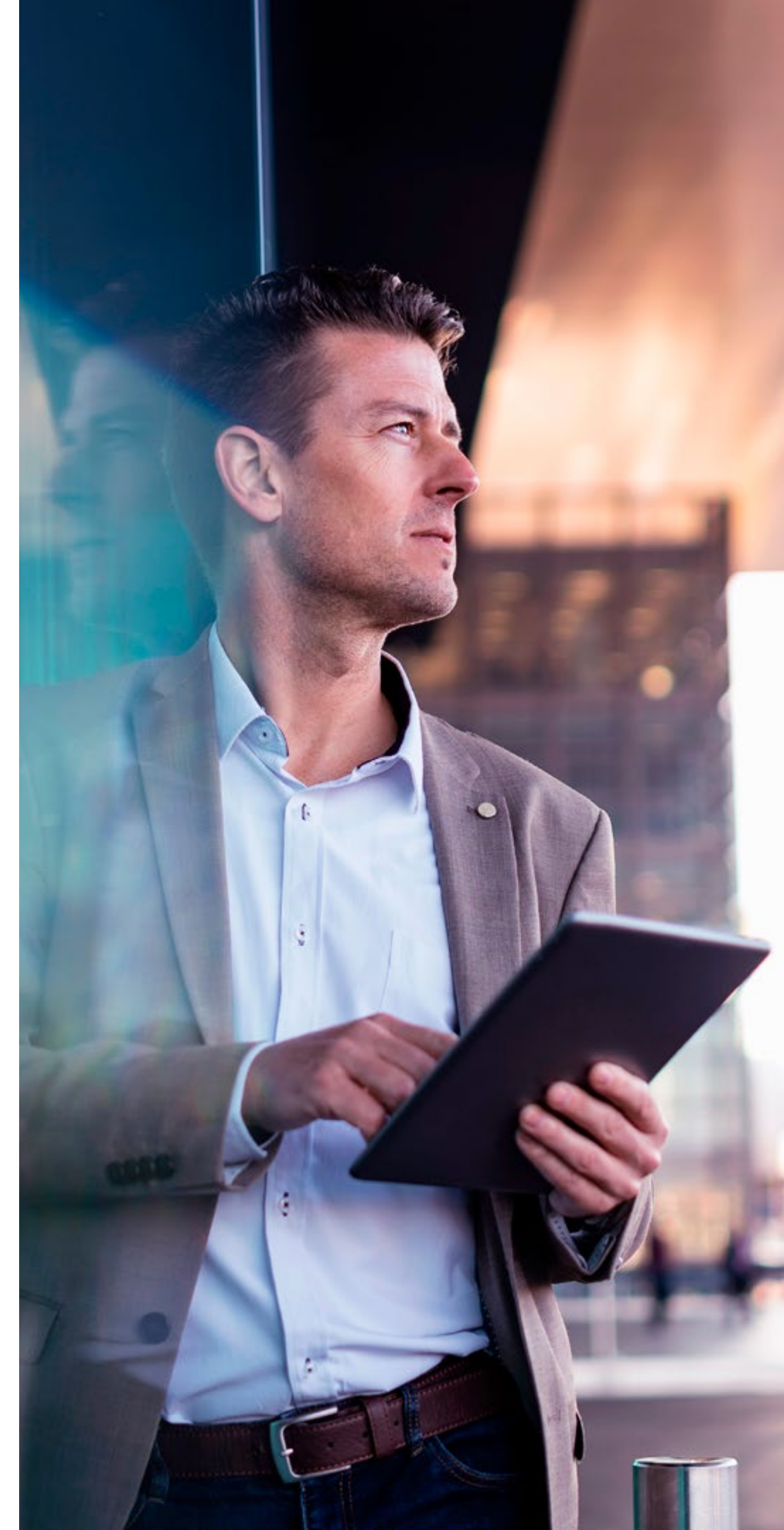
# Executive Summary

## Welcome to the 2023/24 Global Pension Risk Survey of UK defined benefit (DB) pension schemes.

The two years since we last conducted this survey have been tumultuous for UK DB schemes. Coming out of the end of the COVID-19 pandemic, we have seen growth assets rising in value but also the impact of 2022's mini-Budget on gilt yields. There has been persistent high inflation, a raft of new regulatory requirements, and notable cyber incidents that have affected some pension schemes.

In general, the rising interest rates have meant most pension schemes have become smaller in absolute size and better funded, leading to greater attention on decisions about the future of these pension schemes. Alongside this, the events mentioned above, plus the prospect of The Pensions Regulator's (TPR) General Code and new Funding Code (both still awaited at the time of writing), have placed even greater emphasis on pension scheme risk management — the focus of our survey.

In this context, the survey represents the views of those managing DB pension schemes — whether trustees, corporate representatives, or pensions teams. Further details are given on page 6. It came as no surprise that respondents said they are addressing pensions risks across a multitude of different topics, covering liability risks, investment risks and a range of governance and operational risks.



What was surprising was the overwhelming theme of the ‘freeform’ question we asked at the end of the survey. This question asked about other risks that we had not covered directly. Although there was a wide variety of responses, by far the biggest concern among respondents was regulatory change. This was both the volume of regulatory change that pension schemes have already been asked to make and the big pipeline of changes on the way — and all responses were gathered before the announcement of the wide-reaching Mansion House pension reforms of July 2023. A significant proportion of respondents were also concerned about the potential for political uncertainty to lead to further change. Taking this into account, nearly half of respondents to this question raised regulatory change and regulatory risk as a concern.

“

Regulatory updates can be a drag on time resources... It sometimes feels as if initiatives are being forced with no real benefit.

“

Resourcing additional regulatory obligations is a challenge.

“

Generally legislated risk. The amount of regulation is a burden.

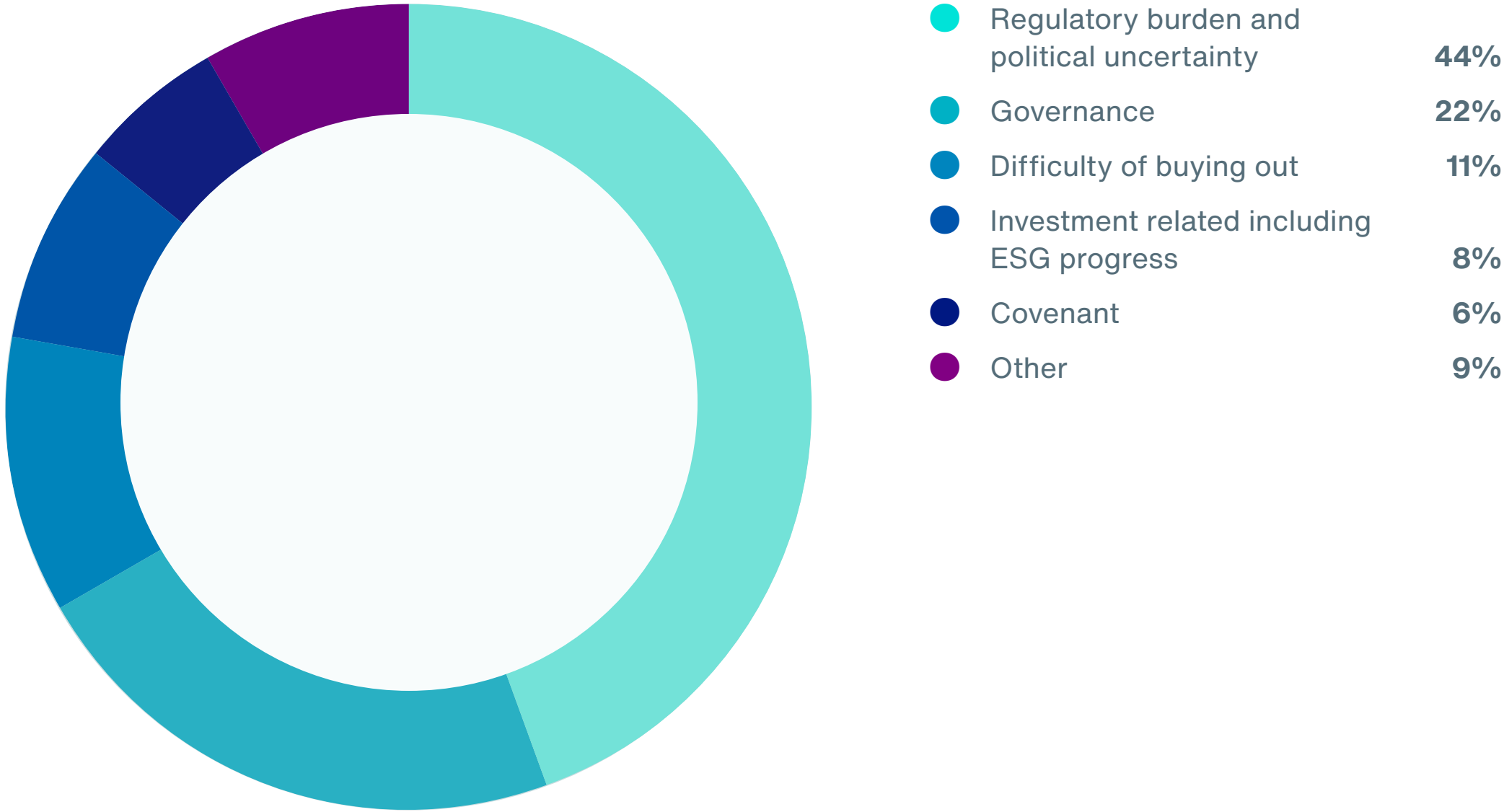
“

Squeeze on pensions resource and burden of regulation.

“

Over regulation, excessive reporting requirements.

Freeform Responses on Other Risks





We share the concerns of respondents over the volume of change. We see many pension schemes having to prioritise carefully which actions they will address and when, while also navigating the risk of non-compliance as well as the time and cost of action. Schemes must also do all of this while trying to focus on scheme members and act in their best interests. This is not an easy balancing act. We expect it to be a key area of focus for those managing pension schemes in future.

Consequently, the theme of our survey is the risk prioritisation challenge. We are delighted to share our results over the following pages.

