Corporate Britain on the front foot for pensions

Why paying attention to your DB pension scheme now could be a sound investment

November 2024

Helping corporate sponsors

Introduction

"The only constant is change" – **Heraclitus, 500BC**

Corporate sponsors of DB pension schemes must respond to a constantly changing regulatory, legislative and economic landscape.

The good news is that those who are proactive can seize new opportunities to make the most of their scheme which were simply not available even a few years ago. This report is your roadmap to doing just that.

In recent weeks the long-awaited DB Funding code has finally come into force after years of debate and discussion. The new code has been so long in the making that it can be easy to forget what a significant change it represents. Sponsors now need to agree a 'Funding and Investment Strategy' with their trustees, which gives firms an opportunity to set out their own thinking and come up with an agreed plan which works for sponsors and members alike.

The new Code also places much greater weight on the strength of the 'sponsor covenant', with schemes supported by a strong sponsor having greater flexibility. This report sets out more about the variety of strategies which sponsors can adopt to give comfort to trustees and regulators around the strength and security of the pension promise.

A second rapidly evolving area has been that of the ultimate 'endgame' for schemes. Our research suggests that growing numbers of schemes are now considering alternatives to buying out at the earliest opportunity, and one size clearly does not fit all.

Where schemes have decided to buy-out, keen pricing and new entrants to the bulk annuity market mean that good deals can be done. But other schemes are seeing the attraction in running on for a period and/or exploring alternatives such as superfunds or capital-backed journey plans. Any decision around the right endgame that was made more than a year or two ago needs urgent review.

The economic backdrop to this year's report is also markedly different to previous years. A couple of years ago we were advising schemes and their sponsors on how to deal with double digit inflation whereas now inflation has fallen sharply. A section of this report therefore encourages sponsors to think about what deflation could mean for their schemes.

Economic change is not the only risk which sponsors need to consider. Cyber risk and risks related to Artificial Intelligence are top of most risk registers, whilst longevity risk will often remain even in schemes which have largely hedged other risks. This report includes some insights on the latest trends in longevity in the aftermath of the Covid pandemic. Sponsors will also need to make sure that the implications of the Virgin Media court judgment are fully thought through in terms of year-end accounts and wider knock-on effects.

There is no doubt that, for many sponsors, having a DB scheme has been shifting from the 'problem' column to the 'opportunity' column, with the potential for considerable upside for those who seize that opportunity. We hope that this report will whet your appetite for a more in-depth conversation about the prize available if Corporate Britain gets on the front foot when it comes to DB pensions.

Sir Steve Webb

Partner and
Pensions Minister 2010-15

1. DB funding regime

The long-awaited DB funding regime is now in force, for valuation dates from 22 September 2024. This regime consists of legal regulations from the Department of Work and Pensions along with the Pensions Regulator's (TPR) DB funding code.

Compared to the earlier draft, the new funding code offers more flexibility through its principles-based approach.

Key messages for sponsors

- Trustees and sponsors will need to agree a "funding and investment strategy". This details how the scheme intends to provide benefits over the long-term along with a journey plan that targets de-risking and full funding on a low-risk basis by the time a scheme is "significantly mature".
- Deficits "must be repaired as soon as the employer can reasonably afford", but schemes should make an allowance for sustainable growth of the sponsor.
- The role and assessment of sponsor covenant has a much higher profile than under the previous regime.
- All schemes will need to set a Low Dependency Investment Allocation ("LDIA") under which the value of the scheme's assets relative to the liabilities is "highly resilient" to short-term adverse changes. There is no requirement to actually invest in line with the LDIA.
- Schemes can choose a "Fast Track" compliance route for valuations by satisfying a number of tests or adopt a more Bespoke approach. There may be good reasons for going down the Bespoke route, such as concerns about overfunding, willingness to take on a proportionate amount of investment risk or the Fast Track recovery plan length not being aligned with the sponsor's wider business objectives.
- Information – like that detailed above – will need to be submitted to the Pensions Regulator through a Statement of Strategy, with certain parts needing sponsor agreement.

So what?

Understand the new requirements and how they will impact future valuations. Our three-part webinar series on the **funding code**, **the covenant implications** and **the considerations around contingent funding** would be a good place to start. You can also check out our **Key actions for sponsors** and **Fast Track summary**.

Proactively present your views on the appropriate endgame for your scheme(s) and the optimal funding and investment strategy, Low Dependency Investment Allocation and journey plan to get there, ensuring these are aligned with broader corporate objectives and other potential impacts, such as corporate accounting.

Proactively outline corporate objectives and best position covenant with the trustees, seeking independent support to do so where needed.

For the first time, covenant is enshrined in law, so sponsors should get on the front foot to set out a case for the covenant strength.

