

Pensions Risk Survey Results

Former US Secretary of Defense Donald Rumsfeld captured public imagination when he spoke about “known knowns”, “known unknowns” and “unknown unknowns”. These terms have since been adopted as part of the risk management phrasebook. In a pensions context, the “unknown unknowns” have been the subject of much discussion since The Pensions Regulator (TPR) first issued its internal controls code of practice and guidance in 2006.

Many pension schemes now have a well-established and effective risk management process in place that feeds into business planning and decision-making. In December 2015, TPR issued its Integrated Risk Management (IRM) guidance, which provides a useful framework for managing risks and is an important part of good governance. However, IRM, with its narrow focus on funding, covenant and investment strategy, does not address the full breadth of pension scheme risk.

Trustees and corporate sponsors of pension schemes need to ensure that their risk management processes keep pace with legislative changes, regulatory expectations and technological developments. As IRM risk mitigation takes hold, other risks become proportionately more significant.

In early 2019, we conducted a client survey to assess how confident trustees and corporate sponsors feel about some fundamental areas of risk that are not directly covered as part of IRM. We focused on the “known unknowns” – i.e. the risks that employers and trustees are already aware of, but may not have explored fully. These risks are often the ones that cause the most worry, but there are simple, practical steps that can be taken to assess and mitigate these risks. The survey also attempts to shine a light on some risks that might previously have been in the “unknown unknown” category.

Survey Responses

We received survey responses from people involved in a wide range of scheme sizes.

Less than £50 million	16%
£50 million – £100 million	20%
£100 million – £500 million	25%
£500 million – £1 billion	16%
£1 billion – £10 billion	15%
More than £10 billion	8%

How Prepared Are You?

We asked, “How prepared do you feel to tackle the risks facing you?”

Answer

We feel very prepared	33%
We have done some preparation	64%
We have done little to no preparation	3%
We feel very underprepared	0%

What Is Keeping You Awake?

Our respondents were asked to rank 10 “stay awake” risks. These are set out below, in the order of perceived overall importance from high to low.

1	Errors in scheme administration or HR/payroll function
2	Benefits misaligned to scheme documents/overriding legislation
3	Breaches of regulatory requirements/best practice standards
4	Data protection failings and cybersecurity
5	Poor/limited member communications
6	Relationship challenges between sponsor and trustees
7	Inadequate strategic planning
8	Trustee governance gaps and key person risk
9	Lack of supervision of delegated services
10	Weaknesses in investment governance and documentation

Comment

We noted some differences between the level of importance assigned to risks by corporate sponsors and trustees: trustees tended to focus on risks that had a member impact; employers on compliance risks.

Comment

“Trustee governance gaps and key person risk” was the most important risk for the £10 billion+ schemes, although it ranks low in the overall order.

Comment

We were surprised that “weaknesses in investment governance and documentation” was ranked as the least important risk, bearing in mind the fundamental importance of scheme investments and the size of assets under management.

Risk Register

We asked, "Which of the risks are currently included on your risk register?" The combined response from trustees and corporate sponsors is shown below.

	Included
Data protection failings and cybersecurity	92%
Errors in scheme administration or HR/payroll function	90%
Breaches of regulatory requirements/best practice standards	81%
Trustee governance gaps and key person risk	73%
Benefits misaligned to scheme documents/overriding legislation	71%
Relationship challenges between sponsor and trustees	69%
Weaknesses in investment governance and documentation	57%
Poor/limited member communications	55%
Lack of supervision of delegated services	50%
Inadequate strategic planning	24%

Comment

We were surprised that data protection and cybersecurity does not feature on 8% of risk registers, in view of the recent work that schemes have undertaken on GDPR.

Comment

Although corporate sponsors ranked "inadequate strategic planning" in their top five risks, 88% of corporates and 72% of trustees do not have this on their risk register. This would indicate that TPR's intention to focus on the importance of setting long-term objectives is timely and justified.

Contacts

Kirsty Bartlett

Partner, London
T +44 20 7655 0298
E kirsty.bartlett@squirepb.com

Matthew Giles

Partner, Birmingham
T +44 121 222 3296
E matthew.giles@squirepb.com

Elizabeth Graham

Partner, Leeds
T +44 113 284 7494
E elizabeth.graham@squirepb.com

David Griffiths

Partner, Manchester
T +44 161 830 5359
E david.griffiths@squirepb.com

Wendy Hunter

Partner, London
T +44 20 7655 1119
E wendy.hunter@squirepb.com

Catherine McKenna

Partner, Leeds
T +44 113 284 7045
E catherine.mckenna@squirepb.com

Helen Miles

Partner, Birmingham
T +44 121 222 3138
E helen.miles@squirepb.com

Clifford Sims

Partner, London
T +44 20 7655 1193
E clifford.sims@squirepb.com

Philip Sutton

Partner, Birmingham
T +44 121 222 3541
E philip.sutton@squirepb.com

What Is Next?

Many steps can be taken to reduce a pension scheme's risk exposure. We invite you to follow our #meetPAUL campaign, where we will seek to help trustees and corporate sponsors to improve their risk scores. We will be helping to break risk assessment and mitigation into bite-sized chunks. In the coming weeks, we will focus on each of our survey risks in turn and issue a one-page factsheet with simple and practical suggestions that can be built into future business planning. We start from the premise that trustees and corporate sponsors already have a well-managed risk management system on which they can build.

We will be elaborating on some of the risk management strategies in our autumn events. Watch this space!

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