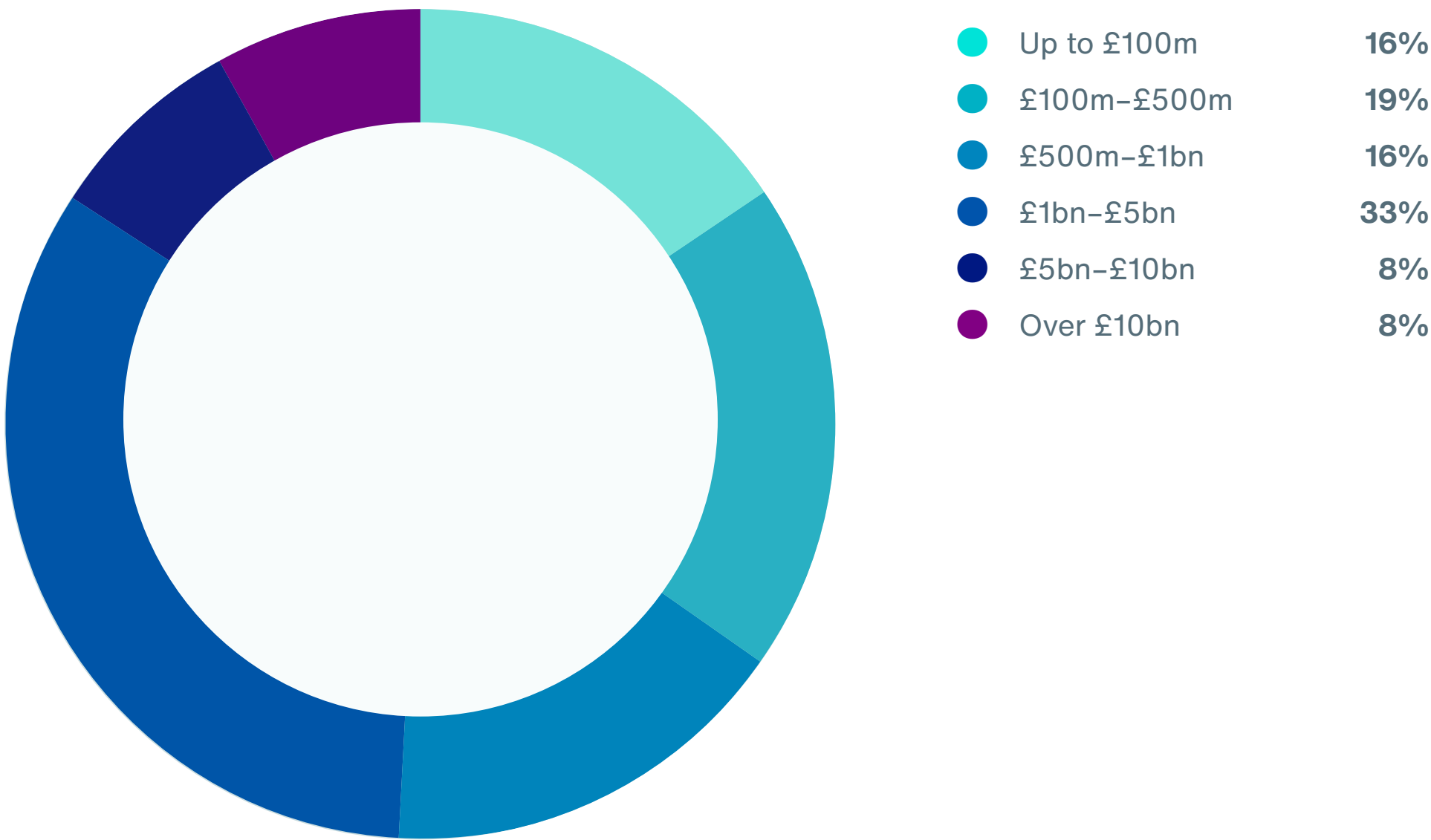


# Demographics of Survey Respondents

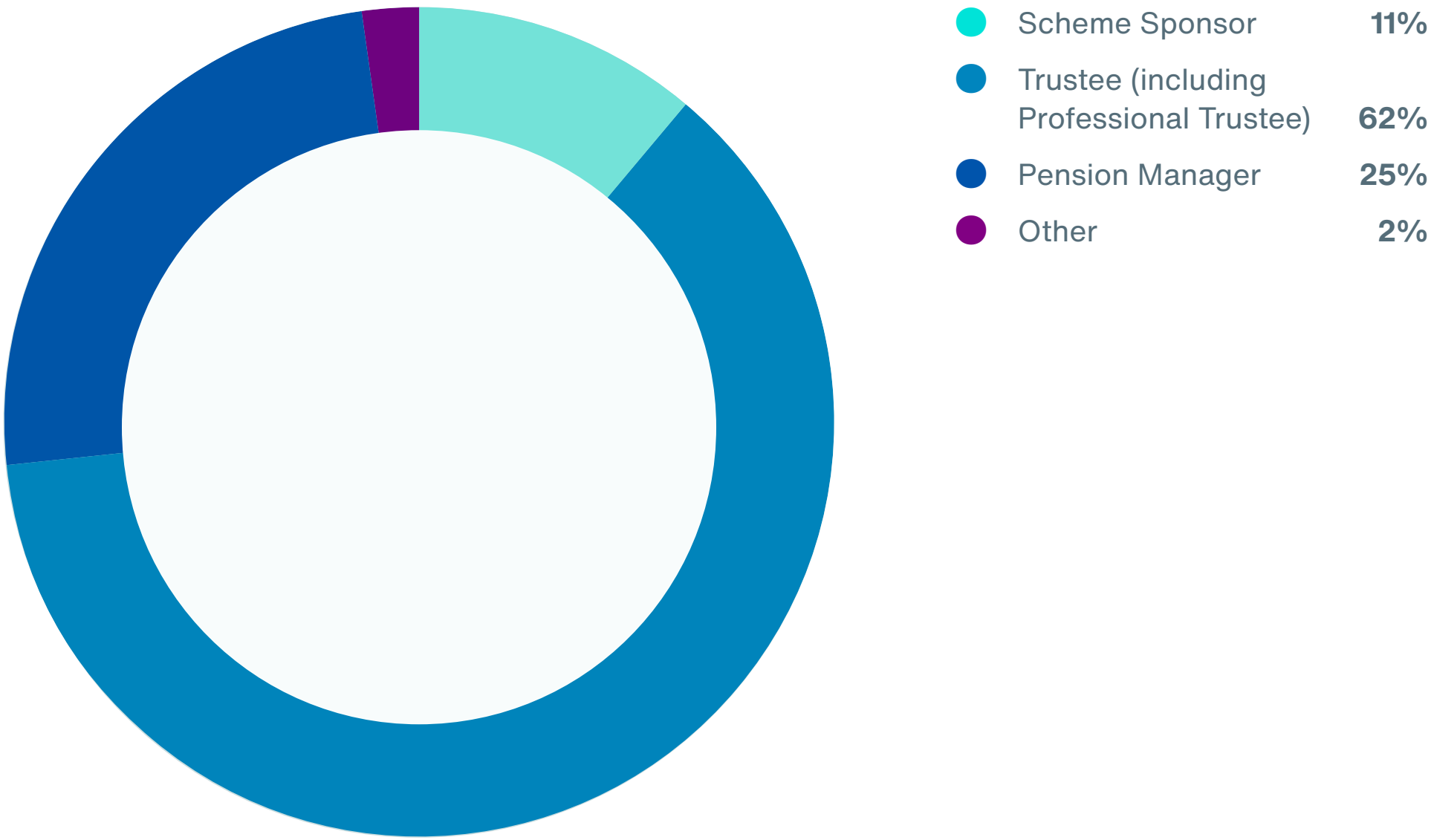
Conducted during the second quarter of 2023, there were 204 UK responses to our latest Global Pension Risk Survey. Respondents covered DB pension schemes of all sizes, from less than £100 million to over £10 billion. The private sector accounted for 87 percent of respondents with the remainder being public sector. Respondents from all industries were represented, from utility companies and financial institutions to manufacturing and the retail sector.

Interestingly, responses for some questions clearly differed by scheme size, while with others there was no correlation at all. We have highlighted how some of the findings vary with scheme size throughout the report.

## Respondents Split by Scheme Asset Size



## Respondents Split by Role



62 percent of the survey responses came from trustees, including professional trustees. A quarter came from pensions managers. Most of the remaining responses came from scheme sponsors with roles such as ‘Head of HR’, ‘Global Head of Pensions and Benefits’ and ‘Pensions Risk Manager’.

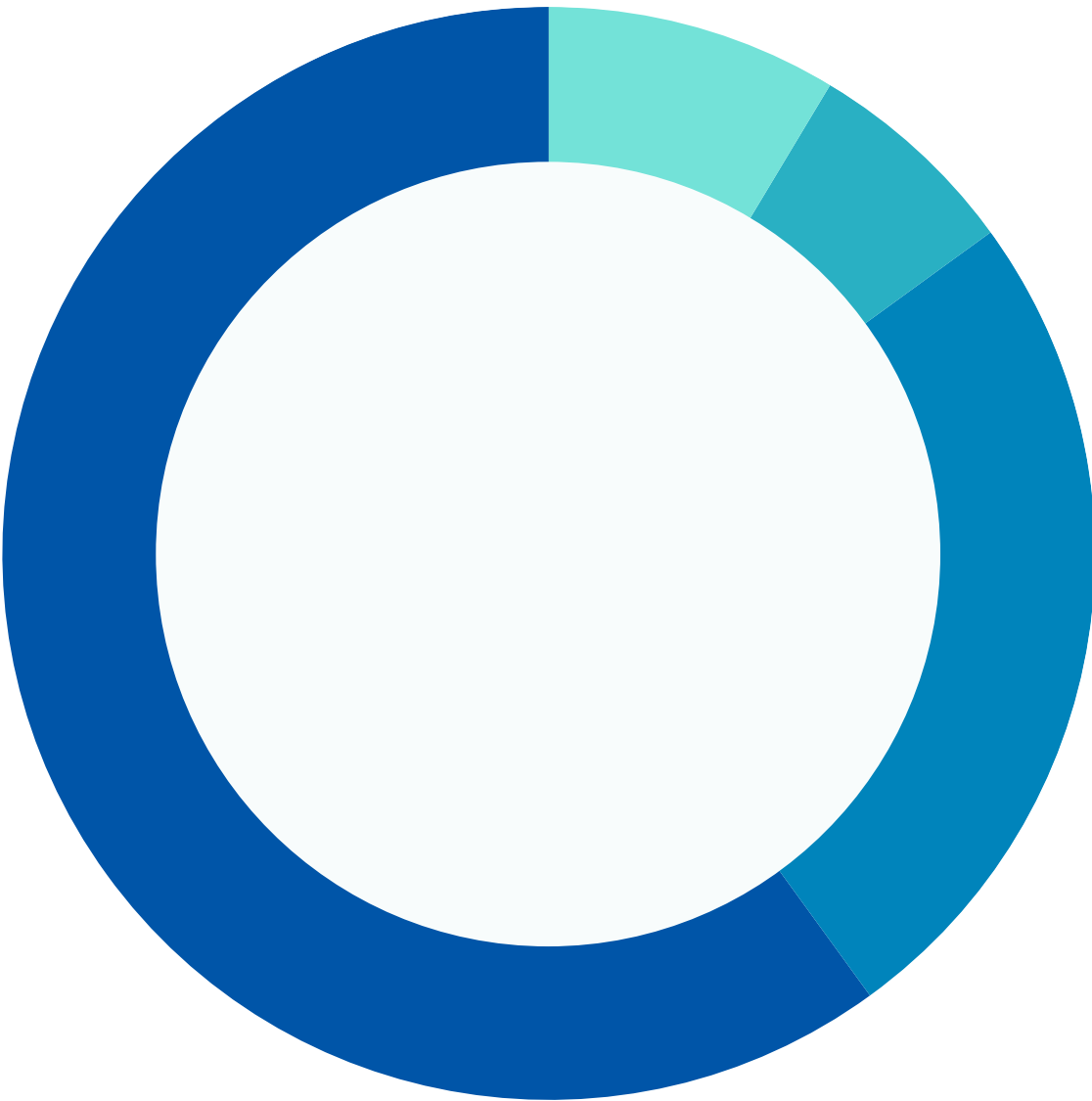
60 percent of schemes were closed to both new entrants and future accrual for existing members. The schemes still open to future accrual were most commonly the larger schemes, with 61 percent of open schemes being over £1 billion in size.

We asked respondents about the approximate solvency funding level of their schemes. There was a range in the funding level of schemes, from 22 percent being less than 80 percent funded, to 28 percent being above 100 percent funded on a solvency basis.



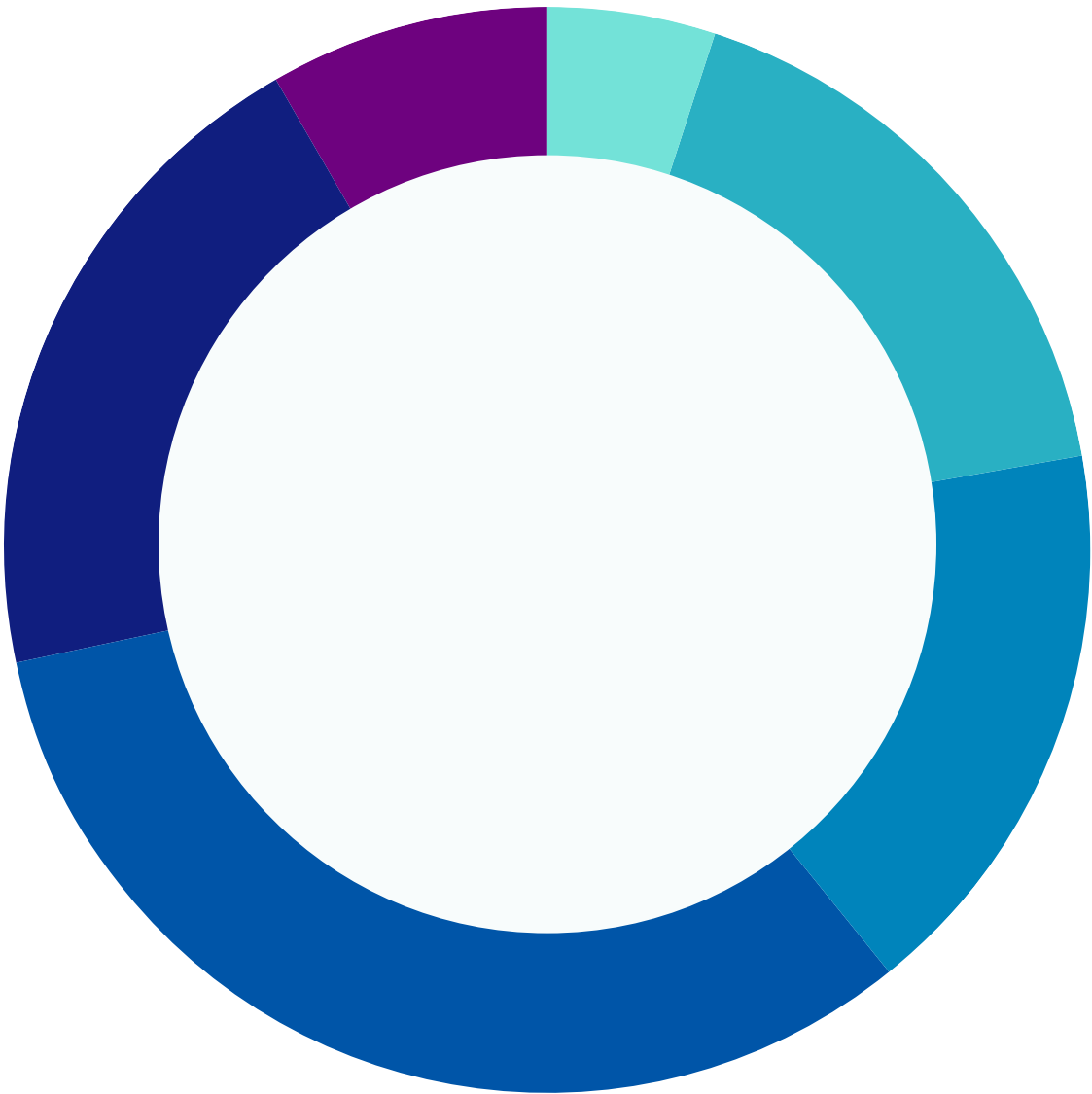
We would like to thank all the respondents who completed our survey.

Respondents Split by Scheme Status



Open due to choice of principal employer	9%
Open due to legislative requirements	6%
Closed to new entrants, open to future accrual	25%
Closed to new entrants and all accrual	60%

Respondents Split by Solvency Funding Level of Their Scheme



Less than 70%	5%
71% to 80%	17%
81% to 90%	17%
91% to 100%	33%
101% to 110%	20%
Greater than 110%	8%



# Risk Priorities





Over the years, risks faced by DB pension schemes have become more varied and more complex. Prioritising and managing these risks needs careful management.

In a new question for this year’s Global Pension Risk Survey, we asked respondents to rank seven key risks which could threaten the ability of their scheme to pay member benefits as they fall due.

While we saw some different attitudes between trustees and sponsors, investment risk was the number one priority for both groups.

Trustees’ other main concerns related to interest rate and inflation risk and longevity, whereas sponsors ranked longevity as their second highest risk and regulatory risk third.

	Trustees	Sponsors
1.	Investment return	Investment return
2.	Interest rate and inflation risk	Longevity risk
3.	Longevity risk	Regulatory risk
4.	Regulatory risk	Interest rate and inflation risk
5.	Liquidity risk	Liquidity risk
6.	Covenant risk	Governance/Operational risk
7.	Governance/Operational risk	Covenant risk







## Our Insight

It was interesting that investment return was ranked the highest risk. While this is clearly an important factor for schemes relying on asset returns to fill deficits, for well-funded de-risked schemes, we might expect the priority to be exceeded by others.

Regulatory risk was ranked third highest by sponsors and fourth by trustees. This concern is backed up by respondents' freeform comments on the volume of change with which schemes are currently grappling. While change brings opportunities, the comments emphasise the challenge that trustees and sponsors face in ensuring risks and opportunities are prioritised appropriately.

Interest rate and inflation risk was ranked much higher for trustees than for sponsors, perhaps a reflection of 'recency bias', with many trustees recalling having to deal with the fallout from the gilts crisis in 2022.

Governance/operational risk was ranked low — and lower by trustees than by sponsors. Arguably, this could include cyber risk, which, conversely, was ranked as the number one risk by risk decision makers responding to [Aon's Global Risk Management Survey](#) that assesses business risks. Cyber risk is discussed in more detail in the ['hot topics'](#) section of this report.