Helen Abbott Partner, LCP

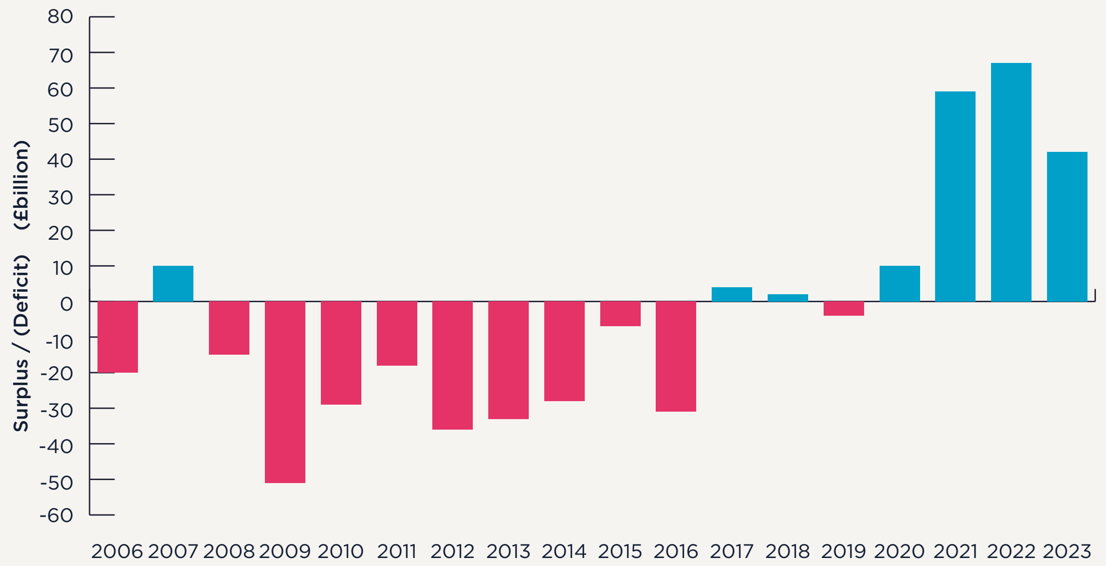
The new funding code is more flexible than anticipated, and sponsors should be on the front foot to ensure their views on long-term funding and investment strategy are reflected.

Jon Forsyth Partner, LCP

2. DB options and use of surplus

For the fourth consecutive year, UK pension schemes of FTSE100 companies had sustained levels of accounting surplus, as reported in our annual **Accounting for Pensions report**. At the end of October 2024, LCP Pensions Explorer estimated this was around £65bn, broadly equating to a 120% funding level.

Estimated combined IAS19 pensions position of FTSE100 companies at calendar year-ends



Source: LCP's 2024 Accounting for Pensions report

As a result, schemes and sponsors are thinking harder about their endgames and whether previous views still hold true in light of improved funding along with the regulatory, market and industry developments we have seen in the last couple of years.

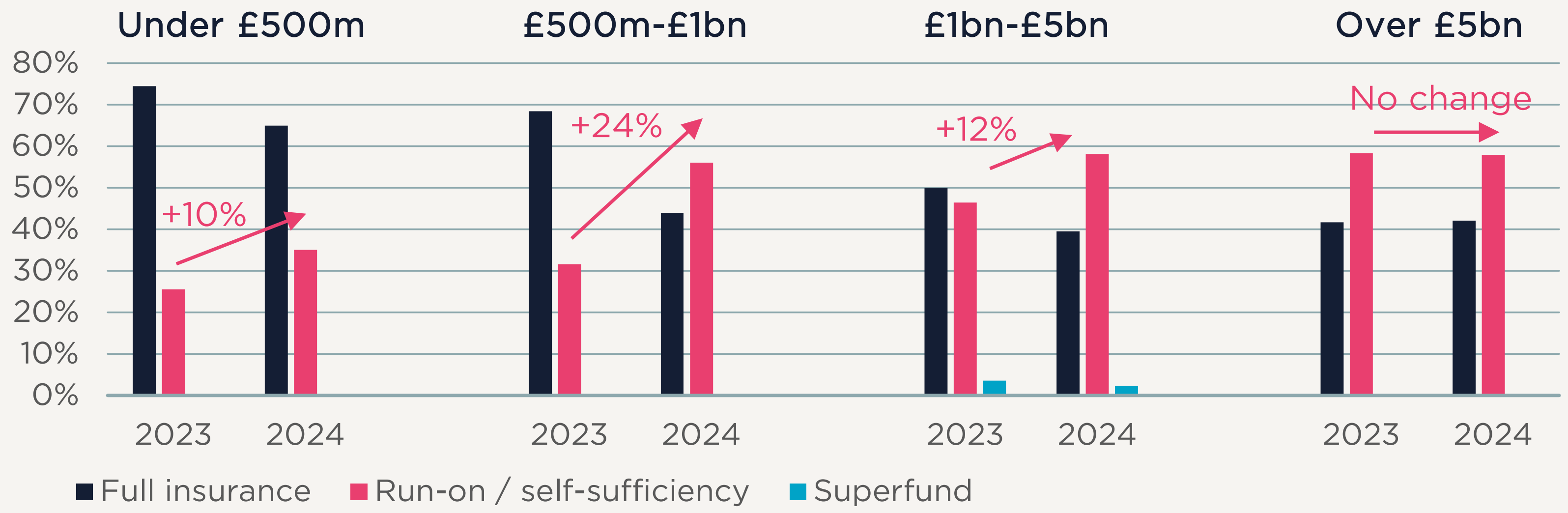
At one end of the spectrum of end games, interest in bulk purchase annuity transactions continues, with our 2024 **pension risk transfer report** shining a light on increases in insurer capabilities driving the best full scheme buy-in pricing in years.

