

CBI



Commitment through crisis:

How schemes responded to Covid-19 and their expectations for the future - CBI/Mercer Pensions Survey 2021

October 2021
People and Skills

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Foreword CBI

Since our last Pensions Survey in 2019, the economy and the labour market have undergone huge and unprecedented changes due to the impact of the coronavirus pandemic. Flexible ways of working accelerated overnight, businesses scrambled to change their operations with little warning, or close altogether, and scheme investments fluctuated.

Yet despite the cash-flow pressures firms faced because of the pandemic, this survey shows that employers continue to strongly believe in the moral and business case for providing competitive workplace pensions. Pensions help businesses attract and retain the people they need. With most employers seeing access to labour and skills as the top two threats for UK labour market competitiveness, the role of pensions as a valuable employee benefit is only likely to increase.

As they recover from Covid-19, employers are already looking ahead to the long-term role they can play in providing competitive workplace pensions and to the impact of new regulation. Declining DB pensions and the shift to DC, rising longevity and the need to boost employee engagement in savings raises questions about the role of employers and government in DC adequacy.

Employers know they must play their part – from taking greater responsibility for communicating with staff about their pensions, to making advice and guidance available to staff as part of their pension scheme proposition. But they also want help from government to reinvigorate employee engagement with workplace pensions to help them meet their future savings needs. Businesses want to see government prioritise raising public awareness of the role of pensions savings and educating people about the importance of their pension to improve financial security in retirement.

With the environmental impact of rising emissions evident, employers think a similarly collaborative approach is needed to reach net zero. They support new requirements to identify their scheme's exposure to climate-related financial risk, in line with their fiduciary duties and see disclosures as valuable to drive staff engagement with pensions, particularly among younger people.

Ultimately, employers want their disclosures to be impactful. Overcoming a lack of understanding about the new requirements among both employers and trustees must be a priority. So too must better access to standardized data, metrics and measurement to enable employers to produce high-quality statements that help ensure the climate impact of investments is properly understood.



Jennifer Beckwith
Head of Employment, CBI



Foreword Mercer

We can all recall those early stages of the pandemic, when (alongside stockpiling concerns) the pensions industry feared that businesses would de-prioritise pensions and members would opt out of saving for retirement. It is, therefore, reassuring to see that support for pensions remains undimmed, and that most senior executives see it as their moral obligation to improve retirement outcomes for their employees. Pension saving is also seen as a key aspect of the employer value proposition.

Employee participation rates and contributions have remained resilient – though whether this is driven by personal commitment to retirement saving or simple inertia remains an open question.

Despite understandable cash flow pressures, businesses with a defined benefit schemes remain committed to securing these benefits. Of those impacted by COVID-19, a relatively small proportion took the step of negotiating a temporary pause or reduction in deficit contributions. We are encouraged to see that one in four employers are thinking creatively about how to support covenant risk and have introduced non-cash measures to enhance member security; that said, we were a bit surprised, perhaps, that more have not yet explored this option given the competing calls on cash as we emerge from the pandemic.

The survey also throws up some areas of concern. Employers are deeply concerned about the rising direct and indirect costs of defined benefit pensions regulation, particularly the new (potentially criminal) offences of the Pensions Scheme Act 2021 and the application the proposed Single Code of Practice. Few understand how the implementation of the Long-Term Objective (LTO) will work in practice and one third expect it will lead to higher cash contributions. Perhaps this uncertainty and risk is why over half of employers intend to be proactive in discussions on the LTO rather than wait for a proposal from their trustees.

Encouragingly, the vast majority of senior executives consider their pension governance to be effective already, implying concern that their schemes will be burdened with costs for measures aimed at a small minority.

There is also strong recognition that auto-enrolment levels, savings and current engagement levels are just not good enough; but with the burden of defined benefit regulation weighing corporates down, senior executives are finding it hard to commit the time and spend on defined contribution. This perhaps leads to the question of intergenerational “fairness” that will not be lost on a younger working population that will not benefit from defined benefit pension provision.

Aspirations for incorporating ESG more substantially into pension scheme management are high, but the pace of change is slow. Only a fifth of businesses have aligned corporate sustainability goals with their pension arrangements. There is mixed support for TCFD-aligned reporting and disclosure amid concerns on the practical implementation.

In brief, there is a lot to do on ESG and the prize is high, but many do not know where to start.



Tessa Page

Partner and UK Wealth Trustee Leader, Mercer



Christian Hardy

Senior Partner and Leader of Mercer's Corporate Advice in the UK

Insights at a glance

The CBI/Mercer Pensions Survey 2021

- The survey was conducted between Monday 7th June and Friday 25th June 2021.
- The survey was completed by 186 senior executives and 164 individuals responsible for the pension scheme in their business.
- 75% of businesses who responded to this survey had a DC scheme, 24% of which have an aggregate value of more than £51 million (**Exhibit 1.1**).
- 31% of businesses who responded to this survey had a DB scheme, 41% of which have an aggregate value of over £1 billion. (**Exhibit 1.2**).

Exhibit 1.1 The aggregate value of the DC pension scheme/s who responded to this survey.

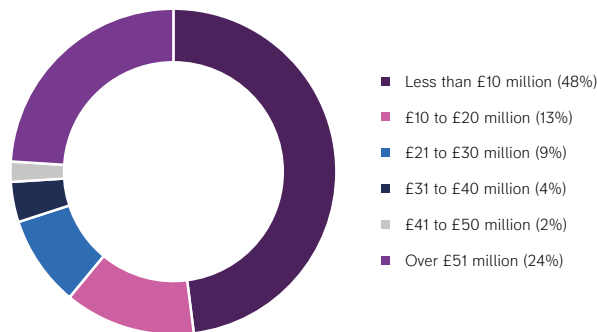
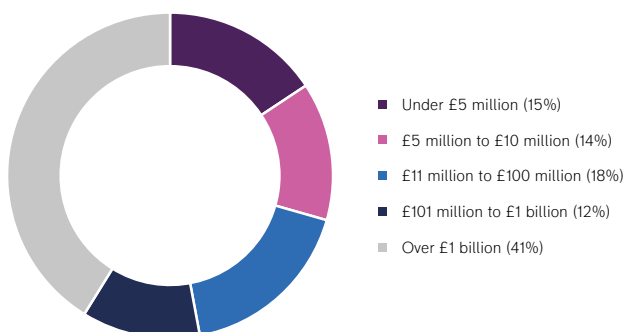


Exhibit 1.2 The aggregate value of the DB pension scheme/s who responded to this survey.



Businesses are committed to providing competitive workplace pensions and think they should pay more than the minimum where they can

- More than 4 in 5 (86%) senior executives who responded to this survey think there is a strong business case for providing a competitive workplace pension, with the same proportion believing that it is their moral obligation to do so to help employees save for retirement..
- Businesses remain committed to workplace DC pensions, despite the impact of the pandemic. 9 in 10 (92%) businesses who experienced a negative impact on their cash flow due to Covid-19 have not changed their approach to their DC pension scheme or reduced their contributions as a result.
- DB schemes have demonstrated similar resilience. Despite 2 in 5 (41%) businesses with a DB scheme reporting that their cash flow has been negatively impacted by the pandemic, almost all of those maintained their cash contributions to the pension scheme and have not negotiated a temporary pause or reduction with trustees.
- Businesses think that those who can afford it should improve retirement outcomes for employees and the vast majority choose to do so already. More than 3 in 5 (65%) senior executives think that, where businesses can, they should pay more than the minimum statutory contribution into automatic enrolment schemes to support employee's retirement. 8 in 10 (82%) businesses offer contributions above the statutory minimum as part of their employee benefits package.

Improving the sufficiency of retirement income by building on the success of AE is a long-term objective business' support

- Three quarters (76%) of senior executives who responded to this survey think that higher aggregate contribution rates (above the current 8% statutory minimum) will be needed in the future to ensure that workers have sufficient levels of retirement income.
- Three quarters (74%) of senior executives think businesses must do more to engage staff with pension saving. Over half (56%) of senior executives think that businesses should make guidance/advice available to staff as part of their pension scheme proposition.

- But businesses cannot improve saver engagement alone. Over 9 in 10 (96%) senior executives identify at least one government action that needs to happen to better engage employees with their long-term saving needs.
- Almost 9 in 10 (87%) senior executives think that during the next two years government should prioritise educating people about the importance of engaging with their retirement savings to optimise their income.
- There is significantly more support for raising aggregate automatic enrolment rates over a 5-year period (78%) than over the next 2 years (47%).
- Two thirds (62%) of senior executives think a contribution increase in the next 5 years should apply to businesses. But a significant minority of businesses (35%) do not think that government should increase the statutory minimum contribution paid by employers at all in the next 5 years.