# Long-Term Targets



## Key Findings

Buyout targets  
climbing above  
**50%**  
for the first time in the  
history of the Global  
Pension Risk Survey

Overall **64%**  
of schemes indicated  
that their long-term  
flightplan is robust, up  
from **52 percent** in the  
2021 survey

**75%**  
of respondents  
expect to reach their  
long-term target  
**within 10 years**



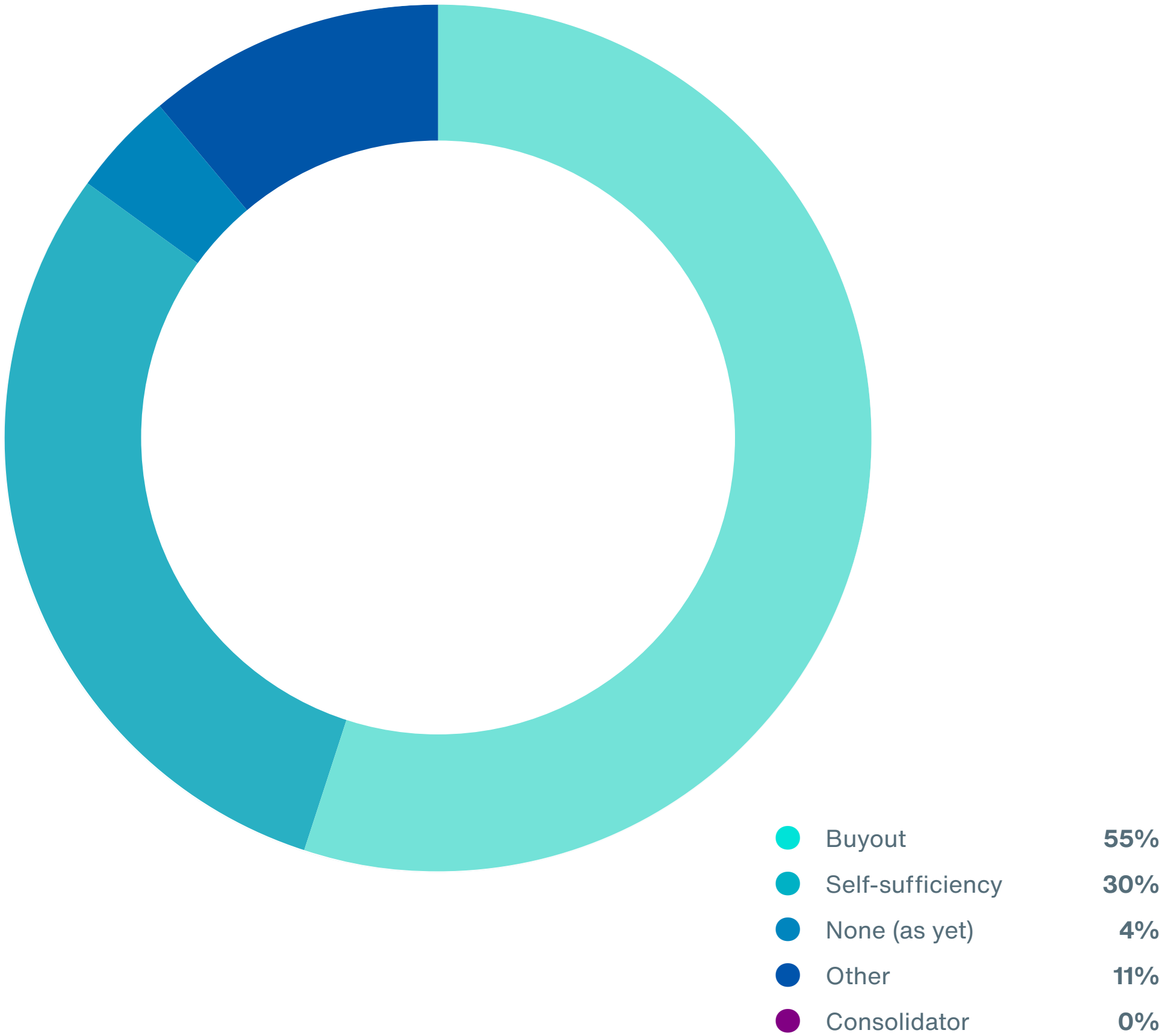


We asked respondents what long-term target their scheme had.

85 percent of schemes are targeting either buyout or self-sufficiency, with the proportion of schemes targeting buyout climbing above 50 percent for the first time in the history of the Global Pension Risk Survey. This continues a trend seen in previous surveys that, as schemes have seen improvements in funding positions, lower-risk targets such as buyout seem more achievable. We are now seeing more schemes willing to set it as a target.

Buyout targets climbing above **50%** for the first time in the history of the Global Pension Risk Survey

Long-Term Targets



Our Insight

In our 2021/22 Global Pension Risk Survey, we noted that an increase in schemes seeking buyout in the near future would put even greater pressure on an incredibly busy insurance market. With limited resources available to process any quotation, insurers are considering more carefully than ever before which schemes they provide a proposal for. As a result, schemes now find themselves working harder to gain insurer attention and having to be better prepared for a transaction. In fact, for smaller schemes, some insurers will insist on exclusivity before providing a quotation in order to increase the certainty of agreeing a transaction.

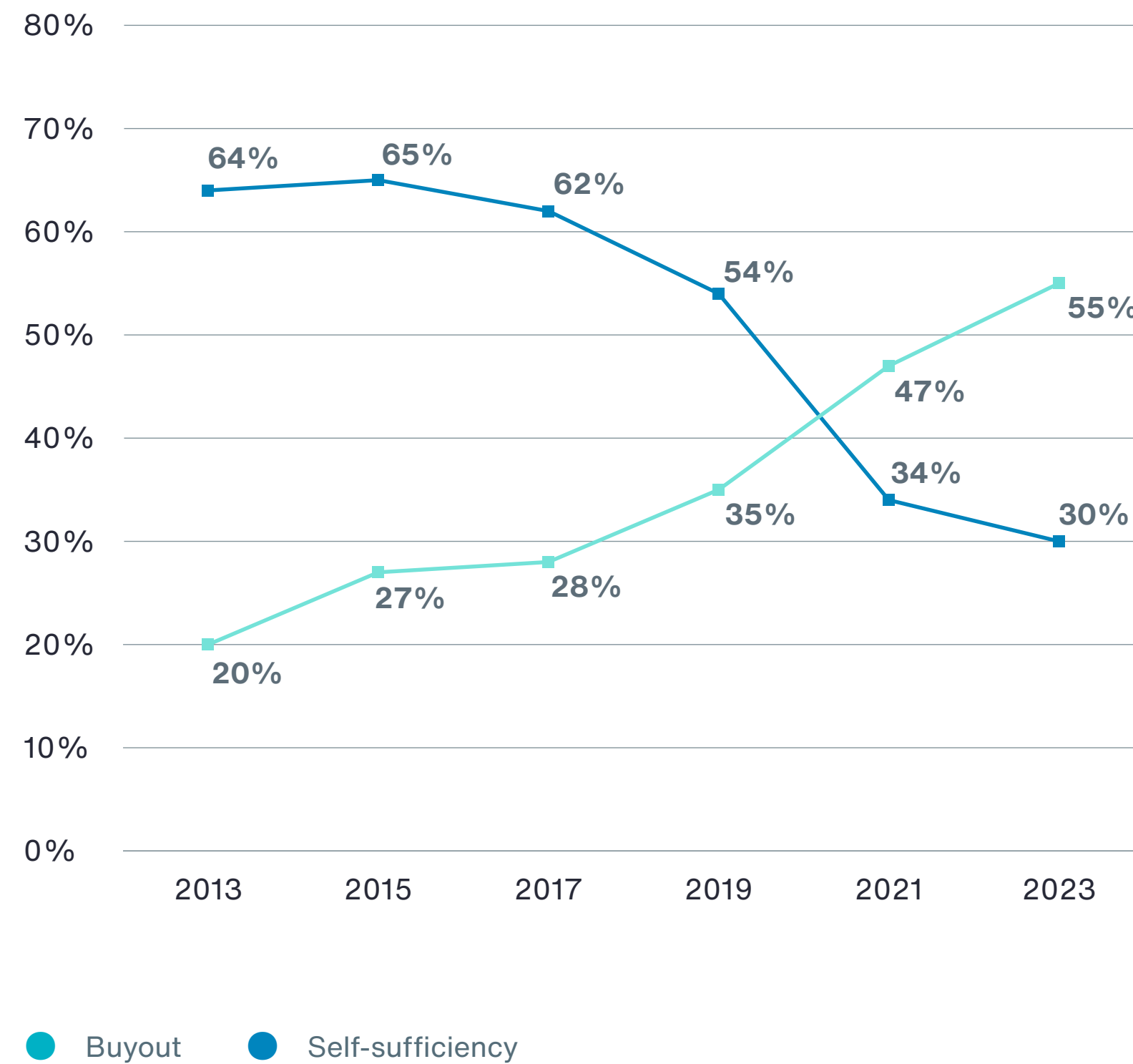


The chart to the right shows how the proportion of respondents aiming for either buyout or self-sufficiency has changed over the last six Global Pension Risk Surveys, going back to 2013. The sea-change in targets between 2019 and 2021 is evident.

When TPR's new Funding Code comes into force, trustees and sponsors will need to agree a long-term target for their scheme. It is pleasing to see progress already being made in this area with only 4 percent of schemes not having a long-term target, down from 8 percent in the 2021 survey results.

We asked respondents how long they expected to take to reach their long-term target (however defined). 16 percent of schemes have now reached their long-term objective, a significant increase from just 3 percent in 2021. For those schemes that are yet to reach their target, timescales are set out in the chart on the next page.

### Development of Buyout and Self-Sufficiency Targets

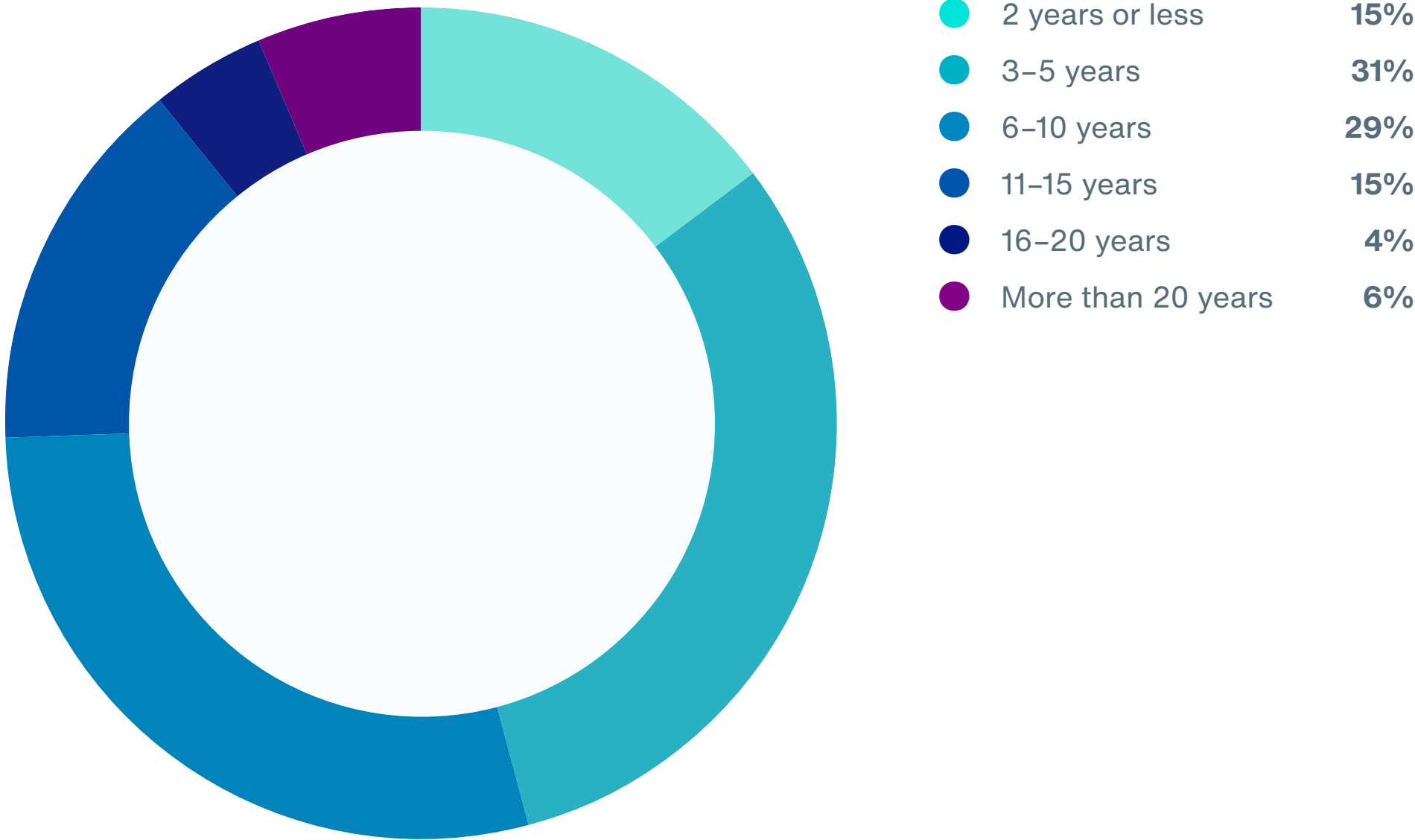


### Our Insight

As many schemes have observed over the last few years, funding levels can increase more rapidly than expected and many have already reached their long-term objective. For those targeting buyout, rather than using a series of partial buy-ins as stepping stones to buyout, there has been an increasing trend of schemes considering full-scheme transactions. To prevent being caught out, if the intention is to move to buyout, the preparation should ideally keep pace with the funding levels, meaning planning your journey to settlement is crucial in ensuring an efficient process.

