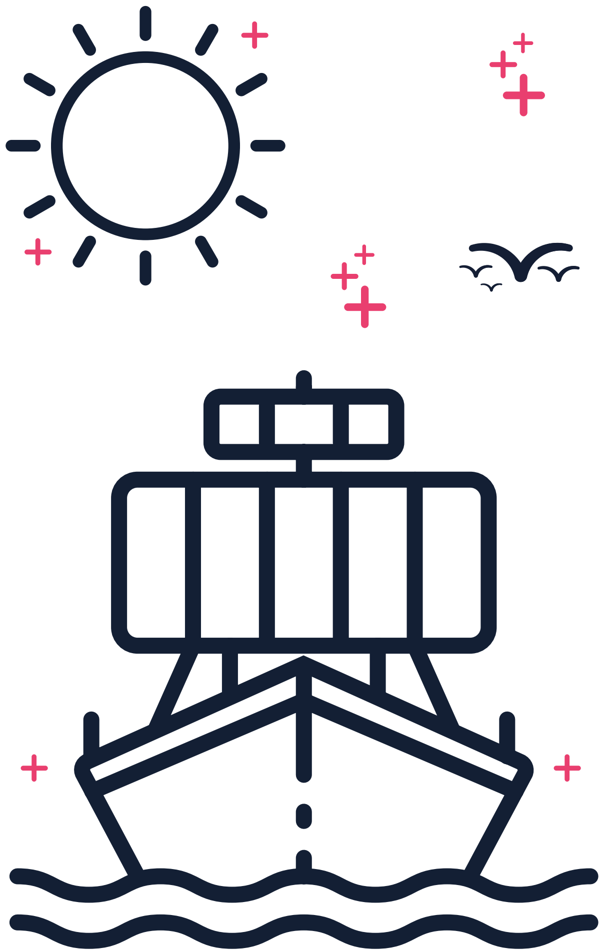
Steadying the ship in challenging waters

Priorities for 2023 | DC pension schemes

What a year 2022 was! Whether it was employees/members dealing with the cost of living crisis and soaring inflation whilst trying to plan for their futures, or trustees and corporates looking after DC schemes by trying to manage costs, monitoring investments and keeping on top of changing legislation, it was a year of change and challenge for everyone.

What is clear is that change is here to stay, at least for the time being. Inflation and the cost of living crisis continue to impact members and their investments within DC schemes. So how can those governing DC schemes manage and develop their schemes whilst also supporting their members to continue their contributions in 2023?

It often feels like we are on a ship with the waters moving around us from broadly calm to heavy storms, and the environment is constantly changing – therefore our theme for the year will be centred around "steadying the ship in challenging waters".



Adequacy assessment

Navigating regulation

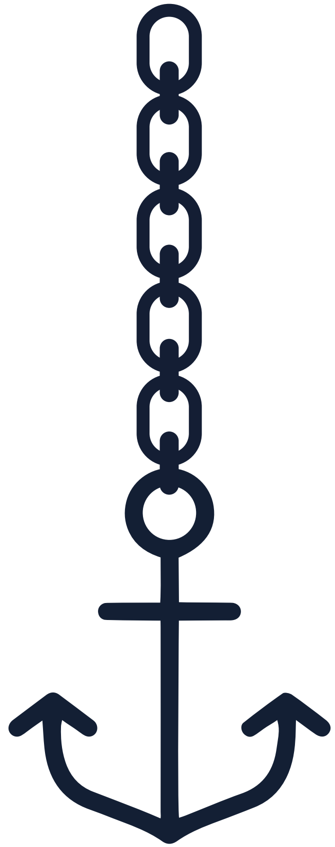
Consider and review your investment strategy

Health and wellbeing

Overcoming challenges

Responsible investment

To help you focus your agenda for the year ahead, we have created '**ANCHOR**' – a framework for you to use in 2023.



Adequacy assessment

Assessing adequacy is something DC schemes have been grappling with for many years. The assessment should be aligned to your own membership, and it should help you be aware of and plan for the outcomes of your members as they move into later life.

There are many challenges to determine what calculation and benchmark is right and many assumptions are used. Whilst no measurement will be completely accurate, we use the PLSA Retirement Living Standards as a very good benchmark. It is widely used in the industry and is a great way to measure where your members are on their journey.

Therefore, a key part of your 2023 planning should be to review member adequacy, particularly for those members in mid-career to retirement, as the landscape at retirement has changed dramatically recently. Therefore, it is a good time to reflect on these members and to take action as you need to.