DB schemes face an uphill struggle

- Businesses need more support from government to manage competing costs, allowing them to invest in their business while also maintaining their commitment to their DB schemes. Almost two-thirds (65%) of firms with DB schemes who responded to this survey think government should prioritise supporting DB employers to grow their business whilst meeting pension schemes costs during the next two years.
- Employers expect the direct costs of running a DB scheme to increase and that more of their time and resources will be spent completing administrative tasks to comply with new DB regulation. 1 in 3 (33%) expect cash contributions to increase due to the introduction of the new DB Funding Code of Practice, which is expected to be subject to further consultation in 2021. Despite their concerns, over three quarters (76%) of pension managers who think the new DB Funding Code of Practice will lead to an increase in cash contributions have not taken any actions to pursue alternatives to cash, such as enhanced security.
- Less than 1 in 10 (8%) pension managers say that they have a clear idea of what behaviours or actions are likely to constitute investigation and prosecution by TPR due to the introduction of two new criminal offences in the Pensions Act 2021, intended to deter wilful and/or reckless pension mismanagement. 2 in 5 (37%) therefore believe that their introduction and uncertainty surrounding the investigation and prosecution approach by TPR will lead to more resources being allocated to record-keeping and audit.

ESG presents opportunities for businesses, but there are significant barriers to overcome

- A net balance of businesses with both DB schemes (76%) and those with DC schemes (65%) think that TCFD-aligned reporting will deliver one or more benefits in the future.
- Businesses with a DC scheme (47%) are most likely to say that TCFD-aligned reporting and disclosure will be a useful way to engage employees with their future savings, whilst businesses with a DB scheme (43%) are most likely to say that it will be beneficial for the employee value proposition.
- However, while businesses aspire to better incorporate ESG into pension scheme management, the pace of action is slow. While half (52%) of senior executives think it is important to align their workplace pension scheme investment strategy with their corporate sustainability goals, only 1 in 5 (22%) say that their business has done so.
- One drag on progress is a lack of understanding about the new disclosure requirements among both employers and trustees. Fewer than 1 in 10 (8%) businesses believe they are well understood by trustees and just 5% of businesses think they are well understood by employers.
- A net balance of businesses with both DB schemes (81%) and DC schemes (53%) expect TCFD-aligned reporting to pose one or more challenges.
- DB employers (62%) are more concerned than those with only a DC scheme (24%) that the new disclosures will lead to additional resources needing to be allocated to become compliant.
- 3 in 10 (29%) with a DB scheme worry that the introduction of TCFD-aligned reporting and disclosures will lead to divestment, which risks future returns achieved by the pension scheme.



Firms are committed to competitive workplace pensions and think they should pay more than the minimum where they can

Since our last Pensions Survey in 2019, the world has changed due to the impact of the coronavirus pandemic. The economy and the labour market have experienced rapid and significant change. Despite cash flow pressure created by significant restrictions on trading and reduced demand, as well as fluctuations in asset and liability values due to the shock impact of the pandemic, businesses have demonstrated admirable resilience. The pandemic has not disrupted their commitment to workplace pensions and businesses continue to strongly believe that there is a moral and business case for providing competitive workplace pensions.

Key findings

- More than 4 in 5 (86%) senior executives who responded to this survey think there is a strong business case for providing a competitive workplace pension.
- More than 4 in 5 (86%) senior executives also think it is their moral obligation to contribute to employees' pensions to help them save for retirement.
- 8 in 10 (82%) businesses offer contributions above the statutory minimum as part of their employee benefits package.
- More than 3 in 5 (65%) senior executives think that, where businesses can, they should pay more than the minimum statutory contribution into automatic enrolment schemes to support employee's retirement.
- 9 in 10 (92%) businesses who experienced a negative impact on their cash flow due to Covid-19 have not changed their approach to their DC pension scheme or reduced their contributions as a result.
- Despite 2 in 5 (41%) businesses with a DB scheme reporting that their cash flow has been negatively impacted by the pandemic, almost all of those maintained their cash contributions to the pension scheme and did not negotiate a temporary pause or reduction with trustees.
- Employee contributions also remained resilient overall, with most (82%) businesses saying that fewer than 10% of their employees chose to opt-out or stop paying employee contributions into their DC scheme since March 2020.

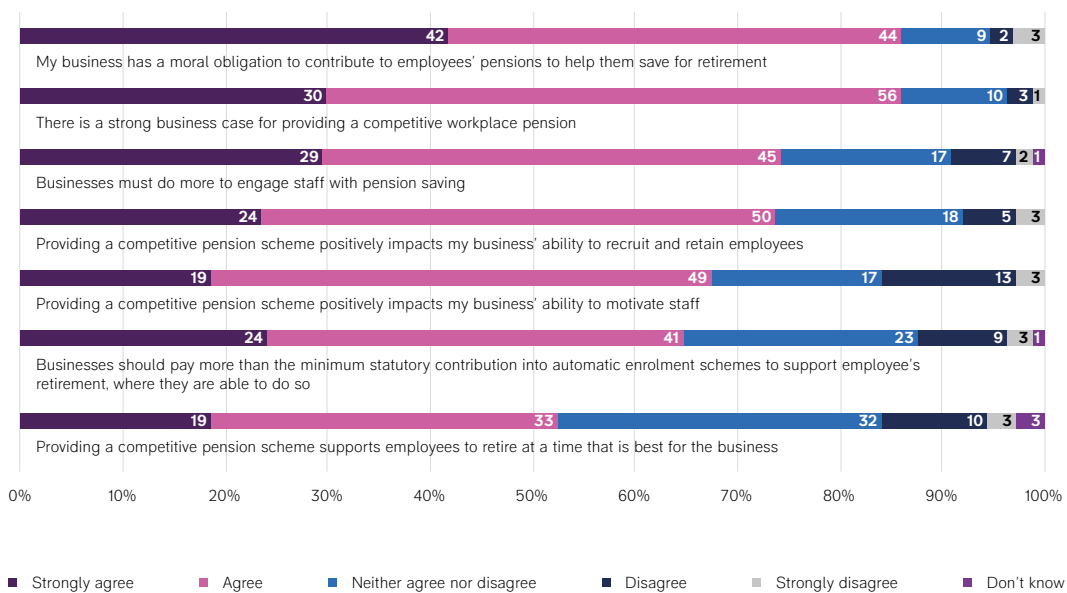
Competitive pension schemes are an important part of an attractive employee value proposition

We asked firms about business' role in pension provision and found that leaders continue to see competitive workplace pensions as an important business responsibility. 86% of senior executives who responded to this survey think there is a strong business case for providing a competitive workplace pension, with the same proportion saying it is their moral obligation to contribute to employees' pensions to help them save for retirement (**Exhibit 2.1**).

Leaders also think that competitive pensions play a role beyond securing an employee's retirement and are a useful benefit to support workforce management. Three quarters (74%) of senior executives believe that providing a competitive pension scheme positively impacts their business' ability to recruit and retain employees. They also see competitive workplace pensions as an important part of the rewards and benefits that are received by employees in return for their performance at the workplace, also known as the employee value proposition (EVP), with 67% saying that it positively impacts their business' ability to motivate staff.

To unlock these benefits, 8 in 10 (82%) businesses with a DC scheme offer contributions above the statutory minimum as part of their employee benefits package. It's because businesses see so much value in providing competitive workplace pensions that the vast majority choose to invest more than the minimum automatic enrolment requirement.

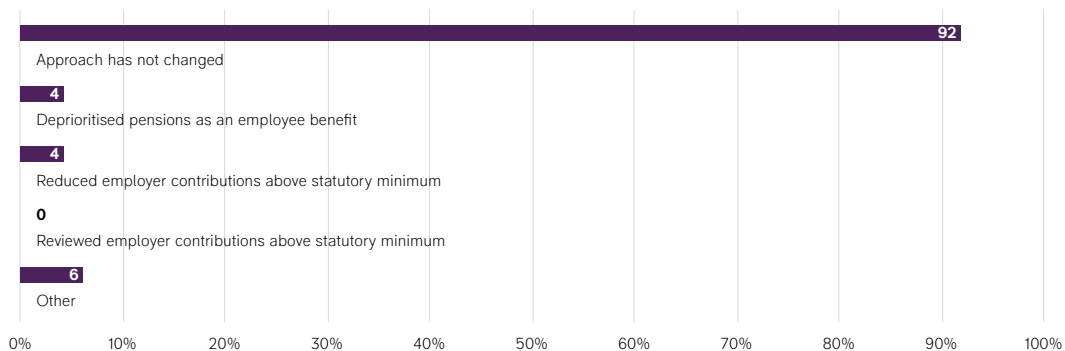
Exhibit 2.1 Business attitudes towards pensions.