Since **last year's edition of this corporate report**, we have seen the first two superfund transactions of the **Sears Retail Pension Scheme** and **Debenhams Retirement Scheme** with Clara. Updated TPR superfund guidance released in summer 2024 looks at how superfunds can release capital at the right time, with this leading to the potential for increased interest from providers to offer this type of solution. In addition, there continues to be developments in the capital-backed journey plan offerings from providers, and for certain schemes, considering these types of options may be in their best interests.

The new Government has not yet announced plans around the previous consultation on options for DB schemes which looked at the treatment of scheme surplus as well as models for a public sector consolidator run by the PPF. Whilst these are on hold for now, we have been supporting a number of sponsors implement new strategies using the options available for them under the current regulatory regime.

With years of pain associated with DB schemes hopefully now in the past and the traditional risks mitigated to a large extent, there is an opportunity to run-on over the longer term, to build and grow pensions surplus for better member and sponsor outcomes, especially where a strong covenant continues to support the scheme. A recent LCP survey suggested an increased intention to run on schemes, regardless of size.

Proportion of schemes of different sizes targeting alternative endgames



Source: LCP 2023 and 2024 annual DB pension scheme survey

Any excess funds from running-on the scheme may perhaps be used to fund sponsor DC contributions, fund DB accrual or improve DB benefits, or returned to the sponsor to invest in the business.

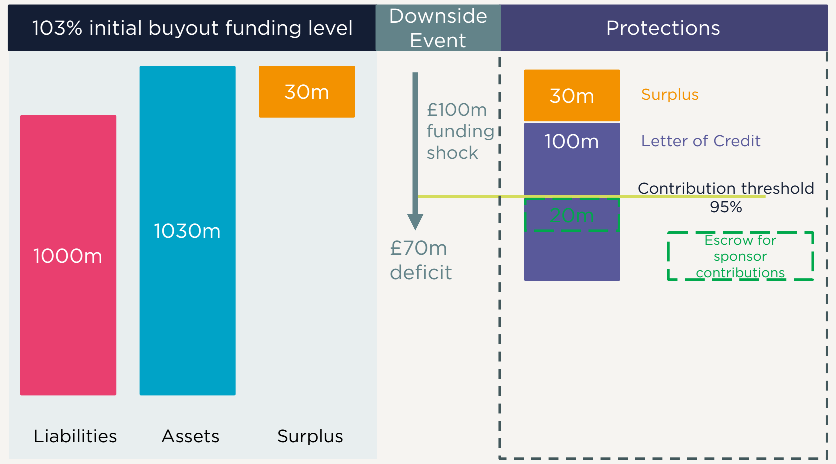
2. DB options and use of surplus Continued

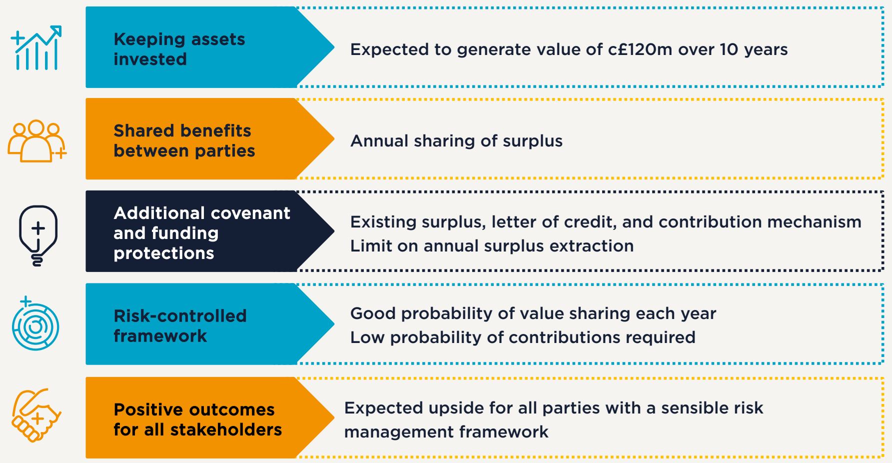
Case study

The graphics below summarise a recent case where we helped the sponsor and trustee implement an alternative end game that is expected to lead to significantly better outcomes for members and shareholders. To support long-term value creation, a framework was agreed to enhance protections for potential future downside events in the funding position or on the sponsor's covenant; facilitating a commitment to generate cashflow for the sponsor and share upside with members both annually and at ultimate wind-up.

After decades of pension schemes being a drag on corporate activity, here is a real example of a pension scheme providing a return on investment for shareholders. There will be a future full buy-in, but before then all stakeholders are expected to benefit substantially from returns achieved.

Steve Hodder Partner, LCP





So what?

- Assess which endgames are viable and desirable, looking at the pension scheme rules, exploring the sponsor's appetite for risk and value enhancement, and having discussions with trustees.
- At the same time, recognise that endgame strategy is not a one-time binary choice – for most schemes it is a decision on the optimal time to run-on after the point that buy-out becomes affordable. This may be no time at all for some schemes, and 50 years or more for others. You can explore more of this thinking in a blog from LCP's Head of Pensions Strategy, Michelle Wright: **Insurance, run-on, run-off – how do you decide?**
- Sponsors should seek to drive the strategy and push forward towards the long-term goal, based on this sort of thinking.

