

Missing a trick?

✓ **Aon's Paul McGlone takes a look at the recent DWP White Paper, *Protecting defined benefit pension schemes*, to see what the future might hold for defined benefit (DB) governance requirements**



For some months the expectation has been that a DB Chair's Statement would soon be forthcoming, to complement the defined contribution (DC) statement that was introduced in 2017. The White Paper, issued in March, confirmed this. But the content is rather different to what many expected, focusing almost exclusively on funding rather than wider governance issues.

The impact of the DC statement was material, and was not just about communication to members. Governance standards improved, almost overnight. Many schemes finally took action in areas that had been overlooked or postponed for too long. In other cases the statement was a catalyst for DC consolidation. I know of many schemes, and at least one professional trustee, who have treated the DC Chair's Statement as the final straw in the ever-increasing DC burden, and decided to transfer their DC assets into a master trust.

The DB statement looks to be very

different. The legislation introducing it is not likely to arrive until 2019/20, so the content could change a lot between now and then. But sections 109 to 116 of the White Paper give some fairly heavy clues on what to expect, and it is not related to governance. Three themes are highlighted: funding decisions, long-term planning and managing risk. Section 113 does leave the door ajar to wider content, but the clear message is that the statement really is there to be an integral part of the 'clearer funding standards'. The fact that it needs to be submitted triennially, at the same time as the valuation, strengthens this message.

In some ways the difference in focus is reassuring and helpful. It shows an ability and willingness to tailor the DB requirements to meet the challenges that schemes face, rather than just replicating the DC requirements. When the DC statement was introduced there was a clear need to improve how DC schemes ran. Mandatory comments on financial transactions, trustee training and wider

governance issues meant that practice in those areas changed. The focus of the DB statement on funding suggests that policymakers consider DB governance be sufficiently addressed by The Pensions Regulator's 21st Century Trusteeship campaign and the step up in regulatory and enforcement activities.

However, I do think DB trustees would benefit from having to explain their approach to running the scheme, in the way that DC trustees do. Many members will see both types of statement, possibly side by side, and wonder why they are so different. It is also ironic that the same White Paper has a long section on DB consolidation as a way of improving governance and reducing costs, but then does not take the opportunity to include those issues in the chair's statement. It seems as though the left hand and right hand are not completely joined up.

So what next for the DB statement? I will be looking out for two things.

First, as the idea develops, it will be interesting to see how the document interacts with other requirements. DB trustees are already required to prepare a Statement of Funding Principles and a Statement of Investment Principles. Increasingly, they are also preparing Integrated Risk Management documents, with input from actuarial, investment and covenant advisers. Add a fourth document to that list and we are at serious risk of duplication.

But second, I will wait to see whether broader governance requirements are introduced. On the one hand I am not a fan of putting greater requirements on trustees. But I do think that if we end up with a statement focused solely on the clearer funding standards then we will have missed a trick.



Written by Aon partner
Paul McGlone

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