Despite cash flow pressure from the Covid-19 pandemic, business' commitment to DC schemes has remained resilient...

Despite significant disruption to business activity and financially material impacts on cash flow, we found that businesses have overwhelmingly continued to prioritise providing competitive workplace pensions. Our survey found that just under 2 in 5 (39%) respondents experienced diminished cash flow due to the Covid-19 pandemic, but of those, 9 in 10 (92%) did not change their approach to their DC pension scheme as a result (**Exhibit 2.2**). Sectors which were required to close or operate under reduced capacity, such as the Arts, Entertainment and Recreation, are much more likely to report that Covid-19 has negatively impacted cash flow. Only 4% of businesses that experienced diminished cash flow also reduced employer contributions above the statutory minimum and only 4% deprioritised pensions as an employee benefit, underlining employers' commitment through the crisis.

Exhibit 2.2 The impact of diminished cash flow on business' approach to DC pension schemes.



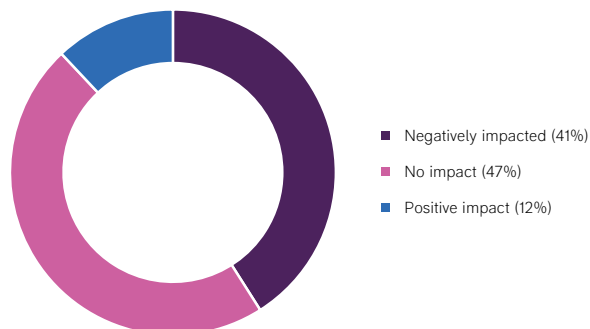
Employee contributions also remained resilient overall, with most (82%) businesses saying that fewer than 10% of their employees chose to opt-out or stop paying employee contributions into their DC scheme since March 2020. However, it's clear that the Covid-19 pandemic has hit some savers more significantly, with just under 1 in 5 businesses (17%) saying that between 10% and 29% of their employees chose to opt out or stop paying employee contributions into their DC scheme since March 2020. For comparison, data collected from respondents to our 2019 survey showed that the proportion of employees who chose to opt-out after a short period of saving was just 2.2%.¹



...and they have upheld their commitment to fund DB schemes

Despite cash flow pressure, businesses with a DB scheme have also continued to prioritise cash contributions to secure member benefits. 4 in 10 (41%) businesses with a DB scheme say their cash flow has been negatively affected by the Covid-19 pandemic (**Exhibit 2.3**). Almost all of those maintained their cash contributions to the pension scheme and did not negotiate a temporary pause or reduction with their trustees.

Exhibit 2.3 The impact of the Covid-19 pandemic on the cash flow of businesses with a DB scheme.



Improving the sufficiency of retirement income by building on the success of AE is a long-term objective business' support

Beyond the immediate Covid-19 crisis, the pensions landscape continues to experience other lasting changes which began long before the pandemic struck. Major pre-existing and long-term trends, such as the decline of DB pensions and the shift to DC, rising longevity and the lack of employee interest in increasing voluntary contributions, create new challenges for achieving DC adequacy in retirement, with implications for workplace pension saving. Businesses think that they have a moral obligation to provide workplace pension savings that support their staff to secure a sufficient retirement income. As well as crisis managing the unprecedented impact of the pandemic, employers are thinking about their role in responding to these long-term trends and enabling DC adequacy. This includes what they can do and what they need from government to reinvigorate employee engagement with workplace pensions savings to help them meet their future savings needs.

Key findings

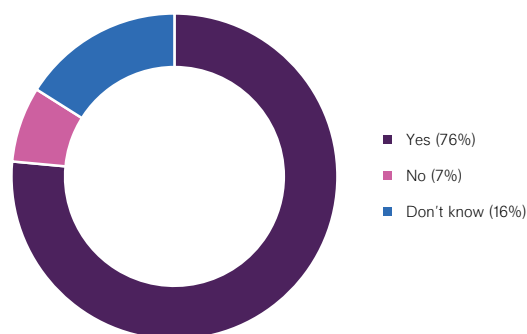
- Three quarters (76%) of senior executives who responded to this survey think that higher aggregate contribution rates (above the current 8% statutory minimum) will be needed in the future to ensure workers have sufficient levels of retirement income.
- Three quarters (74%) of senior executives think that businesses must do more to engage staff with pension saving.
- More than 9 in 10 (96%) respondents identify at least one or more government action they think is needed to engage employees with their long-term saving needs.
- Almost 9 in 10 (87%) senior executives think that in the next two years the government should prioritise educating people about the importance of engaging with their pension savings to optimise their retirement income.
- Two-thirds (62%) of senior executives think the statutory minimum contribution paid by employers should increase in the next 5 years, but a significant minority (35%) think that government should not increase the statutory minimum contribution paid by employers at all in the next 5 years.



Businesses agree that advice, guidance and financial education are increasingly needed to drive DC adequacy

Businesses think that current savings levels are unlikely to ensure workers have sufficient levels of retirement in the future. 76% of senior executives who responded to this survey think that higher aggregate contribution rates (above the current 8% statutory minimum) will be needed in the future (**Exhibit 3.1**). This compares to just 7% of senior executives who think the current statutory minimum will be enough to ensure the sufficiency of workers' future retirement income.

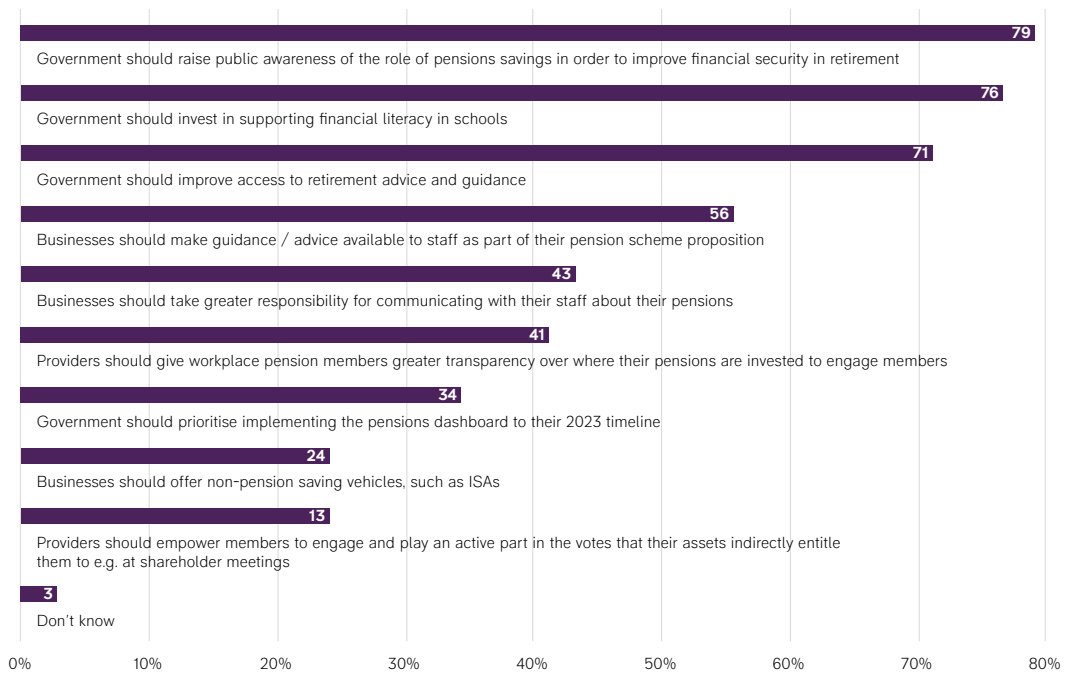
Exhibit 3.1 Business sentiment towards the role of higher contribution levels to address retirement sufficiency. Businesses were asked if the following statement reflects their view: "Aggregate higher contribution rates (above the current statutory minimum of 8%) will be needed to in the future to ensure that workers have sufficient levels of retirement income."