Strong funding levels are driving confidence of sponsors and trustees of all schemes, irrespective of size. Run-on strategies can deliver significant benefits to both members and sponsors.

Jonathan Griffith Partner, LCP

Insurance will be an appropriate end game strategy for many – with the key questions being "when?" and "what would we like to achieve along the way?"

Nikki Ayriss Partner, LCP

3. Investment focus for sponsors

At an exciting juncture for DB pensions, aligning the asset strategy with longer term objectives is pivotal. Some particular areas of focus for sponsors are:

1. **Investment implications of new funding code.** This is an opportunity for sponsors to take the initiative, as they need to agree the long-term funding and investment target. It's important for the sponsor to develop its own views on the Low Dependency Investment Allocation, the investment journey plan to low dependency, the funding and investment stress tests and resilience and liquidity analysis that will be needed.

   Whilst a long-term investment allocation may seem a long time away, the allocation will fundamentally impact the discount rate and the likelihood of additional cash being required at actuarial valuations.

2. **Buy-out as soon as affordable vs run-on for a while.** Sponsors should understand the opportunities of run-on to generate and use surplus for a period to enhance outcomes for members and sponsors, and then test those opportunities against the risks, how those risks could be mitigated, and how the resulting end game compares with an alternative of buy-out as soon as possible. The approach to the investment of any "surplus assets" is critical to this analysis.

   The pensions press often focusses on those schemes that have insured, but it's worth noting that to date there have been around £300bn of transactions so there is still a measurable proportion of the current total of £1.5trn of pension liabilities that remains to be insured, with c2-3% being insured annually.

3. **Review your LDI arrangements.** Following market and regulatory changes off the back of the 2022 gilts/LDI crisis, many schemes have reviewed their LDI approaches. The Bank of England has also given its own views. The collective view appears to be that it can be significantly better to have a segregated mandate and to integrate LDI and corporate bond allocations within a common mandate.

   This can enhance robustness to leverage and liquidity risks, and improve hedging accuracy, while providing more expected returns and more "transferable" assets at a later date.

4. **Make best use of your credit assets.** Credit (e.g. corporate bonds) now makes up a much bigger proportion of scheme assets and heavily influences outcomes. As just one example, you can optimise (and then automate) the mix between short-dated, buy-and-maintain, and asset-backed securities (ABS) to benefit from market changes as they occur.

5. **Responsible investment.** A requirement for trustees, and important for sponsors to have a view on the risk/return associated with climate, wider environmental, social and governance factors as well as wider reputational (and corporate consistency) considerations.

6. **Protecting against market falls.** How do you anticipate and protect against the next financial crisis, and what form might that crisis take (e.g. gilts crisis, credit crunch, pandemic, and war can all be different)?

   One approach is for sponsors to "war-game" to test the current investment strategy. Remedies might include protecting equity allocations through options, defensive gold/commodity allocations, more US$ exposure, tail-risk funds and developing a governance structure to enhance nimbleness to react when things change quickly.

The new funding regime gives sponsors a great opportunity to take the initiative on investment strategy. Increased funding levels make that opportunity more exciting as investments can be used to improve outcomes for members and sponsors.

David Wrigley Partner, LCP

4. Preparing for year-end

The following are some of the key issues that sponsors should consider in preparation for the 2024 year-end pensions accounting exercise.

What the Virgin Media judgment means for accounting: Very broadly, the Virgin Media judgment held that certain changes to benefits made between 1997 and 2016 without actuarial confirmation might be void. Auditors will likely be asking sponsors to make meaningful investigations into the implications of this precedent for their schemes.

The best course of action will depend on many variables, including for example:

- the materiality of pensions in the context of the sponsor's accounts;
- the outcome of any investigations or legal advice already sought by the trustees or sponsor;
- the views of the respective legal advisers;
- the quality, completeness and complexity of the historical records;
- the history of benefit amendments and complexity of the scheme's history, including changes in advisers, bulk transfers from other schemes, corporate mergers etc.; and
- advice received in respect of any ongoing or imminent buy-in transaction including any "no digging" clauses in existing buy-in contracts.

There is potential for government intervention to resolve some or all of the issues, and some pension schemes would want to wait for that. However, that is unlikely to be in time for sponsors reporting at the 2024 year-end, who under the relevant accounting standards usually need to consider legal risks based on the position at the time.

Based on this, most sponsors need to consider including some narrative disclosures around the status of any risks. Given the potential for material liabilities, it is important for sponsors to address this with appropriate advice.

Alternative end games and run-on: For those sponsors agreeing surplus sharing arrangements (e.g. with discretionary benefits and/or augmentations), it is important to consider upfront the P&L and balance sheet implications.

The Virgin Media judgment has potential to have material accounting implications. Sponsors should proactively engage on this.

Helen Draper Partner, LCP

Funding code: Sponsors need to consider whether the agreed long-term funding target could give rise to a "minimum funding requirement" under IFRIC14 impacting the balance sheet.

Discount rates: As described in our 2023 corporate report large changes in the UK AA corporate bond market (e.g. far fewer bonds in the 20 to 30 year maturity range) are leading some sponsors to change their discount rate method.