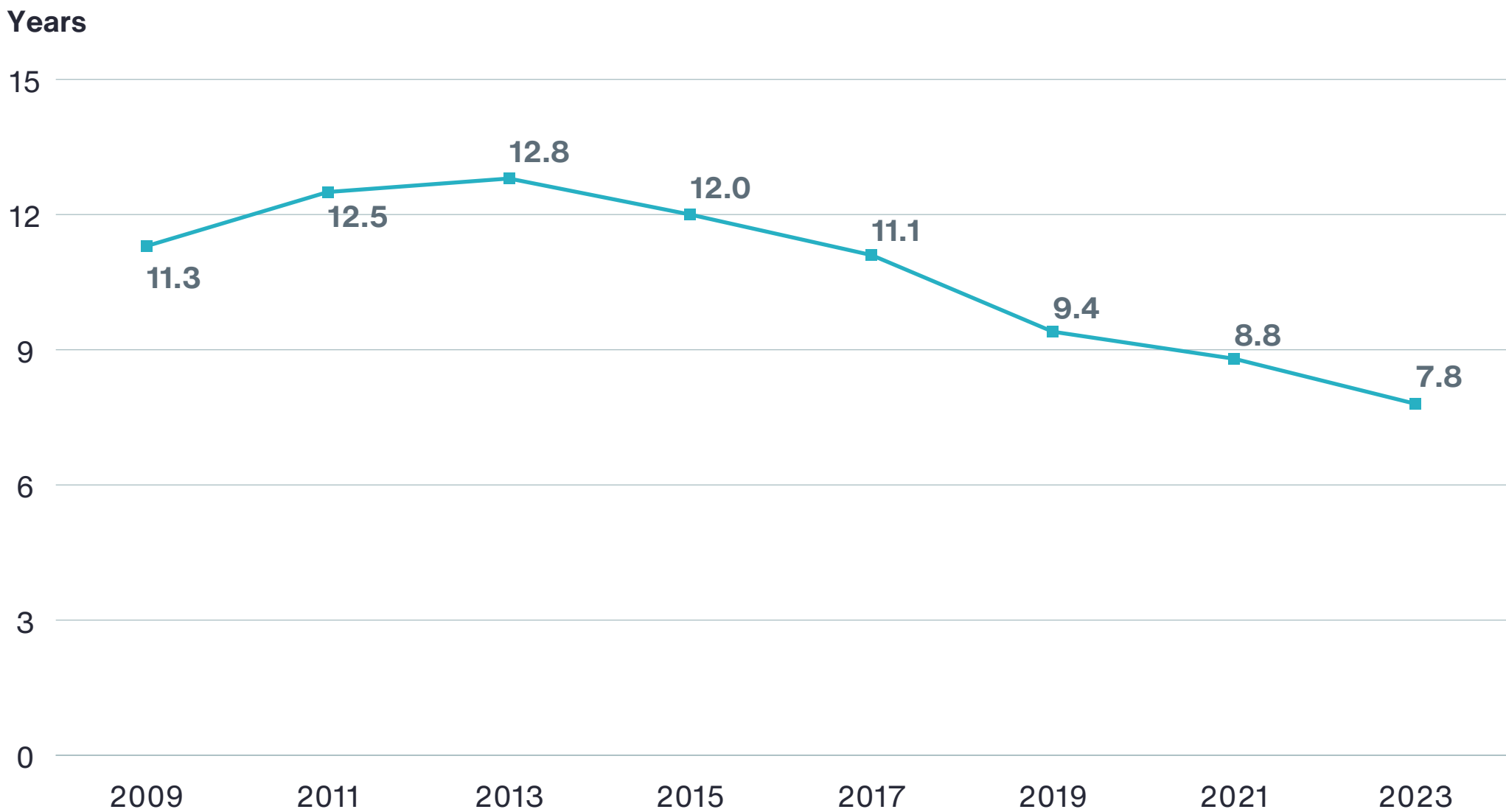


Timescales to Long-Term Target



75% of respondents expect to reach their long-term targetn within 10 years

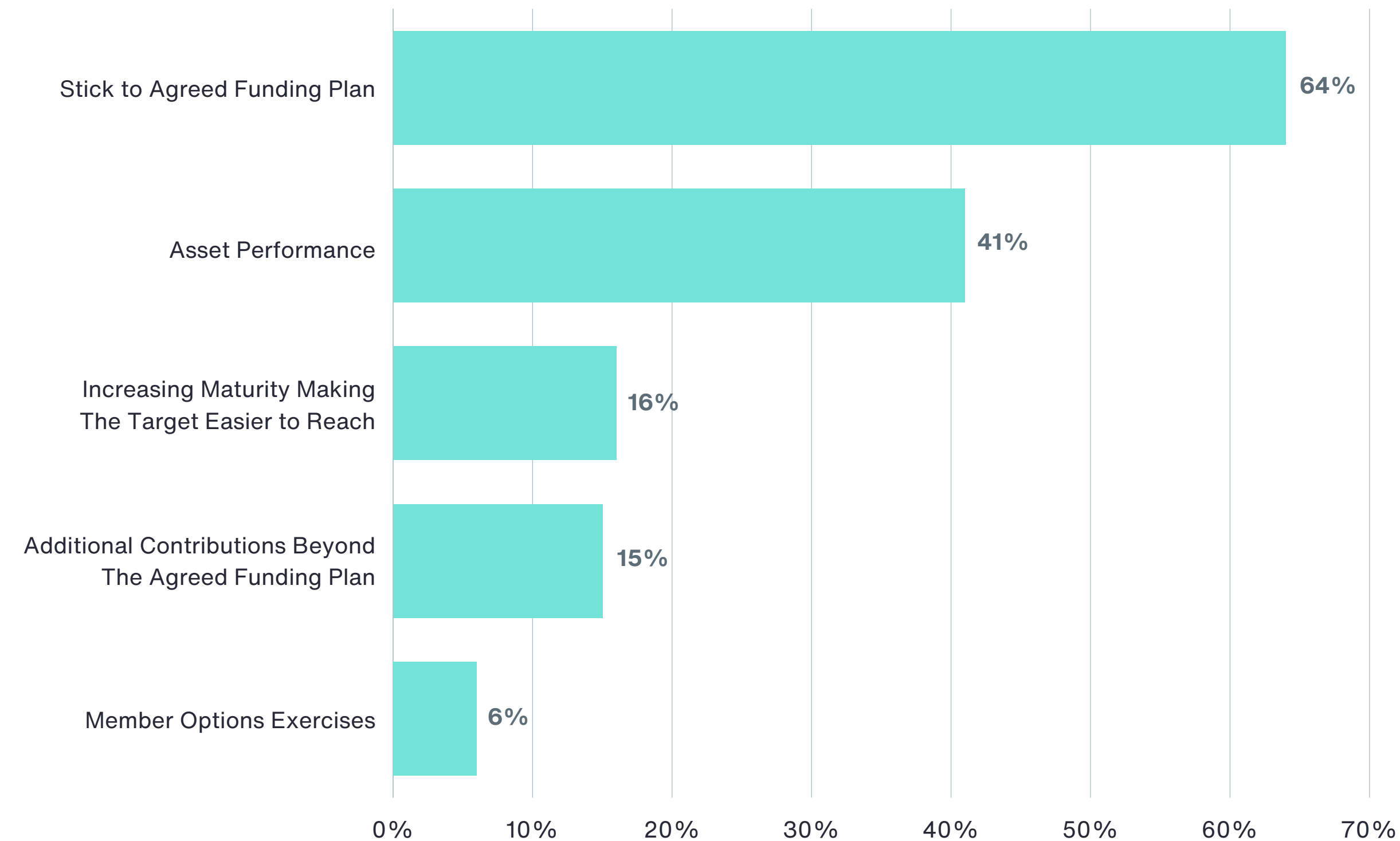
Timescale to Reach Long-Term Target As Reported in Previous Global Pension Risk Surveys



The average timescale for schemes to reach their long-term objective continues to fall, even as the average strength of long-term targets increases.



## Actions to Reach Long-Term Target



For schemes still on the journey to reach their long-term target, we asked how they expected to reach it. Multiple answers to the question were possible.

Encouragingly, nearly two-thirds of schemes (64 percent) expected to be able to reach their long-term target simply by sticking to their agreed funding plan, showing confidence that the target is achievable.

41 percent are expecting to rely at least partially on asset performance and 15 percent of schemes are expecting additional contributions beyond the agreed funding plan to be an element of the actions to reach the long-term target. These are down from 63 percent and 24 percent respectively in 2021. As funding levels continue to improve, alternative financing may be an option for these schemes to avoid sponsors facing issues of trapped surplus.

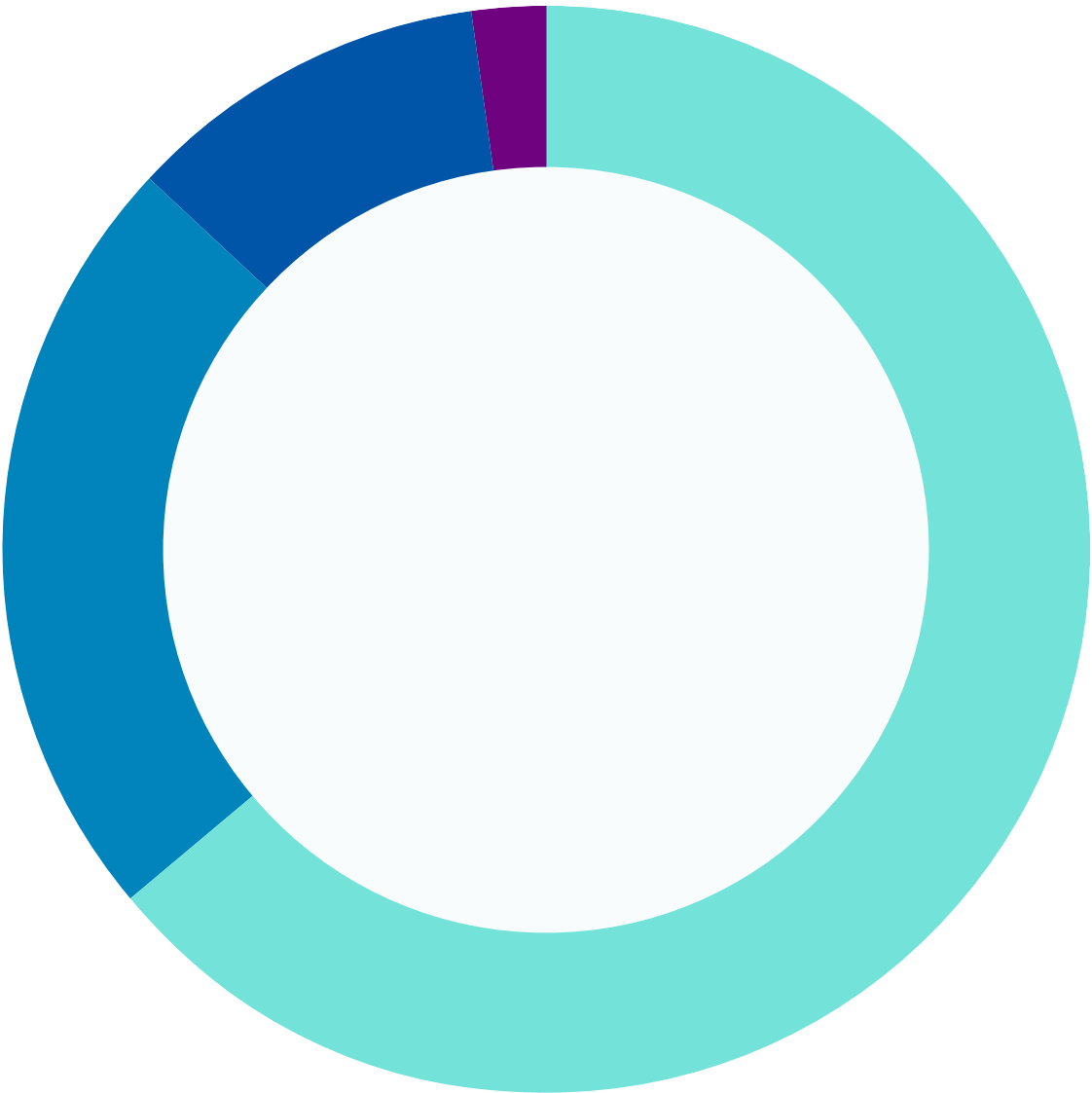
Only 6 percent of schemes are planning to use member options exercises to help reach their long-term target, down from 24 percent in the previous Global Pension Risk Survey results. This is consistent with the theme that Member Options exercises are now more focused on helping members make the best decision for their retirement, rather than being viewed explicitly through the prism of liability management.



We asked respondents about their flightplan to reach their long-term target. Overall, 64 percent of schemes indicated that their flightplan is robust, up from 52 percent in the 2021 survey. However, 13 percent of schemes either had no plan or only an aspirational flightplan. Once the regulations are finalised to introduce the legal requirement to have a long-term objective (from the 2021 Pension Schemes Act), TPR will be expecting all schemes to develop and implement robust flightplans. This is therefore an area that we expect to change by the next Global Pension Risk Survey in 2025.

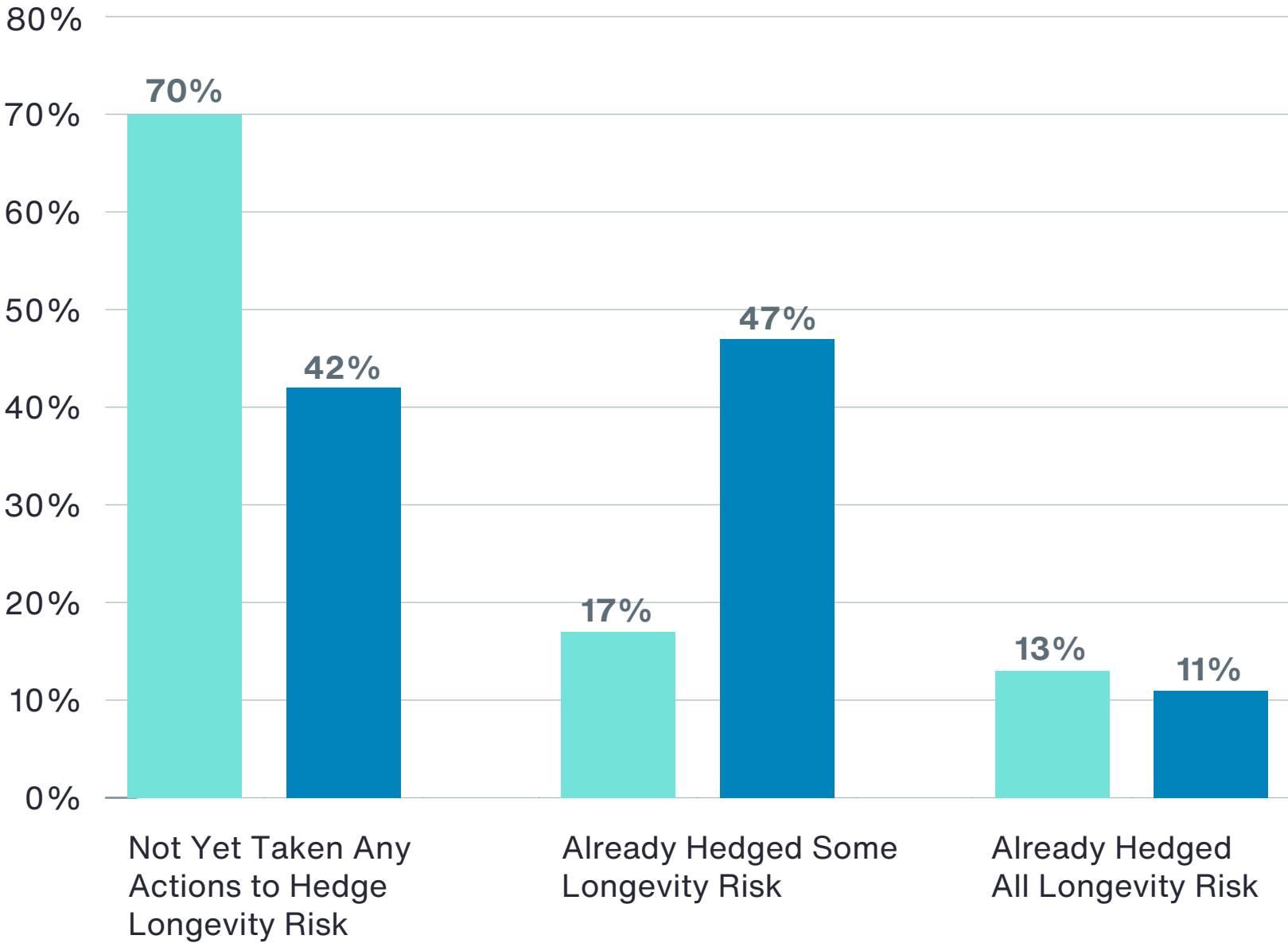
With long-term targets getting ever closer and an increasing proportion of schemes targeting buyout, managing longevity risk becomes increasingly important. We asked respondents what actions they had taken to date to hedge their longevity risk. There was a significant difference in response by scheme size: over half (58 percent) of over £1 billion schemes have already hedged at least some longevity risk, compared to only 30 percent of under £1 billion schemes having done so.