Businesses see themselves as having an important role to play in driving DC adequacy. Three quarters (74%) of senior executives think that businesses must do more to engage staff with pension saving. Despite 8 in 10 (82%) businesses offering contributions above the statutory minimum, responses to the survey imply that around 1 in 4 (25%) employees on average choose to not take advantage of the higher contributions already offered by employers.

Businesses want to see improved advice, guidance and financial education to boost saver engagement and increase voluntary contributions by employees. When asked what needs to happen to engage employees with their long-term savings needs, over 2 in 5 (43%) think businesses should take greater responsibility for communicating with staff about their pensions (**Exhibit 3.2**). Over half (56%) of senior executives also think that businesses should make guidance and advice available to staff as part of their pension scheme proposition. Greater access to information for savers is a sensible area of business focus, given that only half (52%) of pension scheme managers believe that scheme members are currently receiving sufficient guidance and advice to make informed decisions about their pensions and savings needs.

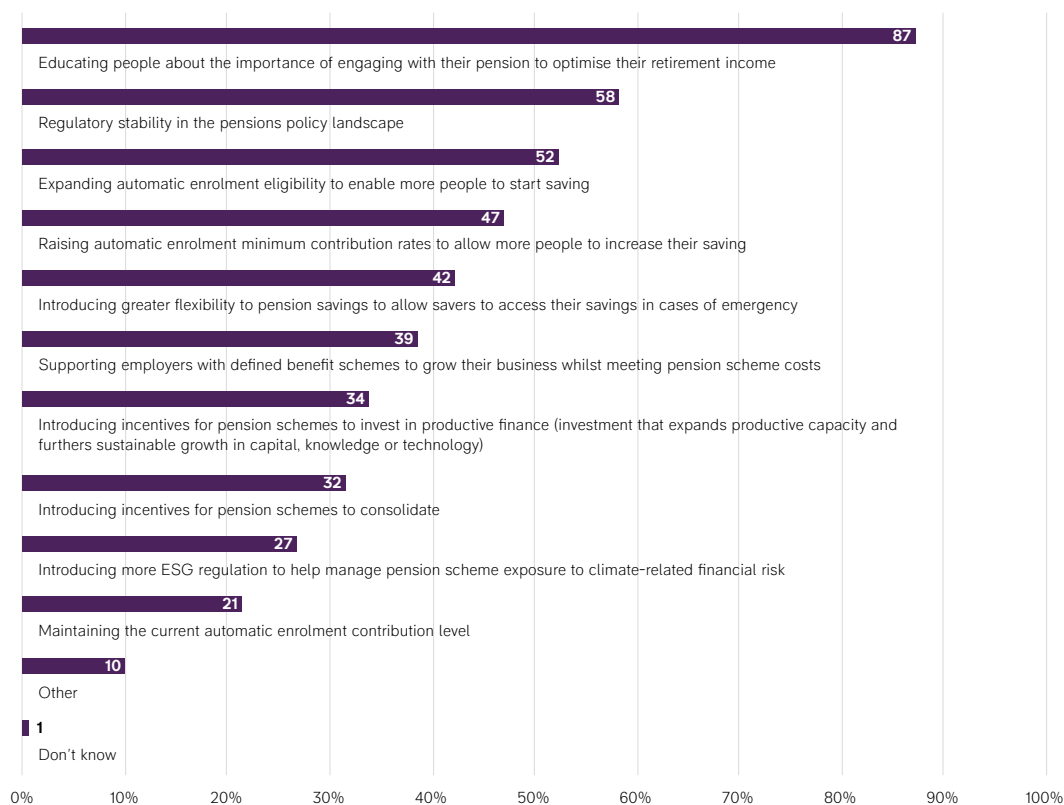
Exhibit 3.2 Actions businesses think will need to be taken to engage employees with their long-term saving needs.



But businesses cannot improve saver engagement alone, they also think the government plays an important role in boosting financial awareness and saver engagement. We asked businesses to identify 5 government priorities over the next two years and the most selected answer, chosen by 87% of senior executives, was for the government to prioritise educating people about the importance of their pension to optimise their retirement income (**Exhibit 3.3**). This has increased from 76% in 2019.

We also asked businesses to identify what specific actions the government, businesses or providers need to take to engage employees with their long-term saving needs. Senior executives think that government action is the most effective way to engage employees with pension planning, with almost all of those we surveyed (96%) identifying at least one action the government will need to take to engage employees to increase the amount they choose to save. These include the government providing more advice to those approaching retirement and engaging young people before they reach employment. 7 in 10 senior executives (71%) think government should improve access to retirement advice and guidance and almost 4 in 5 (79%) think the government should raise public awareness of the role of pensions savings to improve financial security in retirement. Businesses also think that financial education needs to begin long before employees reach retirement, with more than three quarters (76%) of senior executives saying that government should invest in supporting financial literacy in schools.

Exhibit 3.3 Pensions policy priorities for government over the next 2 years identified by businesses.



Businesses support an expansion to AE, but a significant minority can't afford higher minimum contribution levels right now

Automatic enrolment (AE) has been a huge success. Over 10 million workers have been automatically enrolled and over 1.6 million employers have met their automatic enrolment duties.² But its success is reliant on business buy in and affordability across all sectors. To maintain that success, government must create a regulatory environment that is conducive to recovery for the majority, before introducing additional employment costs.

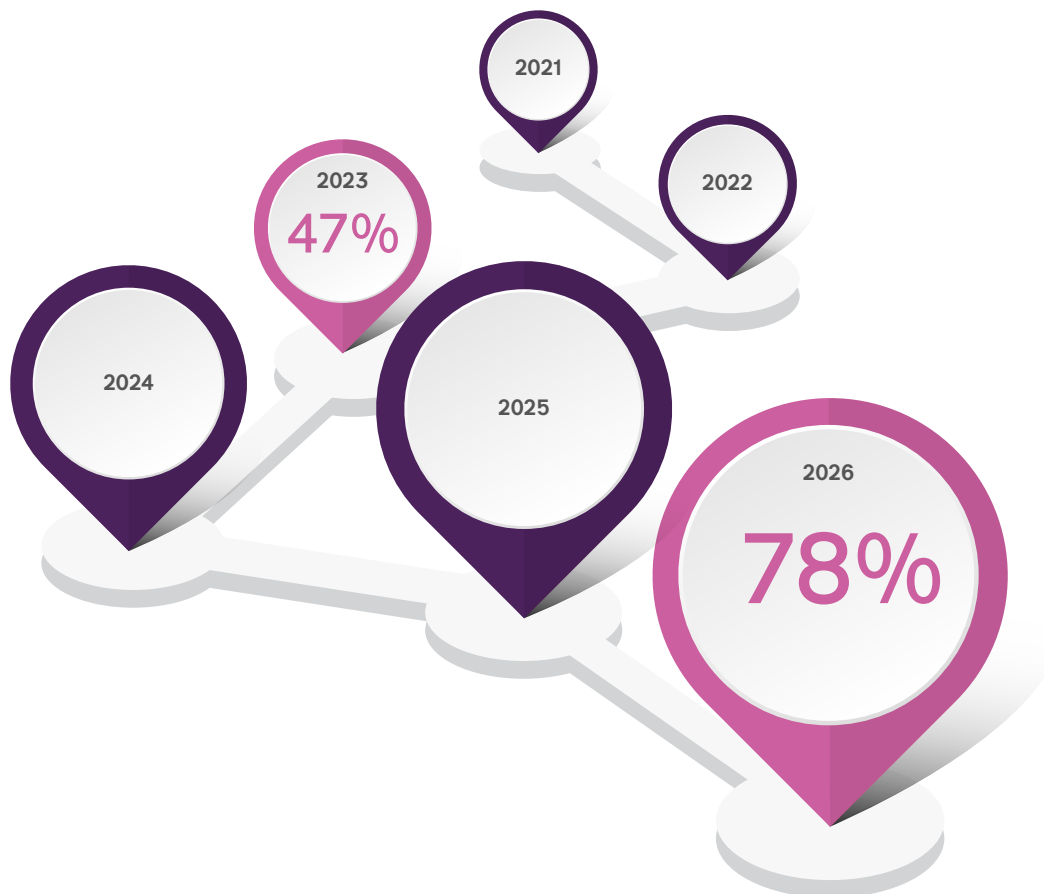
When we asked businesses to identify five priorities for government over the next two years, the second most selected option by businesses (58%), after saver engagement, is for government to ensure regulatory stability in the next two years **(Exhibit 3.3)**. This jumps to 69% for businesses who also say that their cash flow has been negatively affected by the Covid-19 pandemic and increases to 70% for businesses who already offer contributions above the statutory minimum.