CPI assumption: Developments in the inflation indices announced in late 2023 along with expected changes in the mortgage-related components of RPI mean that more careful consideration of the RPI-CPI "wedge" assumption (both pre and post 2030) may be needed.

Mortality: Sponsors need to apply subjective judgement for this assumption – see LCP's 2024 Longevity report.

US GAAP: It's important to bear in mind that the US GAAP implications of key strategic and end game decisions can be very different to IAS19 and UK GAAP.

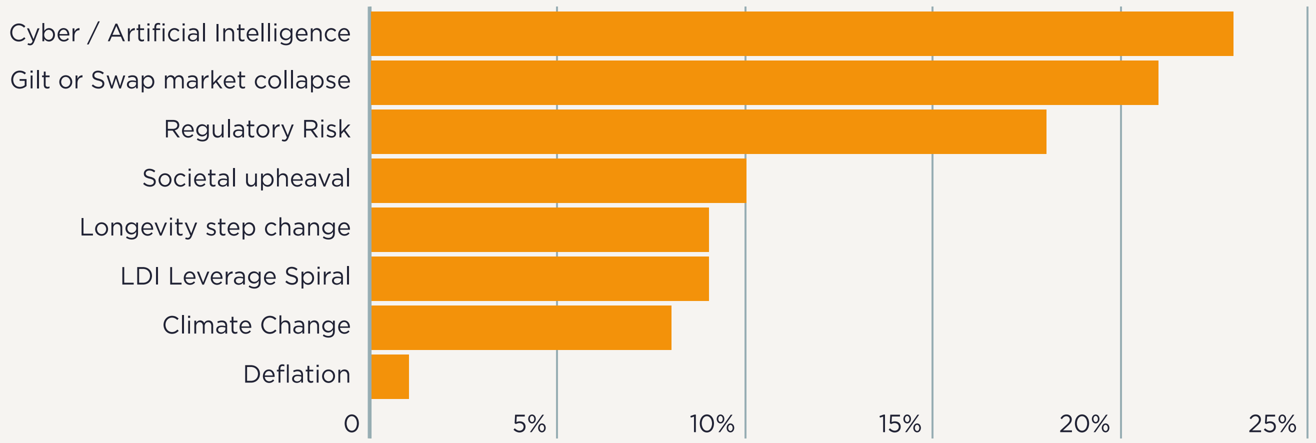
It's important to fully understand the accounting implications of different strategies and end games at an early stage. These can be quite different, and unintuitive, particularly under US GAAP.

Phil Cuddeford Partner, LCP

5. Systemic risks

With increased mitigation of primary risks such as investment, inflation and mortality, focus is now turning to systemic risks like cyber risk, climate risk, deflation spiral, market failure or societal upheaval (e.g. due to geopolitical conflicts).

Of the following systemic risks which are you most worried about for your DB scheme?



Source: LCP 2024 annual DB pension scheme survey

To give a little more background to some of these key systemic risks:

- **Cyber risk** – Following several high-profile incidents, many schemes are concerned about this risk, but with a mixed level of preparedness. Sponsors should work with trustees to develop robust response plans. See our **cyber checklist** and share this with trustees if helpful.
- **Artificial Intelligence ("AI")** – AI continues to take the pensions (and wider!) world by storm – with just one example being to improve member engagement and facilitate more informed financial decision making. However, it can also make cyber risks more acute, offering new tools to those carrying out attacks. Visit **LCP's AI Insight hub** to explore this topic further.
- **Climate risk** – There is increasing onus on schemes to include climate change in their decision-making processes and view of sponsor covenant, with explicit references in recent codes of practice from the Regulator. **LCP Transform** helps those companies on a journey from baseline education to deploying capital towards the energy transition, whether that be in relation to pension scheme assets or a broader asset base.
- **Longevity step-change** – Scenarios exist which could push longevity in either direction: for example medical advances vs disease / antibiotic resistance. While changes to mortality rates might take some time to manifest, certain events could immediately change views on future mortality, impacting liabilities immediately. This could interact with other systemic risks through knock-on economic effects.
- **Geopolitical developments** – As just one example, Bloomberg has recently estimated that a China-Taiwan war could lead to a global GDP reduction of around 10%, which is around twice the impact of the 2008/9 global financial crisis. The effect on sponsor covenants and pension funding would be difficult to estimate.
- **Deflationary spiral** – With falling inflation, could DB schemes' hedging policies lead to a spiral? As inflation falls, pensions start to look more fixed rather than inflation linked, due to the floor of 0% on annual increases. This means schemes start to reduce index-linked gilt holdings, leading to further deflationary pressure. We recommend taking the time to understand this risk and ensuring your scheme is well placed to react quickly if needed.

Sponsors should:

1. Develop their own views on these risks, including how they stack up against different end games such as buy-out, run-on, or superfund – so the assessment of systemic risks informs the choice of end game.
2. Engage with trustees on their approach to these risks.
3. Develop actionable contingency plans where feasible (e.g. deflation spiral risk).

Systemic risks are potentially too critical to leave unchecked - sponsors must stay engaged alongside trustees to safeguard stability and resilience.