Robustness of Flightplan



- Robust plan 64%
- Basic plan 23%
- Aspirational plan only 11%
- No plan 2%

Hedging Longevity Risk



- Under £1bn
- Over £1bn



# Investment Risks





## Key Findings

39%

of respondents are looking to reduce equities in the next 12–24 months with allocations to credit, LDI and annuities increasing

84%

of respondents said that their scheme's funding level had either stayed the same or improved as a result of the gilts crisis

87%

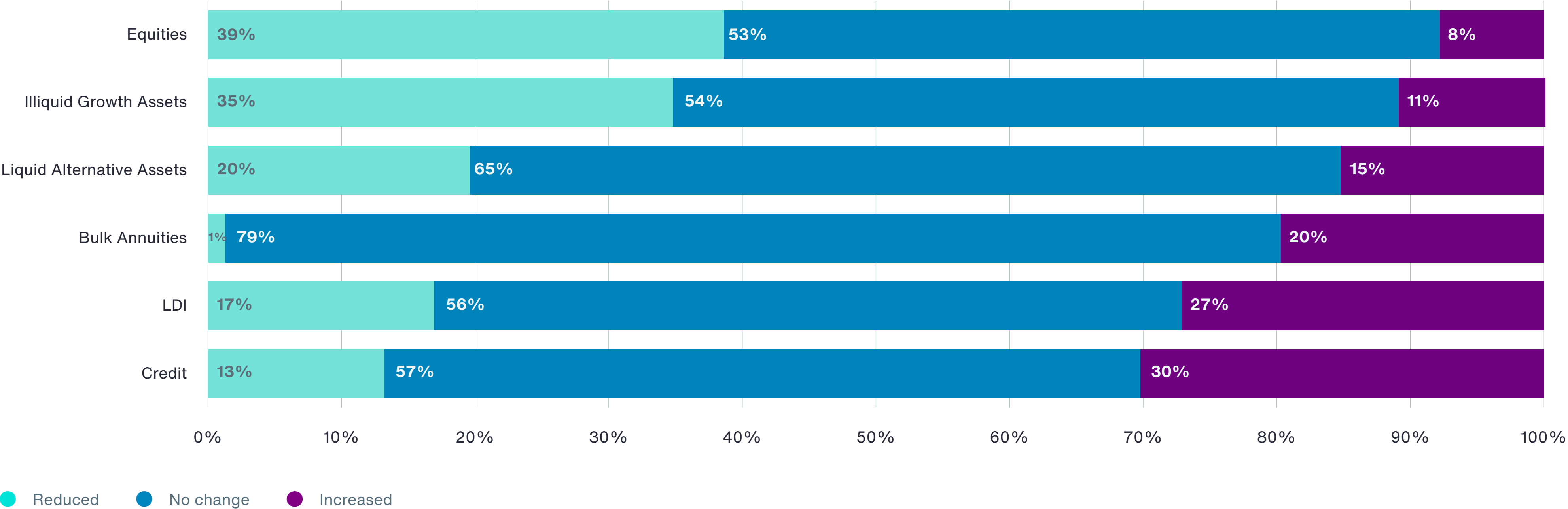
of respondents are engaged with ESG, with 22 percent wanting to develop their own policies





The significant increase in gilt yields since early 2022 has led to improved funding levels and has accelerated many schemes’ derisking programmes. Respondents were asked what investment strategy changes they are looking to make over the next 12 months. Almost 40 percent said they are expecting to reduce their equity allocation with a similar percentage intending to reduce their illiquid growth allocation. Popular destinations for this capital continue to be credit (30 percent), Liability Driven Investment (LDI) (27 percent) and bulk annuities (20 percent).

Investment Strategy Changes Expected in the Next 12 Months







## Our Insight

The general appetite for illiquid asset classes is now lower as schemes no longer require such high returns with the higher associated risks. Respondents now prefer liquid approaches either to take advantage of higher yields and better cashflow matching characteristics in support of LDI programmes, or in anticipation of paying insurer premiums. This potentially demonstrates a headwind for the UK government's desire for pension schemes to invest more heavily in infrastructure and private equity, which are often illiquid.

20 percent of respondents are planning to take advantage of their improved funding position and expect to purchase bulk annuities in the next 12 months. One sometimes overlooked workstream on the journey to buyout is the planning of a scheme's investment strategy. While many schemes have restructured their LDI portfolios within the last year, those with illiquid assets may have found themselves with a higher proportion than anticipated in assets which require considerable thought and planning to exit. Creating a well-considered investment strategy for the journey to settlement will remove barriers to transacting.





## Success Story

**In a higher rates environment not seen for over 20 years, credit assets offer a more appealing entry point relative to other cashflow-generative assets. This has seen many grasp the opportunity to lock in these higher yields through schemes looking to adoption and extension of Cashflow Driven Investment (CDI) strategies.**

We guided one such client on the journey of adopting a CDI strategy. Given a strong funding improvement over 2022, company deficit contributions ceased, greatly increasing the scheme's near-term net cashflow requirements. We worked with the trustee to develop a credit-centred portfolio to provide the trustee with increased confidence overall, and confidence specifically that contractual asset cashflows would meet the scheme's expected cashflow requirements.

The solution incorporates high quality credit, taking advantage of more attractive yields, greater contractual cashflow generation and reduced leverage in the hedging portfolio. We provided support to implement the new strategy and now provide the monitoring required to measure the success of the CDI strategy in meeting the cashflows required.





In September 2022, the Bank of England temporarily announced an emergency £65 billion bond-buying programme to stabilise the government debt market after an unexpected expansionary fiscal package was announced. The package increased investor concern over the sustainability of public finances. The abruptness of the gilt sell-off was exacerbated by the forced unwinding of some LDI positions, as UK pension schemes worked to provide collateral to LDI managers following sharp yield increases.

The gilts crisis highlights a combination of risks including political risk, distressed asset price risk, liquidity risk, concentration risk and operational risk. However, when asked “how did the UK gilts crisis change the ongoing funding level?”, 84 percent of respondents said that their scheme’s funding level had either stayed the same or improved, demonstrating that well-managed schemes and good fiduciary managers had good outcomes.

### How Did the UK Gilts Crisis Change the Ongoing Funding Level of Your Scheme?



- Ongoing funding level improved **37%**
- Ongoing funding level stayed broadly the same **47%**
- Ongoing funding level worsened **16%**

**84%** of respondents said that their scheme’s funding level had either stayed the same or improved

In the summer of 2023, yields moved back to levels initially seen during the crisis. However, it is pleasing to see schemes are well-collateralised and resilient with no anecdotal evidence of them having to reduce some hedges as there had been during the initial crisis. In our survey, 72 percent of respondents reported interest rate hedges of at least 80 percent, which is broadly unchanged from the 2021/22 Global Pension Risk Survey (74 percent).



## Addressing Operational Risk

The most onerous part of the gilts crisis for respondents was the operational risk of having to make and implement decisions in a very short timeframe. When asked whether ‘the risks highlighted by your experience of the gilts crisis changed your attitude towards fiduciary management’, 26 percent said they now look at fiduciary management more favourably — most likely because the operational risk can be outsourced to fiduciary managers.

**26%** said they now look at fiduciary management more favourably

## What Next?

We asked respondents how they expected to change their return and hedge ratio targets as a result of the crisis. 45 percent of schemes expected to need either to reduce their return target to be able to maintain their hedge ratio, or to reduce their hedge ratio to maintain their return target. A further 34 percent of schemes expected to be able to maintain both their target return and target hedge level but have had to accept other risks, for example, higher leverage in their LDI portfolios — which were previously less highly levered.



## Our Insight

Schemes that have seen their funding level improved are likely be those that entered the crisis underhedged and are now typically using their improved funding levels to purchase LDI, gilts, credit and, potentially, annuities to lock in these gains.

Even where funding levels have stayed the same, the absolute size of the scheme’s deficit will typically have reduced significantly. If sponsors are paying deficit reduction contributions that are fixed in nominal terms, the time available to achieve the long-term objective is likely to have shortened. This will provide these schemes with increased flexibility to consider additional options.

Where schemes have seen a worsening of their funding level, they have typically responded by reorganising their portfolios and focused on reducing less-liquid holdings. This will enable them to adopt a strategy and target hedge ratio that will be more resilient in times of market stress.



## Success Story

A scheme with a strong sponsor covenant had been targeting self-sufficiency full funding via significant additional contributions and then planned to run on for many years. It had a low hedge ratio with an 80 percent growth/20 percent LDI allocation. Rising gilt yields meant that the funding level improved significantly. The trustee and sponsor were able to de-risk their strategy appreciably, switching to a 20 percent growth/80 percent LDI allocation with significantly lower leverage. As a result of the improvement, the trustee and sponsor are now targeting a full scheme buyout within three years and an associated reduction to the additional contributions.





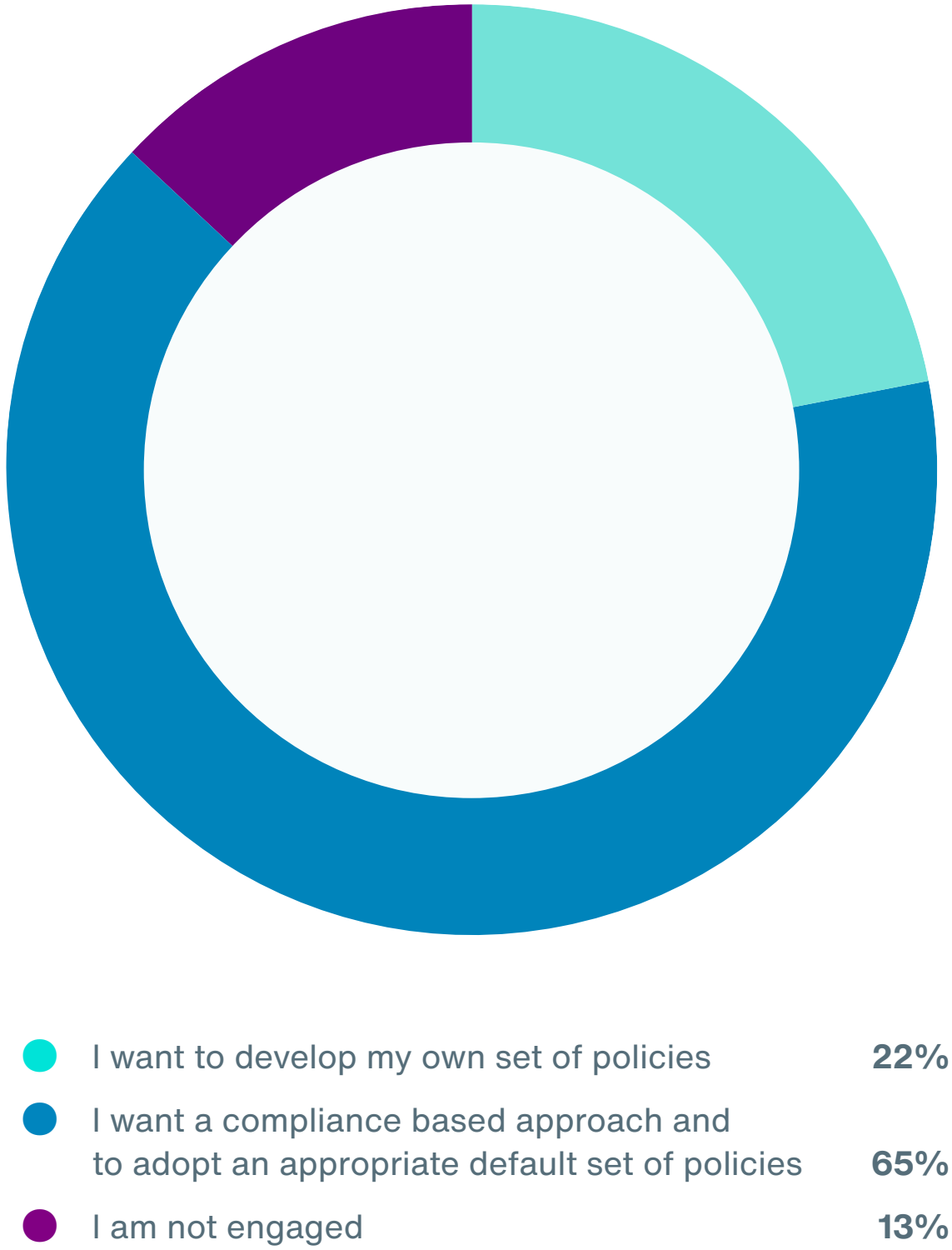
Increasing regulation and guidance from the Task Force on Climate-related Financial Disclosures (TCFD), TPR and the DWP mean that stewardship and addressing risks relating to Environmental Social & Governance (ESG) considerations are increasingly important. We asked respondents how they would describe their approach to voting and engagement.

87 percent of respondents are engaged with the subject, with 22 percent wanting to develop their own policies and a further 65 percent looking to adopt a compliance-based approach and to adopt an appropriate default set of policies.