At the same time, businesses are keen to enable more people to increase their saving, expecting discussions about the future of AE to be important in the next two years. Businesses continue to be supportive of the government's recommendations in the 2017 Automatic Enrolment Review that are yet to be implemented. Within their top 5 priorities, the third most selected option by businesses (52%) is for government to expand AE eligibility within the next two years.



There are higher levels of business support for raising minimum contribution rates if implemented in the medium term. Raising automatic enrolment minimum contribution rates to allow more people to increase their savings is also identified by businesses (47%) as one of their top 5 priorities for government over the next two years, as the fifth most selected option. But when asked over a longer time horizon, the percentage of respondents that think contribution levels should go up in the next 5 years jumps to 78%.

More businesses support raising minimum contribution rates when implemented over a five year period rather than a two year period.



When asked specifically about how minimum contribution levels should be raised over a 5-year period, 62% of respondents think a contribution increase should apply to businesses. The prospect of a longer time horizon does not reassure all businesses, with a significant minority (35%) stating that government should not increase the statutory minimum contribution paid by employers at all in the next 5 years. Raising minimum contribution levels at the right time will be critical to maintaining employer support and continuing the success of AE. Businesses have given a clear steer that they support increases to the statutory minimum contribution level made by employers in the medium term but that they need more time to prepare before an increase in employment costs.

DB schemes face an uphill struggle

The DB universe continues to shrink, with the total number of members dropping to below 10 million for the first time.³ Yet government interest in the regulation of DB pension schemes has only intensified, as plans to implement the aims of the white paper "Protecting Define Benefit Pension Schemes" will come into effect through the passing of the Pensions Schemes Act 2021 in February 2021 and the implementation of the new DB Funding Code of Practice, expected in December 2022. As a result, the cumulative regulatory burden of running a DB scheme has increased, making it harder for responsible employers to manage their DB pension scheme whilst investing in the sustainability of their business. Employers need clarity from government and the regulator about their responsibilities so they can continue to protect member benefits whilst growing their business.

Key findings

- Almost two-thirds (65%) of businesses with a DB scheme who responded to this survey think government should prioritize supporting DB employers to grow their business whilst meeting pension schemes costs during the next two years.
- Businesses with a DB scheme (25%) are more likely than businesses with only a DC scheme (14%) to cite the cost of administering automatic enrolment as a challenge.
- 1 in 3 (33%) employers expect cash contributions to increase when the new DB Funding Code of Practice is introduced.
- Over three quarters (76%) of pension managers who are concerned that the new DB Funding Code will lead to an increase in cash contributions have not taken any actions to pursue alternatives to cash, such as enhanced security.
- Fewer than 1 in 10 (8%) pension managers say that they have a clear idea of what behaviours or actions are likely to constitute investigation and prosecution by TPR due to the introduction of two new criminal offences in the Pensions Act 2021, intended to deter wilful and/or reckless pension mismanagement.
- As a result, 2 in 5 (37%) pension managers believe that the introduction of the new criminal offences and uncertainty surrounding the investigation and prosecution approach by TPR will lead to more resources being allocated to record-keeping and audit.

New regulations are expected to drive up the costs of running a DB scheme, yet few employers are exploring alternatives to cash

Employers expect the direct costs of running a DB scheme to increase and that more of their time and resources will be spent completing administrative tasks to comply with new DB regulation. This is on top of costs they are already experiencing. Not just worried about new regulation, employers also have concerns about existing obligations. Businesses with a DB scheme (25%) are more likely than businesses with only a DC scheme (14%) to cite the cost of administering automatic enrolment as a challenge. Almost a quarter of (24%) businesses with a DB scheme also say that managing their legacy DB (and/or DC scheme) alongside their automatic enrolment scheme was as a challenge.

Businesses need more support from government to manage competing costs to allow them to maintain their commitment to their DB scheme and to invest in their business. Ultimately, a strong solvent employer is the best security for a pension scheme. Almost two-thirds (65%) of businesses with a DB scheme who responded to this survey think government should prioritise supporting DB employers to grow their business whilst meeting schemes costs during the next two years.

Respondents are also apprehensive about the potential direct cost implications of changes to DB regulation. 1 in 3 (33%) expect cash contributions to increase due to the introduction of the new DB Funding Code of Practice, which is expected to be subject to further consultation in 2021. Despite their concerns, over three quarters (76%) of those who think the new DB Funding Code will lead to an increase in cash contributions have not taken any actions to pursue alternatives to cash.

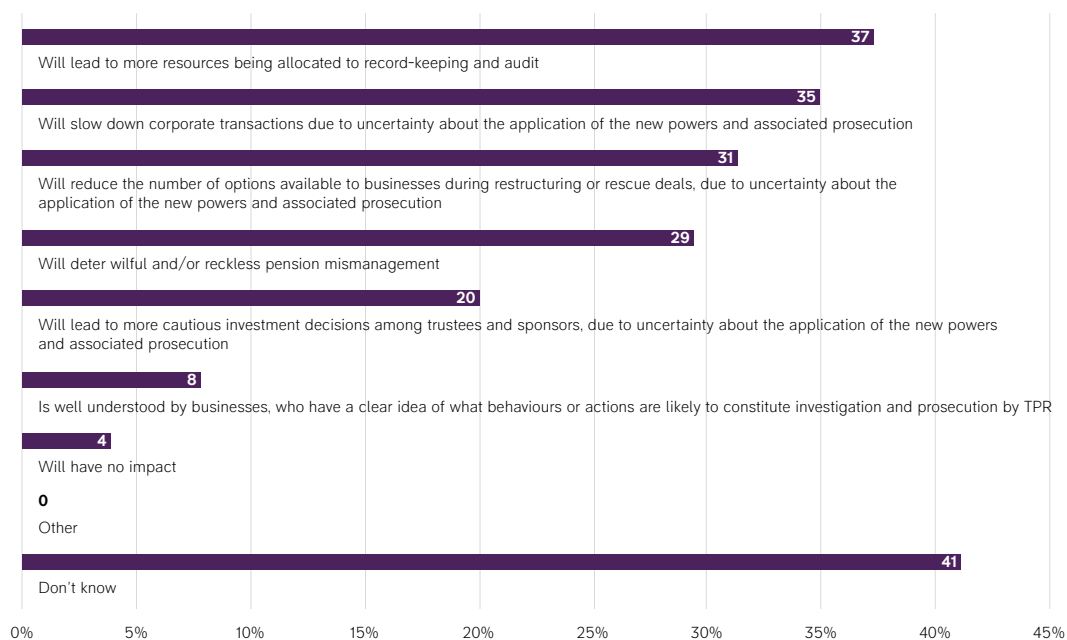
Only 1 in 5 (22%) respondents are thinking creatively about how to support covenant risk by introducing non-cash measures to enhance member security. Approaches vary, with respondents demonstrating a slim preference for receiving a parent (or other group company) guarantee (6%) and restricting dividends or share buy-backs (6%).





As well as the rising direct costs of new regulation, employers also expect that more of their time and resources will be spent completing administrative tasks to comply with new DB regulation. Businesses want to fully meet their obligations but see uncertainty about the application of regulation. For example, employers we surveyed think that the biggest impact of section 107, which introduces new criminal offences in the Pensions Scheme Act 2021, will be on administration costs. Almost 2 in 5 (37%) say its introduction and the uncertainty surrounding the investigation and prosecution approach by TPR will lead to more resources being allocated to record-keeping and audit (**Exhibit 4.1**).

Exhibit 4.1 The expected impact of the introduction of two new criminal offences via section 107 of the Pension Schemes Act 2021.



Businesses, already satisfied with DB scheme governance, are in the dark about the details of regulations intended to strengthen it further

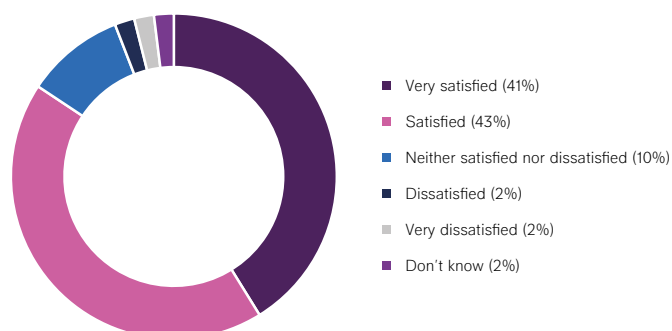
The majority (84%) of businesses with a DB scheme are satisfied with the effectiveness of their scheme governance processes over the last 18 months, with only 4% expressing dissatisfaction (**Exhibit 4.2**).

