INSIGHT

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Delivering better member outcomes

3 MINUTE READ

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It's that time of year when we look back on what has happened over the past 12 months and try to make some predictions for what is to come. 2024 has, yet again, brought us plenty of change across the pensions industry, and whilst it might be me, it feels like there is a bit of a theme to much of the change.

What's clear is that the environment for pensions remains very fluid. At the time of publishing this article, news circulated about the delay to the second phase of the Government's Pensions Review. This leaves trustees and the pension industry as a whole with the task of looking to maximise the returns using the current contribution levels. It also reinforces the importance of good governance.

In November, the government was also very clear in directing both LGPS and DC funds to merge and use their scale to invest and create better returns for members. In LGPS, this won't increase the benefits paid, but if it reduces the cost to taxpayers, that is likely to be well received.

The DC changes are interesting, with only three DC master trusts currently meeting the proposed minimum fund size. Several more will meet that £25bn level before the rules are implemented, but what about all the master trusts with between £5bn and £15bn? However good they are, and our clients use several of them very happily, they may be forced to consolidate with the intention of improving member benefits further.

Another notable event this year was the launch of the Royal Mail Collective Pension Plan. Well done to all involved in bringing this to life. Whilst most employers will not be of sufficient size to follow Royal Mail, the next wave of legislation to allow unconnected employers to join a scheme have been consulted on and we await the response. Given that there are several employers looking to establish, or become part of, a broader scheme, once the legislation allows, expect more employers to go down this route. The scheme designs will be slightly different as CDC is an amalgam of third-way type schemes. Some are more DB lite (Royal Mail) whereas others are much closer to DC. But if this can help ensure members have the ability to retire without having to manage their DC pot, or buy an annuity, that is probably a positive development.

Across all of these developments, finding ways to improve the outcomes for members is the main driver. The governance regime in place is also focused on delivering the best outcomes for members. Both DC master trusts and CDC arrangements have to be authorised by the Pensions Regulator. As part of that authorisation, the Trustee Board established needs to contain a minimum number of Trustees – this happens to be three. Given that TPR believes that having at least three Trustees is necessary, how can we have reached a place where so many employers are moving their Trustee structure to a corporate sole trustee, where the ability to hire and fire sits with the employer.

Like TPR, we continue to believe that a traditional Board structure, especially one with member representation, provides the appropriate checks and balances to help achieve the best outcomes for members. That is not to say that corporate sole trustee doesn't achieve good outcomes. However, if the outcome could have been better for the members, have we as an industry, let them down by allowing this transfer of power to employers happen unchecked?

At Muse, we certainly believe that high quality governance, and having a diverse Board with different voices and points of view, increases the chances of even better outcomes for members. After 18 years as an independent firm, we are proud to continue to support our clients, both trustee and employer, to deliver the best possible outcomes to their members and employees.