Unsurprisingly, the results vary by scheme size, with schemes that have over £1 billion in assets more likely to develop their own ESG policies than schemes of under £1 billion (35 percent vs 10 percent) in the next 12–24 months. However, we have seen in previous Global Pension Risk Surveys that where large schemes innovate, smaller schemes tend to follow over time, so this will be an area to watch in future surveys.

87% of respondents are engaged with the subject, with 22 percent wanting to develop their own policies

ESG Engagement

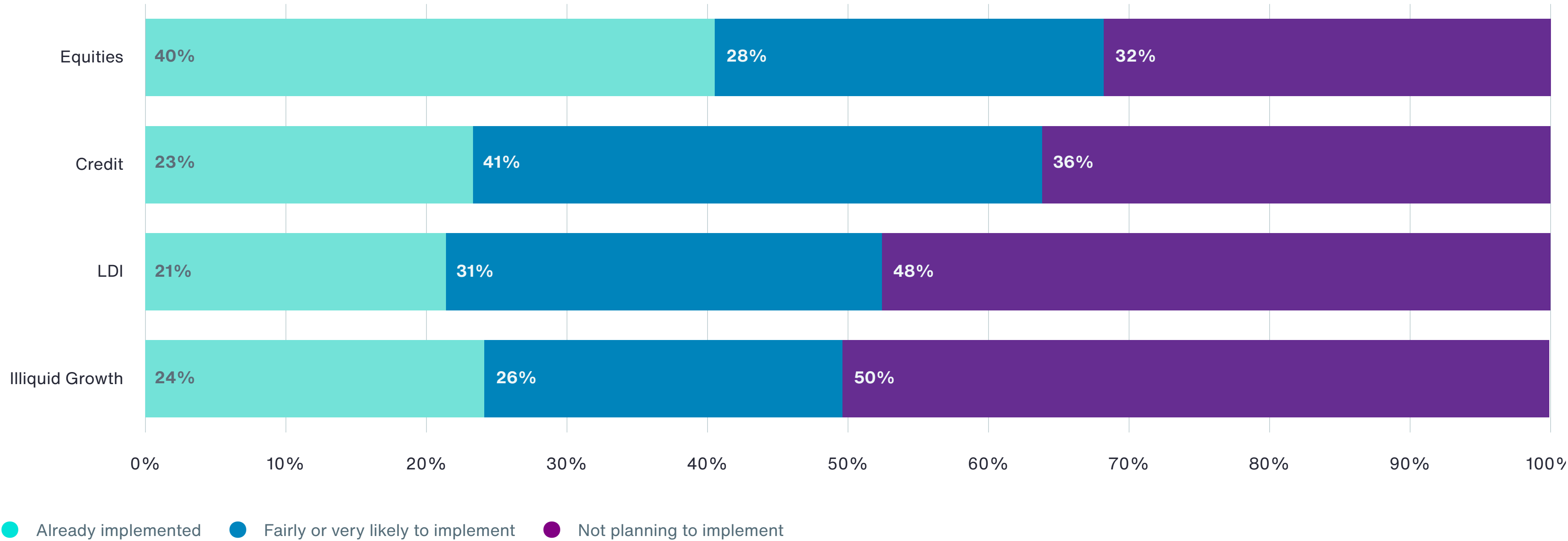




Respondents have also already significantly changed their investment policies, with 40 percent already implementing an ESG focus to their equity portfolio and another 28 percent looking to.

Credit and LDI portfolio changes are not as advanced, though, with only around 20 percent of respondents already implementing an ESG focus. However, a further 41 percent are looking to act on this for their credit portfolios, so this will be another area to monitor over the coming years.

### ESG Focus in the Next 12–24 Months



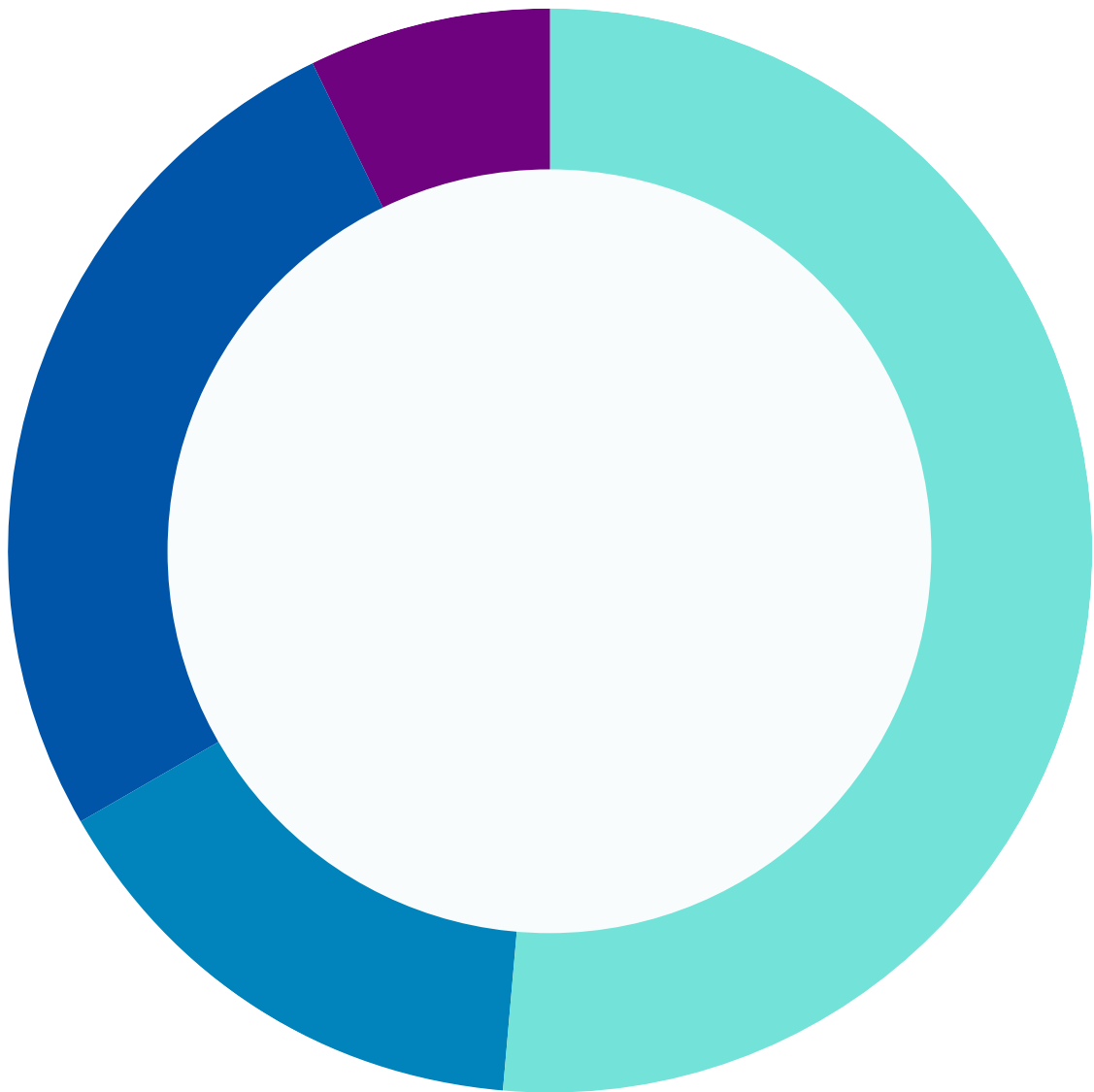


### ESG Sponsor Alignment

We asked respondents whether their schemes were aligned with the ESG/net zero goals of their sponsor. 51 percent of respondents said that they were, with 15 percent not aligned but actively considering it. Again, this is an area where the results differ by scheme size, with 67 percent of over £1 billion schemes having net zero goals aligned with those of their sponsor compared to just 36 percent of under £1 billion schemes.

**51%** of respondents said that they were aligned with the **ESG/net zero goals** of their sponsor

### Is Your Pension Scheme Aligned With the ESG/Net-Zero Goals of the Sponsor?



- Yes, we are aligned 51%
- No, we are not aligned and I believe this needs further consideration 15%
- No, we are not aligned because the pension scheme is outside the scope of the sponsor's ESG/Net zero goals 27%
- I do not know my sponsor's views 7%





## Success Story

An Aon client decided to align with its sponsor's ambition to achieve a net zero target. Aon helped them articulate their ambition, to understand the tools available and the implications of adopting different approaches.

As well as enabling them to take advantage of the opportunity to earn higher expected returns from investing in green energy infrastructure funds, we also helped them to halve the carbon intensity of their portfolio by helping them to choose the right equity manager and benchmark.

The client is now able to make good progress towards its net zero target and able to demonstrate alignment with its sponsor, ensuring that reputational risks are minimised.





# Member Options and Support





## Key Findings

48%

of schemes providing or planning to provide access to IFA support in the next 12–24 months

50%

of schemes are planning a communication strategy review in the next 12–24 months

42%

of schemes communicating or planning to communicate transfer values to members in bulk

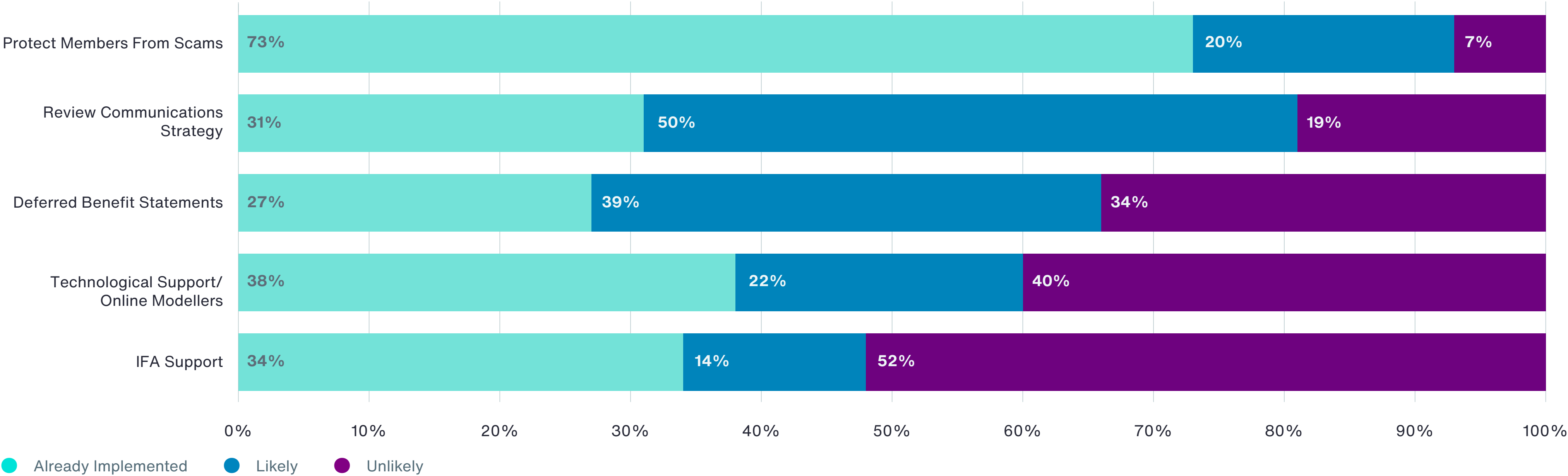




Encouraged by TPR, the Financial Conduct Authority (FCA) and the government, the pensions industry has placed an increased focus on member support. This is apparent in the survey as shown by the graph below.

Looking at the different types of support schemes are planning to offer their members, we can see that while a lot of activity has already happened, much is still planned in this space in the next 12-24 months.

### Member Support Action in the Next 12–24 Months





Over a third of schemes now provide their members with access to a preferred independent financial adviser (IFA) and this is expected to grow to nearly a half of schemes in the next 12–24 months. Nearly 40 percent of schemes provide members with access to technological support such as online modellers. This is expected to grow to 60 percent over the next 12–24 months.

73 percent of schemes have taken action to protect their members against pension scams and a further 20 percent are planning activity in this area. An April 2022 speech by TPR quoted an estimate that up to 5 percent of all transfers are thought to be scams, so this is an area where schemes need to remain vigilant. TPR and the Work and Pensions Committee have confirmed over 600 schemes have now taken the pledge to combat scams.

Communications strategy has been reviewed by 31 percent of schemes and a further 50 percent are planning a review. We expect this to be driven in part by the upcoming need to provide figures to pensions dashboards and as the implementation deadline looms, dashboard readiness will rise up trustee agendas.

**60%** of schemes provide or are planning to provide members with access to technological support



## Our Insight

It is reassuring to see member support being such an important issue for nearly every scheme in our survey, despite the delays to the implementation of pensions dashboards.

Dashboards will provide schemes with an opportunity to engage and inform their members about their pensions. They will, though, only enable schemes to show limited information. It is therefore not surprising to see schemes planning to provide additional communications to supplement the information in the dashboards. Schemes communicating proactively will have more control over the timescales for sending necessary information to their members. They will also be able to use additional communications to explain to members what they will see on the dashboards and reduce queries going to already-stretched administration teams.

Member communications are amplified when schemes have tools and IFA support in place to help members make informed decisions about their options. Our **2023 Member Options Survey** shows that in 61 percent of cases, this IFA support is paid for by either the trustees or the sponsor, with the remainder either being subsidised or being fully paid by the member.