While a vast majority of schemes are well-governed, employers support further steps to improve governance where this is not already the case. To prevent intentional and reckless conduct, for example, employers support TPR taking enforcement action to address acts that leads to the material detriment of schemes.

Improving scheme governance is the objective of new regulation, introduced by the Pensions Schemes Act 2021, that intends to protect pension scheme member benefits and change how some DB schemes are managed. But its effectiveness is dependent on schemes knowing what's required of them and we found that understanding of the new regulation among pension managers is low. They remain unsure about how section 107 will be used by the regulator, with only 8% saying that they have a clear idea of what behaviours or actions are likely to constitute investigation and prosecution by TPR (**Exhibit 4.1**). This lack of clarity may account for why less than 3 in 10 (29%) businesses think that the introduction of two new criminal offences will deliver the intended impact of deterring wilful and/or reckless pension mismanagement.

Employers worry about the unintended consequences this could have. More than 1 in 3 (35%) pensions managers think the introduction of section 107 will slow down corporate transactions and a further 1 in 3 (31%) think it will reduce the number of options available to businesses during restructuring or rescue deals. TPR will need to work hard, and in lockstep with employers, to communicate much needed clarity that gives schemes the confidence to take actions which support the sustainability of their business.

Exhibit 4.2 Satisfaction with DB scheme governance processes over the last 18 months.



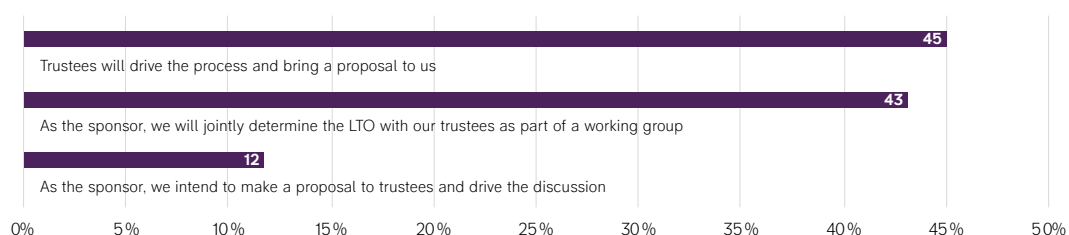
Employers are similarly in the dark when it comes to setting their scheme's Long-Term Funding Objective (LTO) which is at the heart of the new DB Funding Code of Practice. This is a funding and investment strategy which seeks to progressively reduce a scheme's reliance on the employer covenant over time, reaching a position of low dependency funding combined with investments that are highly resilient to risk by the time they are significantly mature.⁴


In 2019, nearly three quarters (74%) of pension scheme managers supported the principle behind plans for the new DB Funding Code to include a description of how trustees and sponsoring employers should set their funding intentions in the context of a long-term objective.⁵ Two years on, businesses were asked to share their view of the LTO criteria proposed by TPR in the first DB Funding Code of Practice consultation and 1 in 5 (22%) pension managers express concerns that the proposals mean the LTO criteria will be too onerous. More worryingly, 1 in 4 (25%) pension managers say that they do not know enough to have a view about the LTO. This jumps to more than half (53%) of managers running SME schemes, suggesting a significant knowledge gap about how the implementation of the LTO will work in practice.

When it comes to setting their scheme's LTO, over half of pension managers intend to assume a proactive approach – either jointly determining it with their trustees as part of a working group (43%) or making the proposal to the trustees and driving the discussion (12%) (**Exhibit 4.3**).

That means a significant minority (45%) intend to allow trustees to drive the process and bring a proposal for the LTO to them. TPR's response to the first DB Funding Code of Practice consultation, expected in December 2021, will outline the assumptions and parameters which will be used to set low dependency for Fast Track. Given the LTO's importance in achieving funding positions highly resilient to risk, businesses need to better understand through this what's expected of them in setting their target which should ultimately ensure that the security of member benefits are balanced with maintaining the sustainability of the employer sponsor.

Exhibit 4.3 How employers will approach the decision-making process associated with setting the Long-term Funding Objective (LTO).





"The cumulative regulatory burden of running a DB scheme has increased, making it harder for responsible employers to manage their DB pension scheme whilst investing in the sustainability of their business."

ESG presents opportunities for businesses, but there are significant barriers to overcome

The environmental impact of rising emissions is evident, with the UK already a global leader on the road to net-zero. Achieving it means businesses and government working together. The threat climate change poses to financial stability means it's a pensions priority, which government and the Pensions Regulator (TPR) are increasingly interested in too.

Hosting COP26 on a global stage later this year has only increased the political impetus to rapidly deliver policies which make ESG considerations central to pension scheme management. Regulation introduced by the Pensions Schemes Act 2021 represents a significant step towards improving the pricing of climate-related risks, through greater transparency. Whilst requiring pension schemes to use a standardised methodology for reporting is a step in the right direction, barriers to market transparency and stability remain. Large gaps in ESG data, metrics and standards make it very difficult for businesses to produce the high-quality Taskforce on Climate-related Financial Disclosures they want to produce for meaningful impact. A collective effort will be necessary to urgently overcome these barriers, which impede impactful implementation and drive-up cost, as the rapid pace of regulation in this area is only likely to accelerate in the future.

Key findings

- A net balance of businesses with both DB schemes (76%) and those with DC schemes (65%) think that TCFD-aligned reporting will deliver one or more benefits in the future.
- Almost half of businesses with DC schemes (47%) and 1 in 3 (33%) with DB schemes say disclosures will be a useful way to engage employees with their future savings.
- Half (52%) of senior executives agree that it is important to align their workplace pension scheme investment strategy with their corporate sustainability goals, but only 1 in 5 (22%) senior executives say that their business has done so.
- Fewer than 1 in 10 (8%) businesses believe that new requirements are well understood by trustees and just 5% of businesses think the new requirements are well understood by employers.

- A net balance of businesses with both DB schemes (81%) and DC schemes (53%) expect TCFD-aligned reporting to pose one or more challenges.
- 3 in 10 (29%) businesses with DB schemes are worried that the introduction of TCFD-aligned reporting and disclosures will lead to divestment, which risk future returns achieved by the pension scheme.

Businesses see engaging employees with savings and impact investing as opportunities to be harnessed

Employers believe that recent regulation requiring pension schemes to undertake TCFD-aligned reporting and disclosures will create opportunities which benefit the business and their employees. This requirement, introduced through section 124 of the Pension Schemes Act, requires occupational pension schemes with assets of £5 billion or more, due for the scheme year underway on 1 October 2021, to publish climate-related financial disclosures to support understanding of material risk. Schemes with assets of £1 billion or more and the largest FCA-regulated pension providers are required to make TCFD-aligned disclosures a year later. The TCFD framework has been developed for reporting consistency and to increase understanding of the financial risks and opportunities posed by climate change.

A net balance of businesses with both DB schemes (76%) and those with DC schemes (65%) think that TCFD-aligned reporting will deliver one or more benefits in the future. Businesses with a DC scheme (47%) are most likely to say that it will be a useful way to engage employees with their future savings (**Exhibit 5.1**). They also think that disclosures will help them highlight pensions as a part of their rewards and benefits package to attract and maintain staff, with over 1 in 3 (35%) thinking it will benefit their employee value proposition (EVP).

Business with a DB scheme (43%) are even more positive about the potentially beneficial future impact of disclosures on EVP (**Exhibit 5.2**). Businesses with a DB scheme were also most likely to say that the introduction of TCFD-aligned reporting and disclosure will have a positive impact on the employer/trustee relationship, with 57% saying that they expect this to lead to greater communication and collaboration between trustees and employers in the future. This drops to 35% for businesses with a DC scheme.

Exhibit 5.1 Expected impact of the introduction of the TCFD-aligned reporting according to businesses with a DC scheme.