Dev Gandhi Principal, LCP

Further hot topics

Development	*LCP viewpoint*
Budget 2024	In what has been one of the most highly anticipated budgets in recent years, Rachel Reeves delivered the new government's first Budget at the end of October. In order to repair the £22bn 'black hole' in the country's finances, the new Budget intends to raise taxes by £40bn. Whilst the bulk of the rumoured changes to pension taxation have been sidelined (for now), there will be a number of other changes (such as inheritance tax on unused pension funds and death benefits, increases to National Living/Minimum Wage, increases to capital gains tax and the abolition of the non-domiciled tax regime). Importantly for sponsors, the main rate of employer Class 1 National Insurance contribution rates will increase from 13.8% to 15.0% from 6 April 2025, and the threshold above which these are paid will decrease from £9,100 pa to £5,000 pa. Whilst almost all employers will need to pay higher NI contributions, the changes will also increase the NI contribution savings that can be achieved through salary sacrifice and bonus sacrifice arrangements. There were also some more technical changes including to some trustee requirements – you can read more in our special Budget note here: **LCP Pensions Bulletin - Budget special** *So what?* The change to employer national insurance contributions may mean that a review of staff costs (such as pension contributions, salary sacrifice and flex arrangements) may be necessary to ensure that total spend remains within corporate budgets.
Pension risk transfer market	With buy-out funding levels at record highs, demand for insurance continues to rise. New entrants into the market, as well as expansion in insurer capacity is leading to some of the best full scheme buy-in pricing in years. See our **2024 pension risk transfer report**. *So what?* Sponsors who are keen to get well-funded pension schemes off their balance sheets should seek to drive the process to secure the best commercial terms. And sponsor involvement shouldn't cease at buy-in /out – the post transaction (wind-up) work for a DB scheme can be significant and sponsors should seek to ensure this is done as efficiently as possible, especially where they will have access to a refund of surplus on completion of the wind-up.

With so much change in both legislation and the strategic options available, it's an exciting time to be advising sponsors after years of risk management. Our breadth and depth of expertise and experience mean we can deliver the optimal outcome for any sponsor no matter what their objectives are.

Gordon Watchorn Partner and Head of Corporate Consulting, LCP

Development	*LCP viewpoint*

Contingent funding

Contingent assets can be used in a wide range of circumstances. "Protective" type mechanisms can be used to support less well funded schemes, or those where the covenant support afforded is weaker. These funding solutions can also be used in the face of challenges presented by the new DB funding regime, or where compliance with Fast Track may not be appropriate.

Trapped surplus remains a key concern for sponsors, despite changes to the refund of surplus tax rules earlier in 2024. "Surplus management" type solutions can be used to support both "traditional" and "alternative" end game solutions, to make the most of the opportunities presented by DB schemes.

Explore contingent funding options further in our **contingent funding handbook** and watch our recent webinar on **contingent funding in the new pensions era**.

So what?

Contingent funding can bring significant benefits for both sponsors and members, wherever they are on their journey plan. With the new funding code now in force, there is no better time to think about your end game and make sure your contingent funding solutions are aligned with it.

With many historical contingent arrangements set up when pension schemes were in a markedly different funding position, sponsors should work with trustees to ensure that any existing contingent assets remain fit for purpose as well as compliant with the new funding regime.

Katie Peto Partner, LCP

DC Pensions

The new Government launched a Call for Evidence in relation to the first phase of its Pensions Review in September 2024 which focused on the DC market (as well as Local Government Pension Schemes), with the key themes being around scale and consolidation, costs versus value and investment in the UK economy.

So what?

The legal and regulatory direction of travel is towards DC consolidation, however there are industry concerns that whilst the Government's intention behind their stance is commendable, there is not enough incentive currently for schemes and sponsors to support any immediate and drastic changes in approach. The Call for Evidence has now closed and in our response we called for the Government to "improve the quality of the carrot before bringing in the stick" and to focus on driving behavioural change across the industry.

We are encouraging both providers and the industry to enhance the options available, without the need to over consolidate or mandate, which could cause risk for pension savers in the longer term.

Rachel Crowther Principal, LCP

Development	*LCP viewpoint*
Collective Defined Contribution schemes	The first UK Collective Defined Contribution ("CDC") scheme, operated by the Royal Mail, launched in October 2024. Initially announced in 2018, the Royal Mail Collective Pension Plan offers its 100,000+ members an income for life and a lump sum at a known cost to the employer, using an innovative risk sharing mechanism where investment and mortality experience is shared across the membership. Shortly following this launch, the Government released a much-anticipated consultation on multi-employer regulations which will enable a much wider group of employees to access CDC, for example more complex employer groups or "industry wide" schemes that between them may currently employ many millions of people. *So what?* Our **case for change** sets out the benefits CDC could offer members, employers and wider society. For employers who are increasingly competing to attract and retain the best talent, this potentially means an ability to enhance reward strategies by providing better quality pension within current pensions budgets and without the risk of deficits that have in the past hampered defined benefit schemes.  *LCP is working with several multi-employer occupational schemes, such as the Church of England Pensions Board, to explore how CDC might transform retirement outcomes for scheme members. We hope that these recent industry developments will prompt many of the UK's largest groups to think seriously about opening up fresh pensions options for millions more employees across the UK.* **Steven Taylor** Partner, LCP
Professional Trustees	Our **latest report** shows that, for the first time, over half of UK pension schemes have a Professional Trustee ("PT"). There has also been marked growth in the number of Sole Trustee appointments over recent years, including for schemes with over £100m in assets, showing that this model can work for larger schemes. PT firms have been scaling up resources to support their growth as they seek to expand into more non-traditional areas such as scheme secretarial and project management. A number of PT firms have developed streamlined offerings to support the demand for Sole Trustee services, providing smaller schemes a different route to access high-quality governance, advisory services and investment solutions which are often out of reach for schemes with limited budgets. *So what?* The use of a professional trustee can be beneficial to sponsors in expertly managing the sponsor/trustee relationship. Sole trustees, whilst not right for all schemes, can offer streamlined and experienced decision making. Sponsors should consider whether the make-up of the trustee board is appropriate given where the scheme is in its journey plan.  *We see the trend of rising Professional Trustee and Sole Corporate Trustee appointments continuing into the future as sponsors look to enhance governance on their DB and DC schemes.* **Nathalie Sims** Head of Strategic pensions relationships, LCP