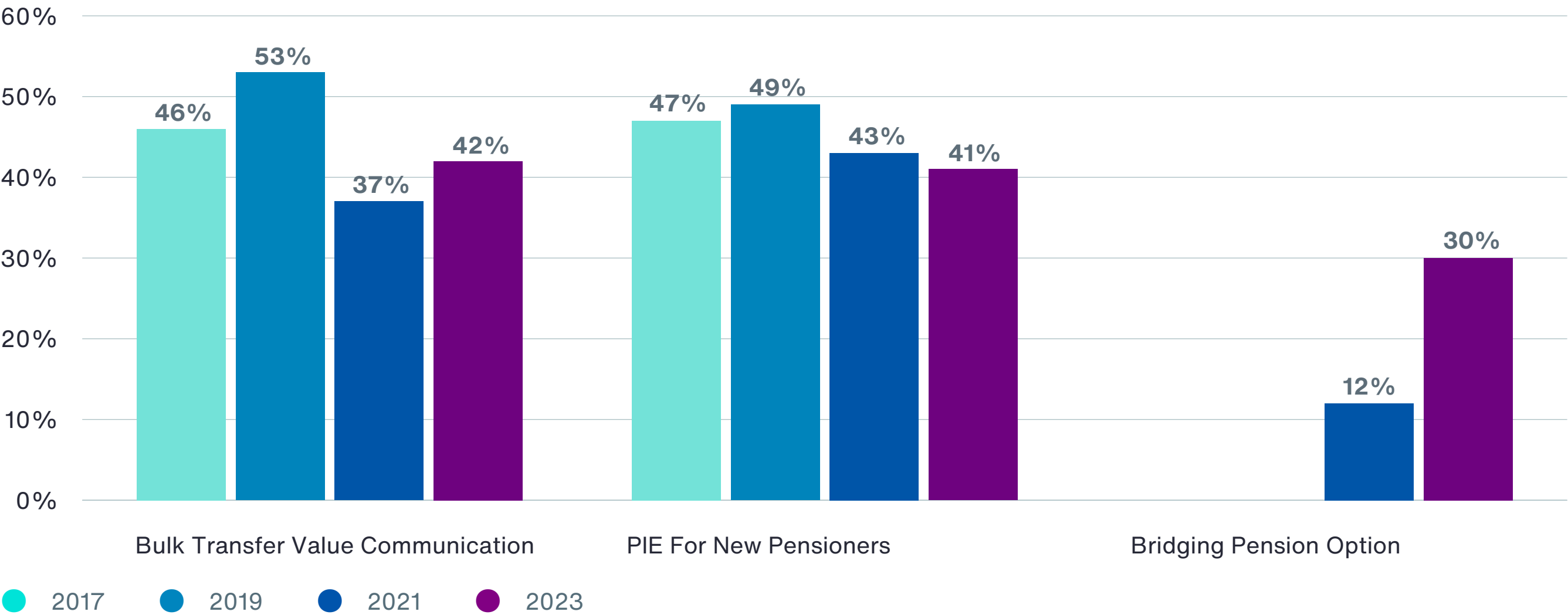
Increasingly, we see sponsors and trustees think about member support for their DB members alongside their DC members. Similarly, where IFAs are provided, companies are looking to extend this offering beyond the ‘at retirement’ space. Our **2022 DC survey** shows 39 percent of schemes signposting an IFA, with a further 19 percent planning to do this in the near future.

To support clients in navigating their options here, we have recently launched Aon’s “At-retirement: Informed Member Service” or AIMS. Further information can be found [here](#).



The 2023/24 Global Pension Risk Survey shows continued high levels of activity in the member options space.

### Changing Attitudes to Member Options (% Implemented or Likely to Implement)



42 percent of schemes have implemented or are planning to implement transfer value communication exercises, while 41 percent of schemes either offer or plan to offer Pension Increase Exchange (PIE) to future pensioners. These statistics demonstrate that these alternatives have become an established part of the member options landscape over the last decade.

Recently, however, attention has begun to focus on Bridging Pension Options (BPO)\*. The 2023 survey showed a large rise in interest in these, albeit from a relatively low level, compared to the previous survey. Now nearly a third of schemes offer these or plan to offer them and we expect this popularity to continue growing in the future.

\*A Bridging Pension Option is where a member's pension is redesigned so they have a higher pension before they reach State Pension Age. The scheme pension then reduces when the State Pension starts, so that the total remains largely unchanged. Typically, members can take their Pension Commencement Lump Sum based on the higher pension.





## Our Insight

While fewer schemes are carrying out member options exercises solely for liability management purposes, we continue to see strong interest in this area to support member outcomes.

For schemes on a journey to buyout, trustees and sponsors are seeing it as good governance to communicate to members in bulk, to ensure they understand the options available and, importantly, how these choices may change after an insurance transaction.

Increasingly, we have seen PIEs and BPOs being offered where schemes have opted for conversion as their GMP equalisation methodology. In fact, three-quarters of schemes doing GMP conversion are offering (or planning to offer) their deferred members either a PIE or a BPO.

Whether implemented as part of GMP equalisation or otherwise, both PIE and BPO options are very popular with members, with around one-third of pensioners taking up a PIE option and over 50 percent of members choosing a BPO at retirement. Some members have been able to use these options to help support with increased living costs seen since the 2021/22 Global Pension Risk Survey. In addition, as gilt yields have increased and transfer values reduced, members have welcomed in-scheme flexibility without them needing to transfer out.

Whether schemes have PIEs, BPOs or even just transfer value and tax-free cash options in place, clear communications and additional support helps to ensure members are making fully informed decisions based on their personal circumstances.





## Success Story

The trustees of a large multinational company set a clear objective to give members the best opportunity to make the right decisions at retirement.

They developed a new engaging communication strategy which involved upgrading the retirement packs, providing access to paid financial advice at retirement and revamping the pension scheme website to integrate modellers including AROM (Aon Retirement Options Model). They also made a decision to ‘drip-feed’ communications regularly via quarterly newsletters, deferred benefit statements and podcasts targeting members coming up to retirement. Further options at retirement (Pension Increase Exchange and Bridging Pension Option) are being introduced to offer members flexibility to change their benefits to suit better their individual circumstances. Member feedback has been positive, and more members have engaged with the tools before taking retirement indicating that they are making more informed decisions.



We wanted to give our membership the best experience, the best tools and best advice that they could get in the run up to their decisions when they retire. Member feedback is very strong and reduced quite a lot of burden on our administrators from members asking for information.

**Chair of Trustee**

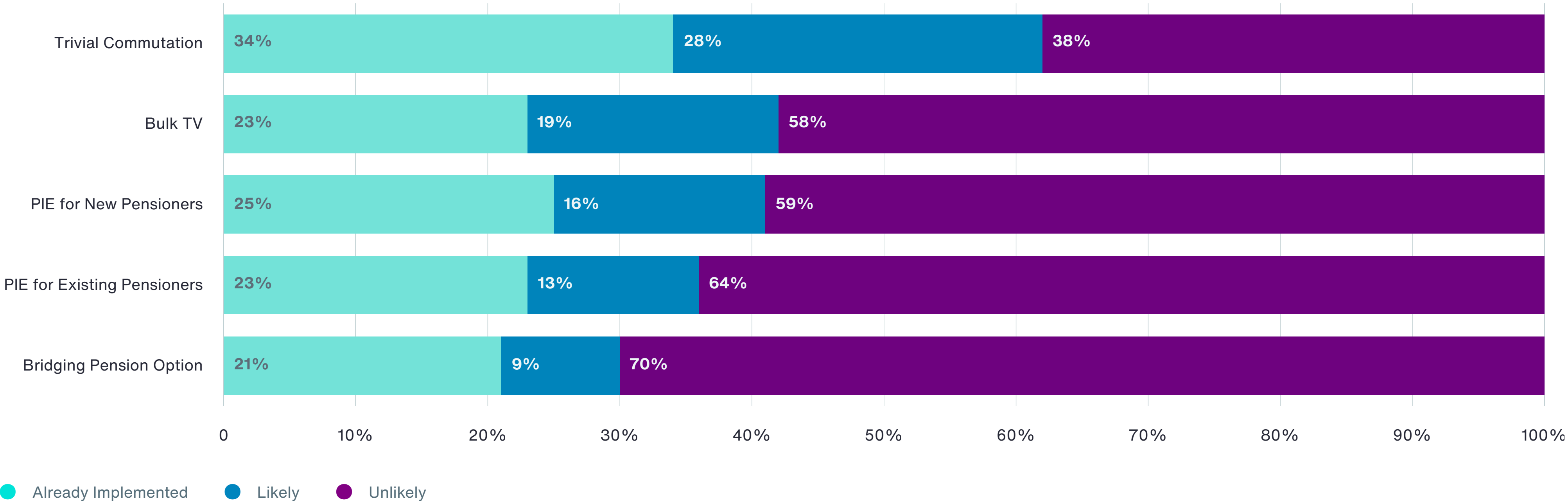




Looking across the spectrum of member options, trivial commutation exercises are the most popular, with over 60 percent having implemented or planning to implement them.

The survey also showed 23 percent of schemes have already carried out a transfer exercise and that 19 percent are planning to run one as part of their long-term strategy.

### Member Options Actions in the Next 12–24 Months







### Our Insight

It is unsurprising that trivial commutation exercises are so popular, as schemes clean up data ahead of large projects such as buyout and pensions dashboards. Many schemes paused offering trivial commutation to members in scope of GMP equalisation, so as GMP equalisation projects are completed this will present an opportunity for a trivial commutation sweep-up exercise.

It is interesting to see nearly one in five schemes planning a transfer value exercise in the next 12–24 months. If we look further into this group, the majority (78 percent) are targeting buyout. As transfer values and wider support offered to members can change significantly after an insurance transaction, schemes are increasingly informing members of their current options and support via a bulk communication exercise for good governance and to reduce the risk of member complaints.





# Hot Topics





## Key Findings

68%

of our 2023 survey respondents highlighted an increased focus on cyber risk

71%

have made a provisional GMP equalisation method decision

21%

of schemes have a trustee EDI policy in place

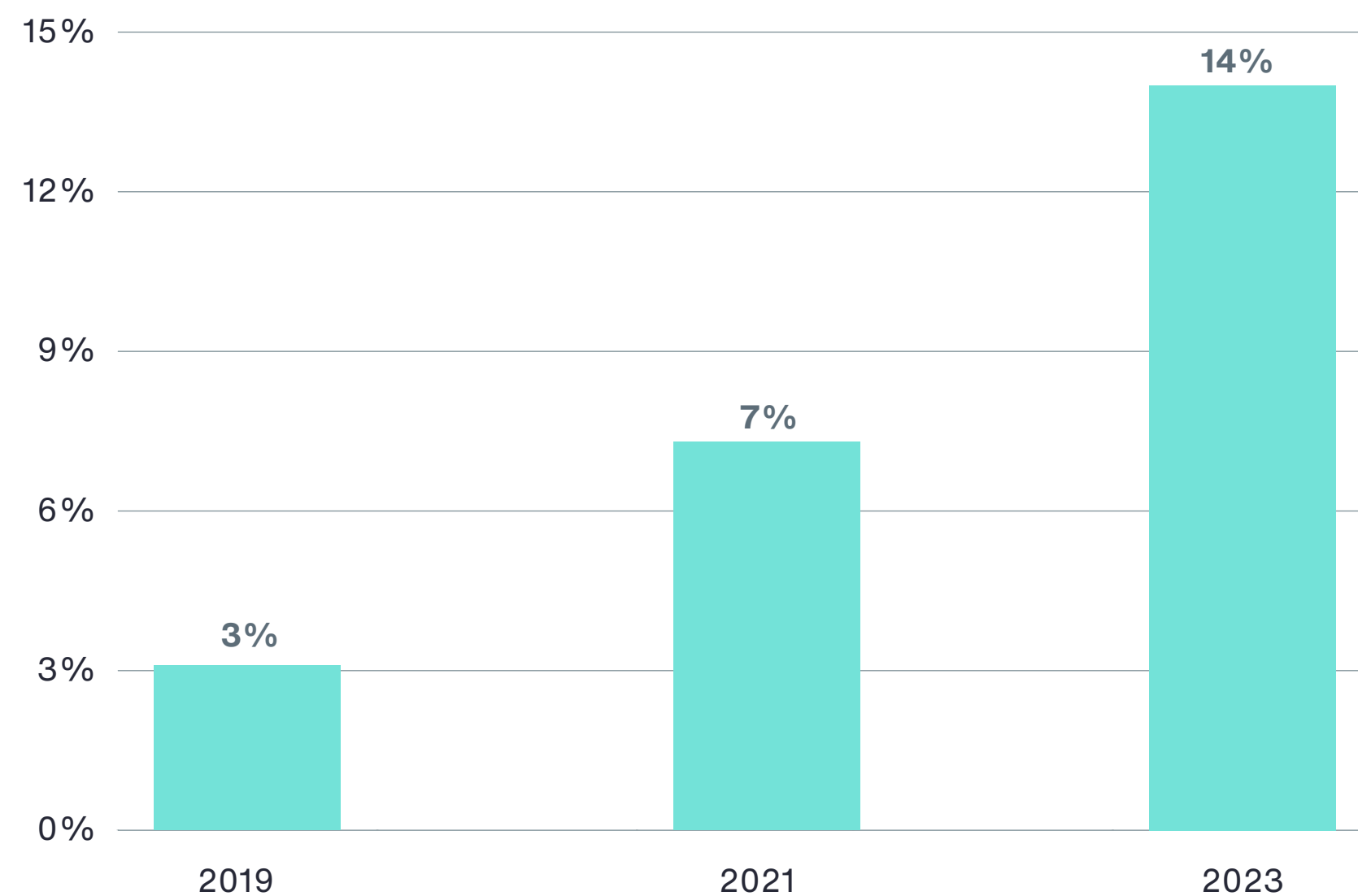




In light of the attack on a major pensions administrator in mid-2023, as well as the expected requirements of the new General Code, many trustees are reviewing the levels of cyber risk in their scheme as a matter of urgency. 68 percent of our 2023 survey respondents highlighted an increased focus on cyber risk, with many schemes looking more critically at the controls in place at their suppliers for the first time.

**68%** of our 2023 survey respondents highlighted an increased focus on cyber risk

### Proportion of Schemes Impacted by Cyber Incident



In our 2019 Global Pension Risk Survey, many of our clients were aware of — and had possibly taken some steps to mitigate — cyber risk. At that time, only 3 percent of respondents reported that their scheme had been impacted by a cyber incident. By 2021, we reported that this risk was no longer theoretical and there were numerous examples of schemes, sponsors and providers being impacted in a way that affected the scheme — 7 percent reported that they had suffered a cyber incident. Fast forward another two years and this statistic now stands at an alarming 14 percent. Put another way, the number of schemes impacted by a cyber incident has doubled every two years — and that is before the impact of the recent high-profile attack is fully reflected in the survey data.





### Our Insight

Perhaps surprisingly, the current guidance from TPR on managing cyber risk, published in 2018, is just that: guidance. While the industry is widely expecting this guidance to be promoted into requirements in the new General Code, this is yet to take effect and many schemes have yet to take action in this area.

In our 2021/22 Global Pension Risk Survey, we reported that larger schemes were starting to take a more considered approach to cyber risk — documenting actions, policies and procedures in a formal cyber policy. This trend has continued, with many small and mid-sized schemes following suit. The most sophisticated schemes have now built an effective governance framework for managing cyber risk, with trustees regularly reviewing plans and policies, and possibly receiving regular reports from their providers. For them, this is established business-as-usual activity.