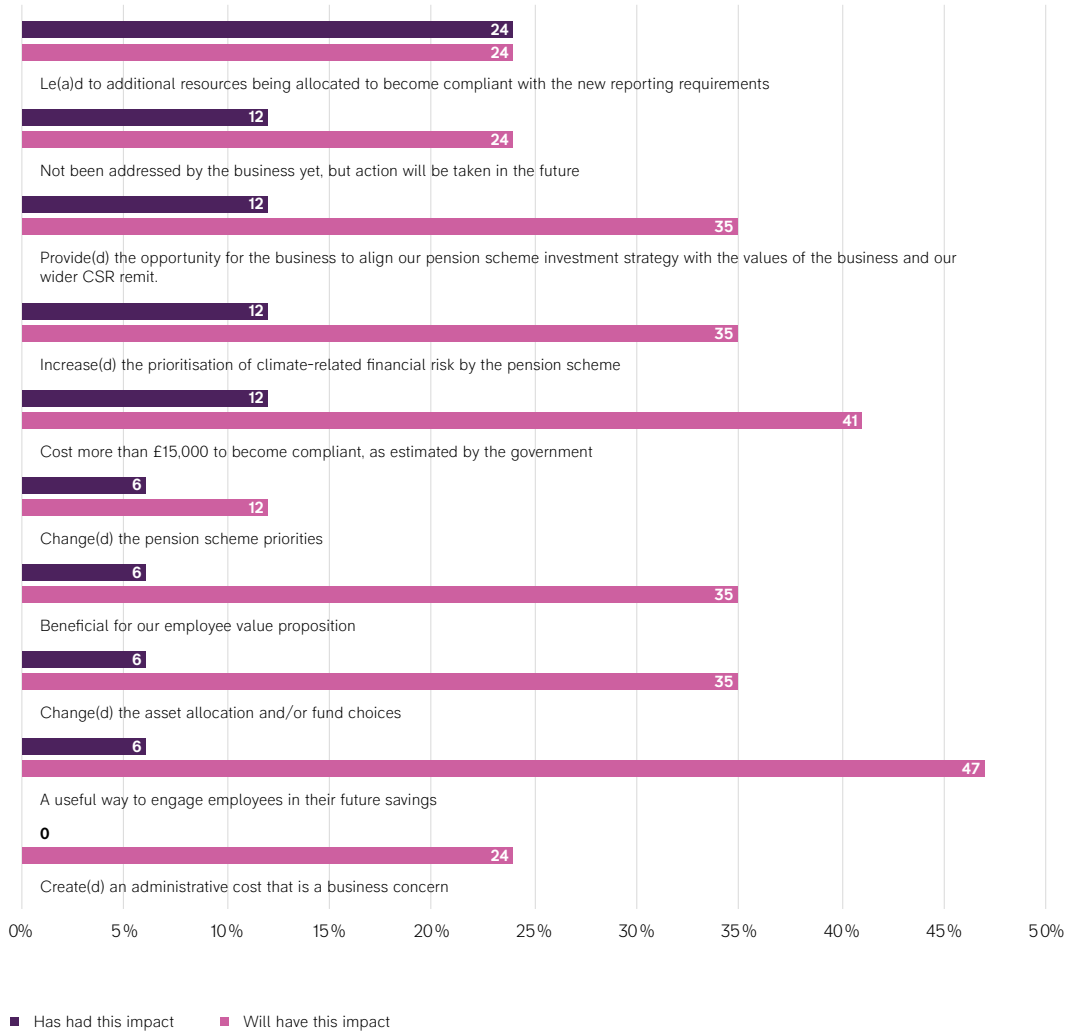
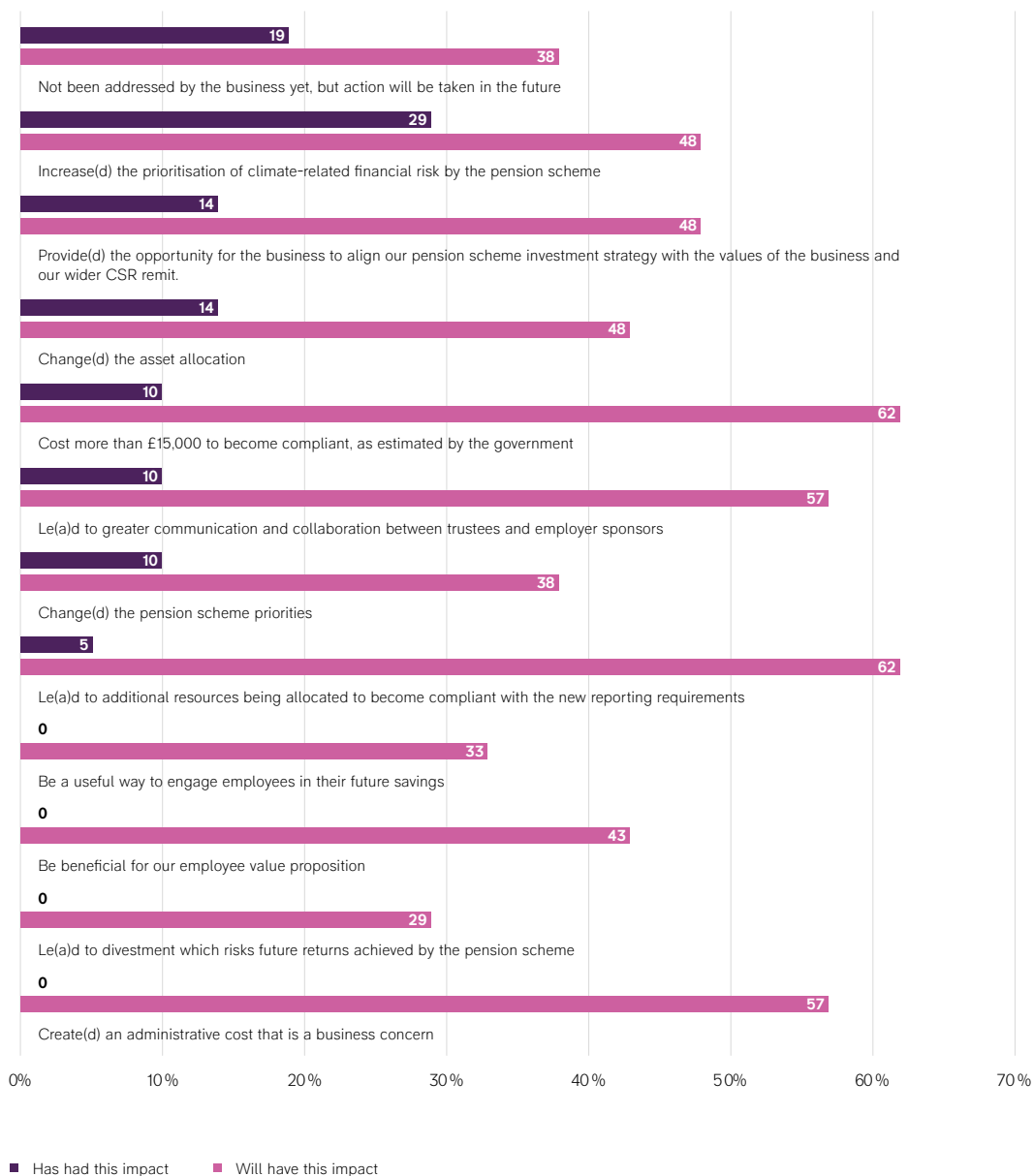




Exhibit 5.2 Expected impact of the introduction of the TCFD-aligned reporting according to businesses with a DB scheme.

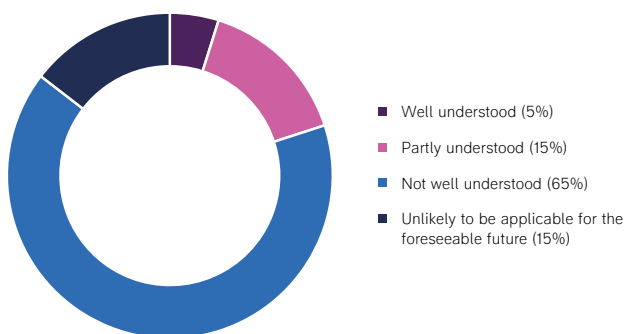


But action and implementation lag behind aspiration because understanding of new ESG requirements is low

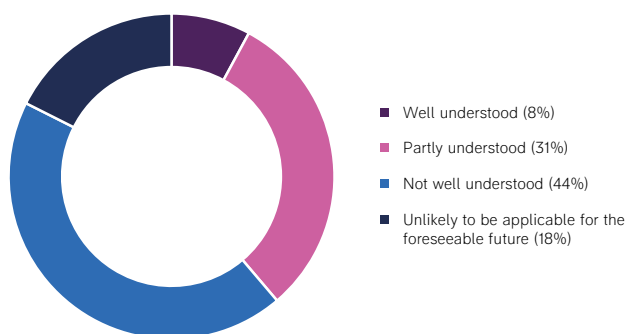
Businesses aspire to incorporate ESG more substantially into pension scheme management, but the pace of action is slow. One problem is a lack of understanding about new TCFD-aligned reporting and disclosure requirements among both employers and trustees. Only 8% of pension managers believe that new requirements are well understood by trustees and, as concerning, just 5% think the new requirements are well understood by employers (**Exhibit 5.3**).