Round up of other developments

Virgin Media case / Section 37

Aside from the accounting implications of the Virgin Media case (see Section 1), there are potential wider consequences, such as uncertainties around the existence of a surplus, potential for additional liabilities to impact the funding position of affected schemes, and the impact on buy-in transactions. At the right time, sponsors will need to work with trustees to ascertain whether there is an impact and quantify it, if so.

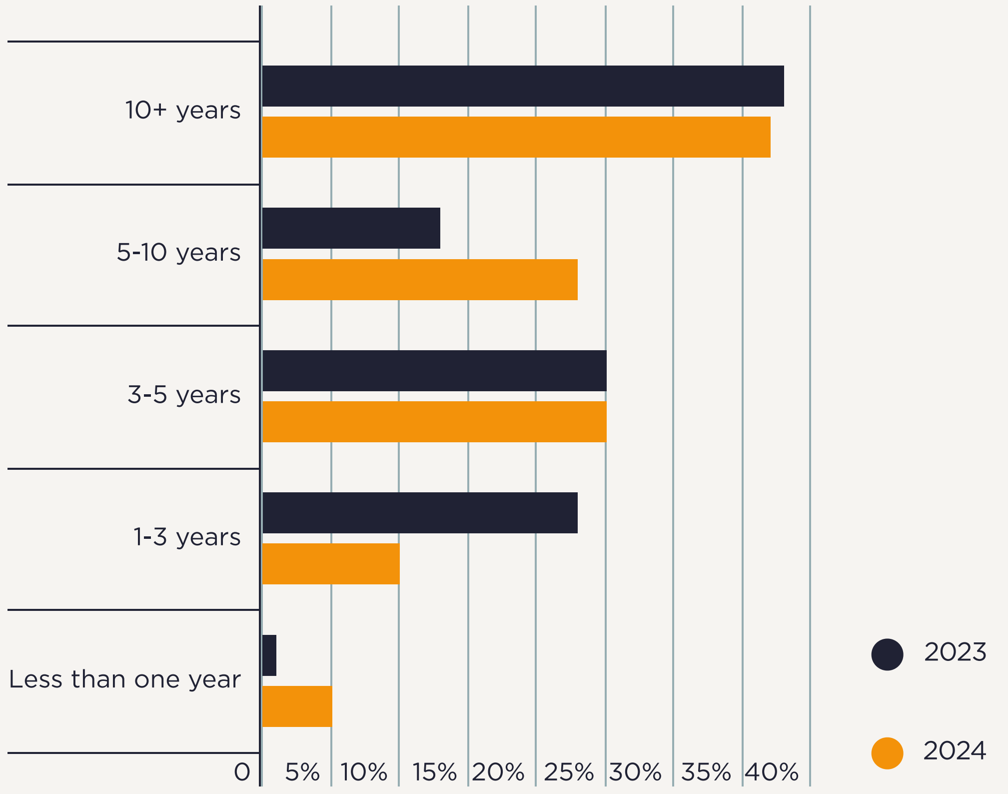
Inflation and discretionary increases

Given that inflation seems to have steadied since its dizzy heights from two years ago, pressures around awarding discretionary increases are likely to have subsided to some extent. That being said, with many schemes in healthy funding positions, sponsors may be being asked to award one-off increases to make good for historical capped pension increases. In addition, with the alignment of RPI with CPIH from 2030 onwards creeping closer, sponsors should ensure appropriate assumptions are being used for funding and accounting purposes.

Corporate activity impacting the sponsor covenant

Whether it be persistent higher interest rates impacting the cost of servicing debt, businesses restructuring in order to secure their ongoing viability, or the influence of the new funding code, the focus on covenant has arguably never been higher. Almost two-thirds of respondents in a recent LCP survey suggested that their sponsor covenant is reliable for less than 10 years. Sponsors should lead these discussions to provide evidence of longer covenant reliability periods before allowing trustees to conclude on a potential weakening of the sponsor covenant.

How long do you think your employer covenant is reliable for?