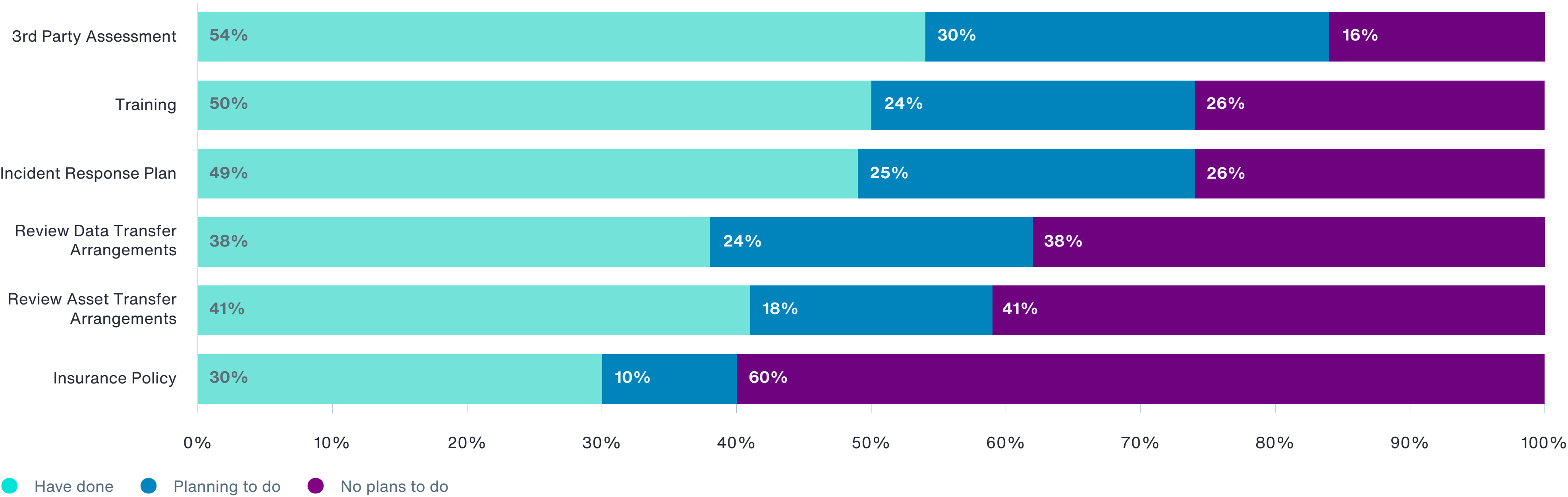
Respondents were asked about various cyber risk-related actions; the graph below shows how many schemes have either taken these actions or plan to over the next 12 months.

Looking at specific areas, three common actions being taken by schemes (other than general cyber training) continue to be: reviewing data transfer agreements, assessing third-party providers and developing incident response plans.

These actions fit neatly into the cyber framework that we recommend to our clients — ‘Seek, Shield and Solve’:

- **Seek:** understand the nature of the risk, which includes documenting those risks.
- **Shield:** take actions to protect the scheme, which includes provider reviews and mitigations.
- **Solve:** be able to deal with an incident, which includes preparation of an incident response plan.

### Progress on Cyber-Related Actions in the Next 12 Months







## Our Insight

While the number of schemes that have acted on cyber risk has again increased over the last two years, a significant number of schemes are yet to take any action. With so much on the trustee agenda — and the delay in publication of the General Code, promoting the current guidance to specific requirements — this trend is understandable. However, it is not good news, and trustees and sponsors may find themselves reacting to a future cyber incident, rather than taking proactive steps to protect themselves.

The polarisation between large and small schemes is also an area for concern as cyber risk is common to all pension schemes. While not every action identified above will be appropriate for smaller schemes, some basic steps are still best practice — for example, the adoption of an incident response plan. While there has been some improvement in this area since our 2021/22 Global Pension Risk Survey, almost 50 percent of our survey respondents still do not have this in place.

Schemes that have not made a start on their cyber journey have some catching up to do. As we noted in 2021, these schemes will have the benefit of seeing what others have done, what works well and finding a solution that is appropriate for them.

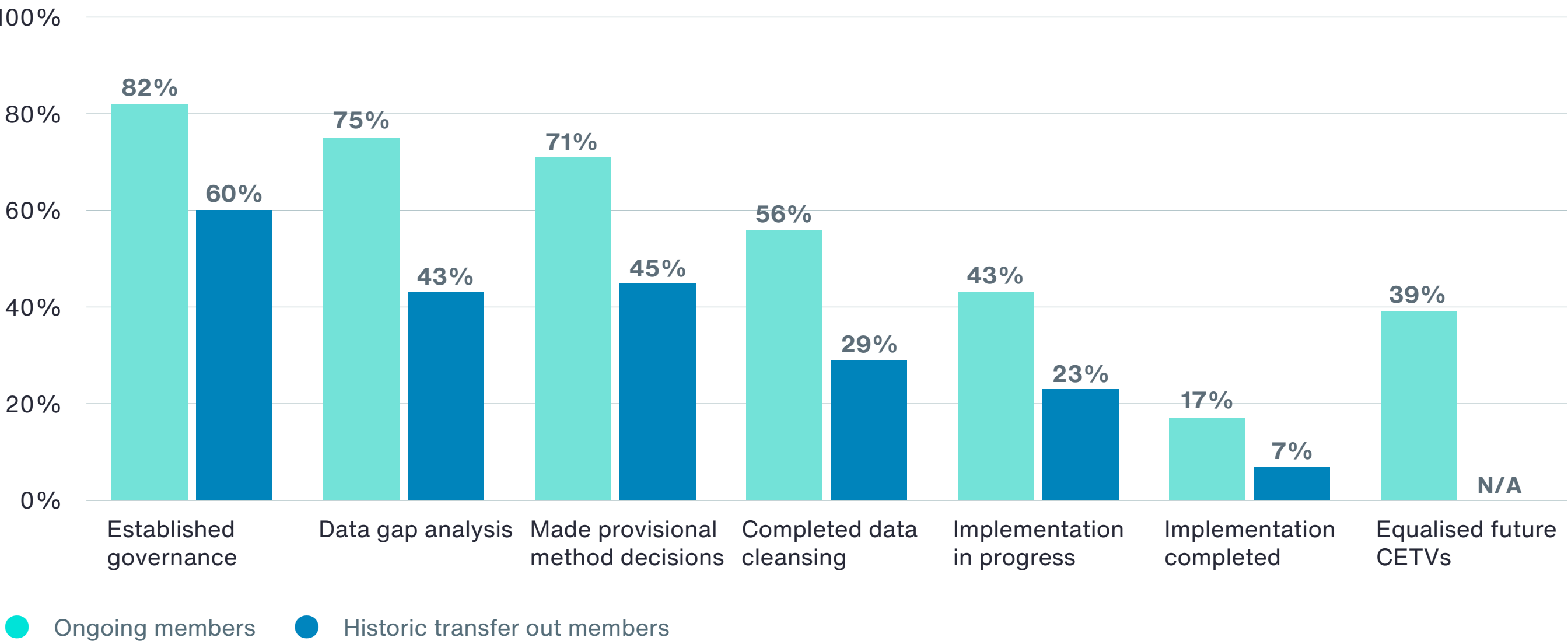




# GMP Equalisation

Schemes have been getting to grips with their GMP equalisation projects over the last two years, although for most there is still significant work to do. Respondents have made progress, although typically schemes have made more progress with ongoing members than they have with historic transfers. This is perhaps unsurprising given that the Lloyds court case triggering the starting gun for historic transfers was ruled on two years later than the original ruling, and the data issues can be even more challenging for historic transfers.

## Progress on GMP Equalisation



In each step of the process, our survey shows around a 20 percent improvement on two years ago. For example, 82 percent have now established their decision-making structure for ongoing members compared to 62 percent two years ago. Over 70 percent have now completed a data gap analysis and made their provisional method decision for ongoing members, and 17 percent have fully implemented for ongoing members.

In contrast, work on historic transfers has been slower, with only 43 percent having completed data gap analysis and 45 percent having made a provisional method decision, although a promising 7 percent have completed their historic transfers.

**71%** have made a provisional method decision for ongoing members





## Our Insight

The statistics show similar progress for schemes of different sizes, although this may not always be for the same reason. Some schemes will have made rapid progress to help facilitate or improve efficiency alongside buy-in and buyout projects. But there is also now significant progress with GMP equalisation, even where another issue is not driving the focus.

Data continues to be a challenging area for both ongoing members and historic transfers and it is important to ensure work to fill any data gaps is proportionate to its importance to the project.

We are seeing some schemes decide to go slower with their historic transfers as a defensive decision, trying to help protect 'business as usual' administration. We are helping some schemes avoid this pinch point by delegating implementation to a separate firm. By definition, the relevant members are not in contact with the scheme and the challenges are different to dealing with ongoing members.

To implement equalisation for historic members some of the key steps are:

- member tracing;
- encouraging engagement (through the former members' choice of electronic, phone or postal communications); and
- providing reassurance that where the top-up is due to be paid as cash, it is not a scam, so that individuals are confident to provide bank details.

Experienced advisers who have seen a significant number of cases can use their knowledge to help clients make better decisions on getting the right payments to members quickly and efficiently.





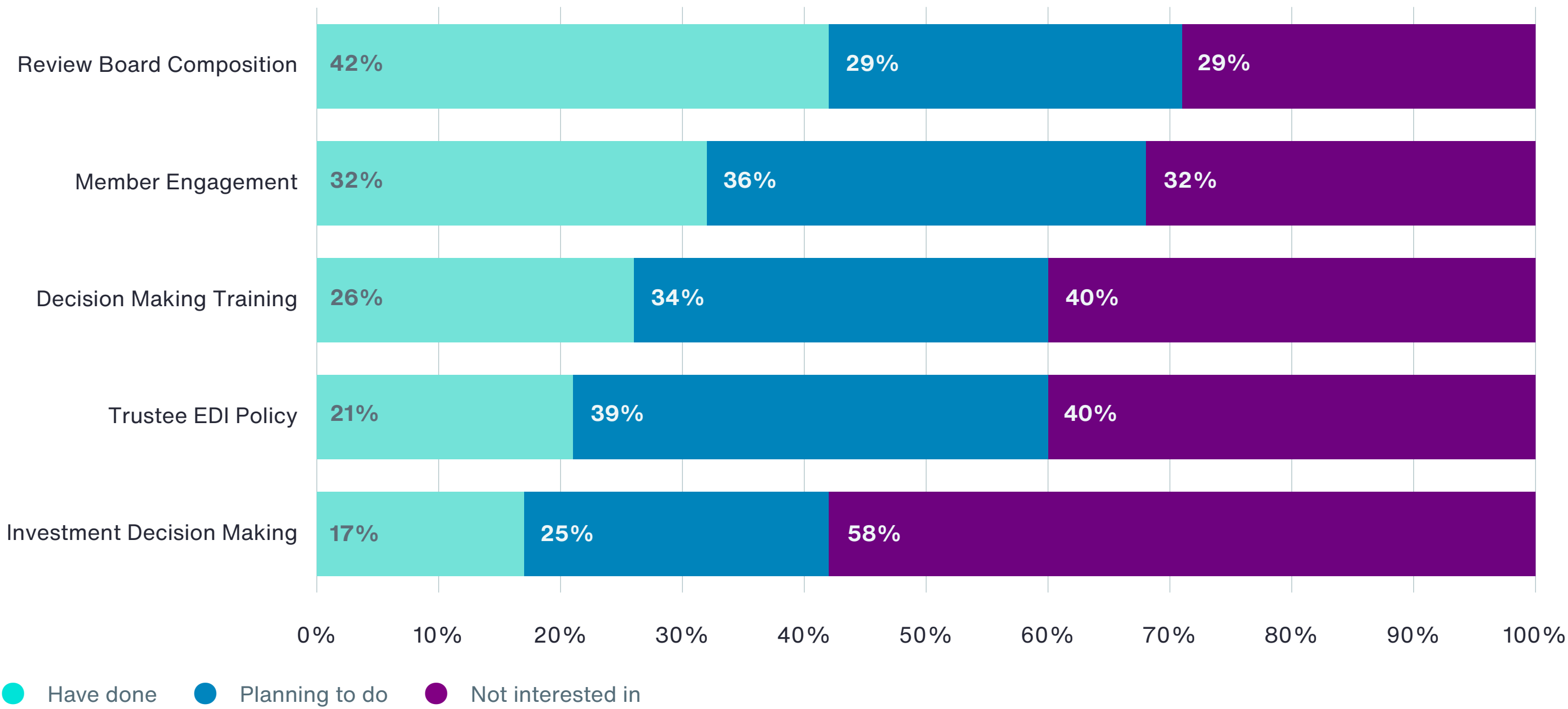
# Governance

Equality, Diversity and Inclusion continues to be a hot topic for pension schemes and their sponsors. In March 2023, we saw TPR launch guidance aimed at improving pension schemes’ equality, diversity and inclusion (EDI).

In a new question, the survey asked respondents the extent to which EDI was considered in the running of their scheme. We found that only 21 percent of schemes have a trustee EDI policy in place, with a further 39 percent of schemes planning to have one in place in the next 12 months.

21% of schemes have a trustee EDI policy in place

## EDI Activities in the Next 12 Months



We saw a significant trend by size of scheme, with 30 percent of the largest schemes (over £1 billion) already looking at or planning to consider EDI further. Only 10 percent of the smallest schemes (less than £100 million) have an EDI policy.

We asked schemes about their progress in carrying out a number of EDI activities in their schemes. The results are shown in the graph on the left.

The most common area of EDI that has been considered was reviewing the composition of the trustee board; 70 percent of schemes have already done this or are planning to.





## Our Insight

When we look at the above decisions in aggregate, 84 percent of schemes surveyed have carried out, or are planning to carry out, at least one of the actions listed, showing that the new guidance is making its way onto most trustees' agendas.

However, that still leaves 16 percent of respondents who said they are not interested in any of the above EDI actions. This could be influenced by the guidance being relatively new at the time of the survey being open, so it had not yet been fully considered. Trustee boards choosing to ignore the guidance leave themselves vulnerable to 'blind spots' by failing to consider where they may need additional challenge to their decision-making processes or to make additional support available to members.

Carrying out training is a sensible early step to uncover such blind spots and 26 percent of respondents had already done this, with an additional 34 percent planning such sessions.

Another early step could be for the trustee board to agree their EDI policy and ensure there is consensus on the approach. TPR suggests that trustees should have an EDI policy in place, covering an agreed definition of EDI, the EDI aims of the governing body, and an EDI training plan. Only 21 percent of schemes already have a trustee EDI policy in place, reinforcing that this is a relatively new area for pension schemes to consider. We expect to see progress in these actions in future surveys.

It is not surprising to see large schemes leading the way in this area, as they typically have greater resources to draw on in response to change. However, actions which can be taken to improve EDI do not have to be resource intensive. Taking small steps — like discussing what EDI means to the scheme, reviewing board composition when vacancies become available, or considering decisions through an EDI lens — can add up to make a big difference.





## About Aon

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