Navigating regulation

There is never a dull moment in pension regulation, and 2022 was no different! From finalising the new rules for SMPI calculations, new scam fighting plans, simpler DC benefit statements, climate risk regulation or improving board diversity and inclusion, there was a lot to digest over the year.

Looking into 2023, we expect it will still be full of new regulation. The introduction of Pension Dashboards will be a big event and all schemes will need to make sure they are on top of what they need to do. We have published two publications focusing on Pension Dashboards: SMPIs and Pensions Dashboards and Getting Dashboard ready. We also expect TPR, along with the FCA, to consult on value for members/money in 2023 and we will see the single code of practice and the implementation of regulation around illiquid investments come into play.

There will likely be other consultations launched or regulation made that we don't know about yet, so make sure you keep an eye on any new announcements as part of your 2023 plan and get any training in place.

Consider and review your investment strategy

In challenging financial times, it is very important to ensure you have the right investment strategy in place for the longer term. The investment markets have been volatile in 2022 and, in particular, we saw members invested in annuity-targeted strategies who are approaching retirement age being hurt by the fall in the value of Gilt yields when they weren't considering buying an annuity. Reviewing and monitoring your investment strategy therefore needs to continue in 2023.

In terms of potential investment opportunities, more is being done in the illiquid space to support DC schemes wanting to invest here and we are seeing an improved choice of funds across ESG.

Furthermore, is the investment strategy moving to and through retirement and is it meeting your members' needs? We have published a paper, The 'flex first, fix later pension' - is this the future of retirement? to consider a possible solution for the through-retirement puzzle.

We often review investments on a short-term basis over the year through performance monitoring, but taking a step back, considering your own investment beliefs and how they are implemented through your investment strategy should be on the agenda for 2023.

Health and wellbeing

Health and wellbeing, whether physical or financial, has become a very real concern for companies recently on the back of a challenging financial environment. We will be launching our next Financial Wellbeing Report in the next couple of months, but the initial results are looking quite stark. We have also seen in previous reports that financial health and wellbeing stability is not necessarily a given for higher earners with many struggling with different priorities, so we need to make sure we are reaching everyone no matter what their circumstances.

If we don't check on our employees' and members' financial health and wellbeing, this may manifest itself in, amongst other things, a reduction in pension savings, and this is likely to have a long-term impact on their pension pot in the future. Our Head of Financial Wellbeing, Heidi Allan, explored three core principles to good financial health in her latest blog. Do take a look.

In 2023, review the contributions from your members and plan to communicate with your members and/or employees to find out how they are feeling and take action as necessary – this could be reviewing the contribution structure or supporting them with webinars or presentations.

Overcoming challenges

2022 was a year of change; 2023 looks like it will be a year of challenges. Continuing good governance will be a major part of keeping the ship steady over 2023. You may wish to reflect on your own governance structure and decision - making process and if it still works and is effective for you.
We have seen a focus from TPR setting out an action plan for trustees to improve diversity, equity and inclusion, the same guide can be used for all governance committees.

If you want to read more, take a look at our DEI guide.

Schemes that will be best placed to stabilise the ship and take opportunities as they arise will be those that work collaboratively across all stakeholders, including members, and have clear roles and responsibilities in place.

Ensure that in 2023, you make a review of the governance structure part of your plan.

Responsible investment

Responsible investment and managing the transition to a low carbon economy have been hot topics in 2022 with many Master Trusts and providers setting out their strategies for this. We have also seen the larger schemes publish their first TCFD reports and this will continue in 2023 with some building on their report and others creating it for the first time. Our on-demand webinar provides insight and practical tips.

There is a rise in the consideration of other areas of responsible investing including areas such as bio-diversity, nature and human rights and how this will fit within the investment strategy. It is important to consider this across the lifetime of a members' investments and also any new investment you might want to include (like illiquid assets).

Stewardship is fundamentally important to solving issues such as climate change but has often been overlooked. 2023 will continue to see trustees needing to agree stewardship priorities, in line with DWP guidance. However, trustees cannot simply state that they have delegated all of their stewardship activity to managers – expectations for trustees have been raised!

Therefore, you should have a process in place to monitor and engage with your managers' policies and practices, and to report on the activity arising from this process each year in your implementation statement. Further detail can be found in our guide. You can read about our own approach to stewardship in our 2022 stewardship report.

Get insight into the latest developments through our responsible investment and climate change resources.

Any questions?

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For a framework of priorities for your DB scheme, **click here**