Source: LCP 2024 annual DB pension scheme survey

Member options

In an economic environment of high yields and historically volatile inflation, many schemes are taking action to allow flexibility in the way benefits are drawn to ensure members are making the right decisions. Sponsors should also work with trustees to consider whether any member option factors that have not been reviewed for a while are appropriate in current market conditions and do not place a funding strain on the scheme.

GMP equalisation

GMP equalisation processes may be coming to a conclusion for some schemes, but certainly not all, and sponsors should continue to be involved in key strategic decisions, especially where there is a financial consequence of any decision taken.

PPF levies

The PPF expects that 95% of schemes will pay a lower levy in 2025/26 than they did in 2023/24, though they are still seeking to collect £100m this year. The industry continues to put pressure on lawmakers and the PPF to enforce legislative changes to allow the PPF to practically stop collection of the PPF levy given the PPF's healthy funding position.

Data quality

Whilst primarily a trustee consideration for administering benefits, good quality data can also help make wider projects more efficient. GMP equalisation, preparation for the Pensions Dashboard and getting the scheme ready for an insurance transaction are all examples of areas where good data can make the process easier and could lead to cost savings in the long run. Sponsors should challenge trustees on their progress in this area.

Pension Schemes Act 2021

Processes should now be set up to meet the new provisions, but it makes sense to have periodic reminders of the requirements and review governance accordingly. No news yet on the new notifiable events regime.

ARGA

The establishment of the Audit, Reporting and Governance Authority (ARGA) to replace the FRC has been a long time coming, but the expectation is that the draft Bill is expected in the first half of 2025. ARGA is expected to bring more powerful regulation, to strengthen the UK's audit and corporate governance regimes – with increased accountability for directors.

Pensions dashboards

The deadline for pensions schemes to be dashboard ready is getting closer. Whilst the onus is on trustees to ensure compliance with getting the pension scheme set up on pensions dashboards, sponsors should ensure that this is still on track. See our flyer on **Getting dashboard ready** for more information.

Financial wellbeing

With the cost-of-living crisis continuing for many employees, a **recent LCP survey** found that over half (56%) have found themselves in financial difficulty with almost three in four (74%) feeling stress with financial or work-related pressures cited as the main source of stress. Employers should communicate with their employees to let them know what support is available and provide resources to build financial capability and resilience amongst the workforce.

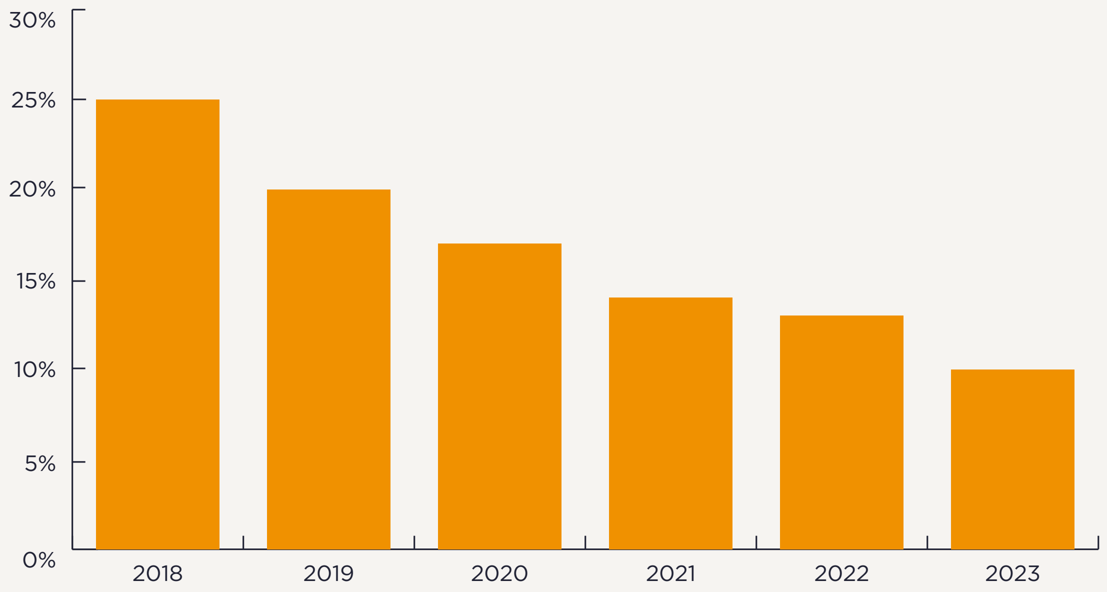
Diversity, Equity and Inclusion ("DEI")

Some sponsors are considering the make-up of their trustee boards. The Pensions Regulator published the **results of its DEI survey** earlier this year which showed that pension boards lack diversity.

Executive pensions

Average pension contributions to a FTSE100 CEO as a percentage of basic salary continues to fall from 25% in 2018, down to 10% in 2023, showing a marked alignment of executive pensions with the wider workforce. Find out more about executive pensions benchmarking in our **2024 accounting for pensions report** and consider action if not taken already.

Average pension contribution to a FTSE100 CEO as a percentage of basic salary



Source: LCP's 2024 Accounting for Pensions report

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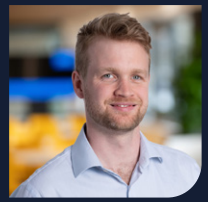

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At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.

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