Exhibit 5.3 The extent to which TCFD-aligned reporting and disclosure requirements are understood by both trustees and employers.

Employers



Trustees



Both senior executives and pension managers nevertheless see the potential value of TCFD-aligned reporting and disclosures for aligning the pension scheme investment strategy with the businesses' corporate responsibility goals. But regardless of whether you ask senior executives or pension managers, both report a discrepancy between their business' aspirations and the action that has been taken. Half (52%) of senior executives agree that it is important to align their workplace pension scheme investment strategy with their corporate sustainability goals, but only 1 in 5 (22%) say that their business has done so (**Exhibit 5.4 & Exhibit 5.5**).

It is as significant, and likely contributes to aspiration lagging behind action, that almost 1 in 5 (19%) senior executives do not know if the business' workplace pension scheme has aligned its investment strategy with the company's corporate sustainability goals.

Exhibit 5.4 The importance of aligning a business' workplace pension scheme's investment strategy with its business's corporate sustainability goals. Businesses were asked if the following statement reflects their view: "It is important that a business's workplace pension scheme aligns its investment strategy with its business's corporate sustainability goals"

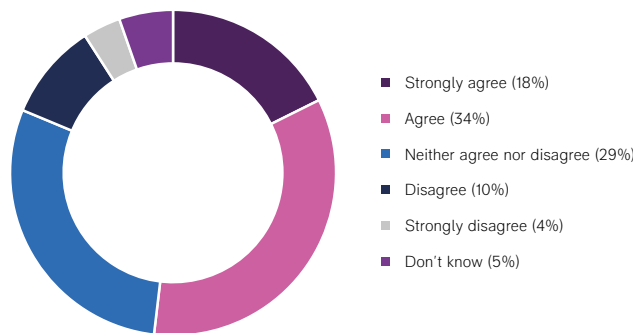
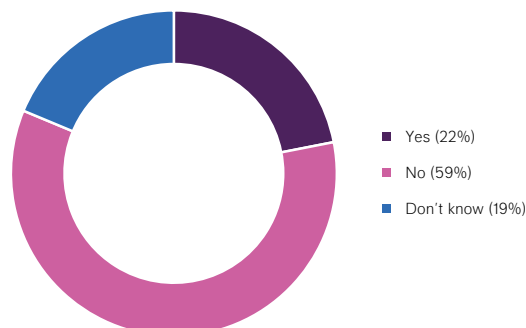


Exhibit 5.5 Businesses who have aligned the workplace pension scheme's investment strategy with its business's corporate sustainability goals



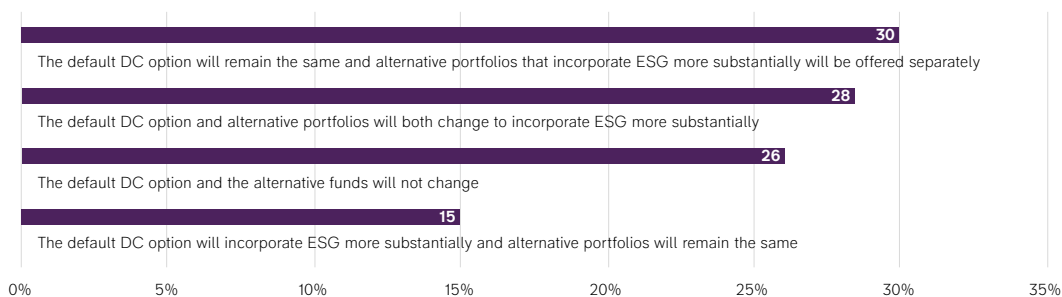
Compared to senior executives, fewer pension scheme managers think TCFD-aligned disclosures will help scheme's investment strategies to align with the business' corporate sustainability goals. They are also much less likely to say that this change has already happened. Just over 1 in 3 (35%) DC scheme managers and almost half (48%) of DB scheme managers think TCFD-aligned reporting and disclosure will provide the opportunity to align the pension scheme investment strategy with the values of the business and their wider CSR remit in the future (**Exhibit 5.1 & Exhibit 5.2**). But only around 1 in 10 (12% DC; 14% DB) pensions managers say this opportunity has already been seized.

As a result, there is currently little evidence of the impact of new requirements, with businesses much more likely to say that TCFD-aligned reporting and disclosures will have an impact than say it's already affected how they run their scheme. Businesses with DB schemes report marginally more immediate impact than DC schemes. 1 in 3 (29%) businesses with a DB scheme say that the prioritisation of climate-related financial risk by the pension scheme has increased, whereas only 1 in 10 (12%) businesses with a DC scheme say this has already taken place. Encouragingly, a higher proportion of businesses across both DB (48%) and DC (35%) schemes expect the prioritisation of climate-related financial risk to increase in the future.

Over 1 in 3 (35%) businesses with DC schemes and over 2 in 5 (43%) with DB schemes expect the asset allocation and fund choices to change in the future, compared to only 6% of DC schemes and 14% of DB schemes saying this has already happened.

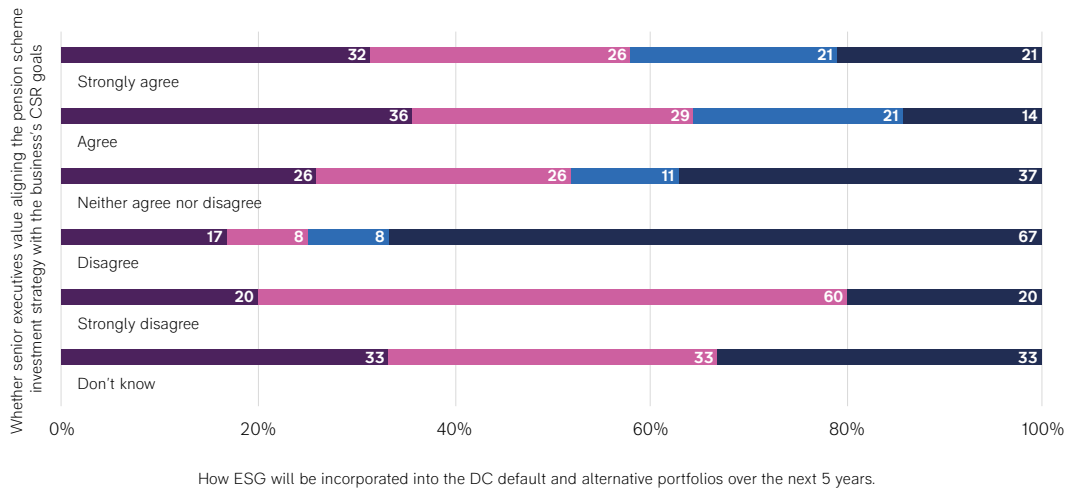
When asked specifically about what action businesses with a DC scheme will take to address climate risks in the next 5 years, businesses are split over whether or how to approach incorporating ESG into the default option or alternative funds. More than half (56%) of businesses with a DC scheme say they do not expect to change the default to better incorporate ESG in the next 5 years compared to 43% who say they will (**Exhibit 5.6**). Just over a quarter (26%) say that both the default DC option and alternative funds will not change at all in the next 5 years.

Exhibit 5.6 Approaches to DC pension scheme climate change risks in the next 5 years.



Interestingly, businesses whose senior executives see the value of aligning the pension scheme investment strategy with the firm’s CSR goals are more likely to change their DC default fund to better incorporate ESG than those with senior executives that don’t see its importance. Pension managers (53%) in businesses where senior executives see the importance of aligning the pension scheme investment strategy with the businesses CSR goals were twice as likely to say that the default will change to better incorporate ESG, compared to pension managers (25%) in businesses where the senior executive disagree that this was important (**Exhibit 5.7**). By contrast, Pension scheme managers (67%) in businesses where senior executives disagree that it is important to align the pension scheme investment strategy with the businesses CSR goals were 53% more likely to say that both the default and alternative portfolio will not change at all over the next 5 years to better incorporate ESG, compared to pension managers in businesses where senior executives agree that this is important (14%).

Exhibit 5.7 The relationship between whether senior executives value aligning the pension scheme investment strategy with the business’s CSR goals and whether ESG will be incorporated into the DC default and alternative portfolios over the next five years.



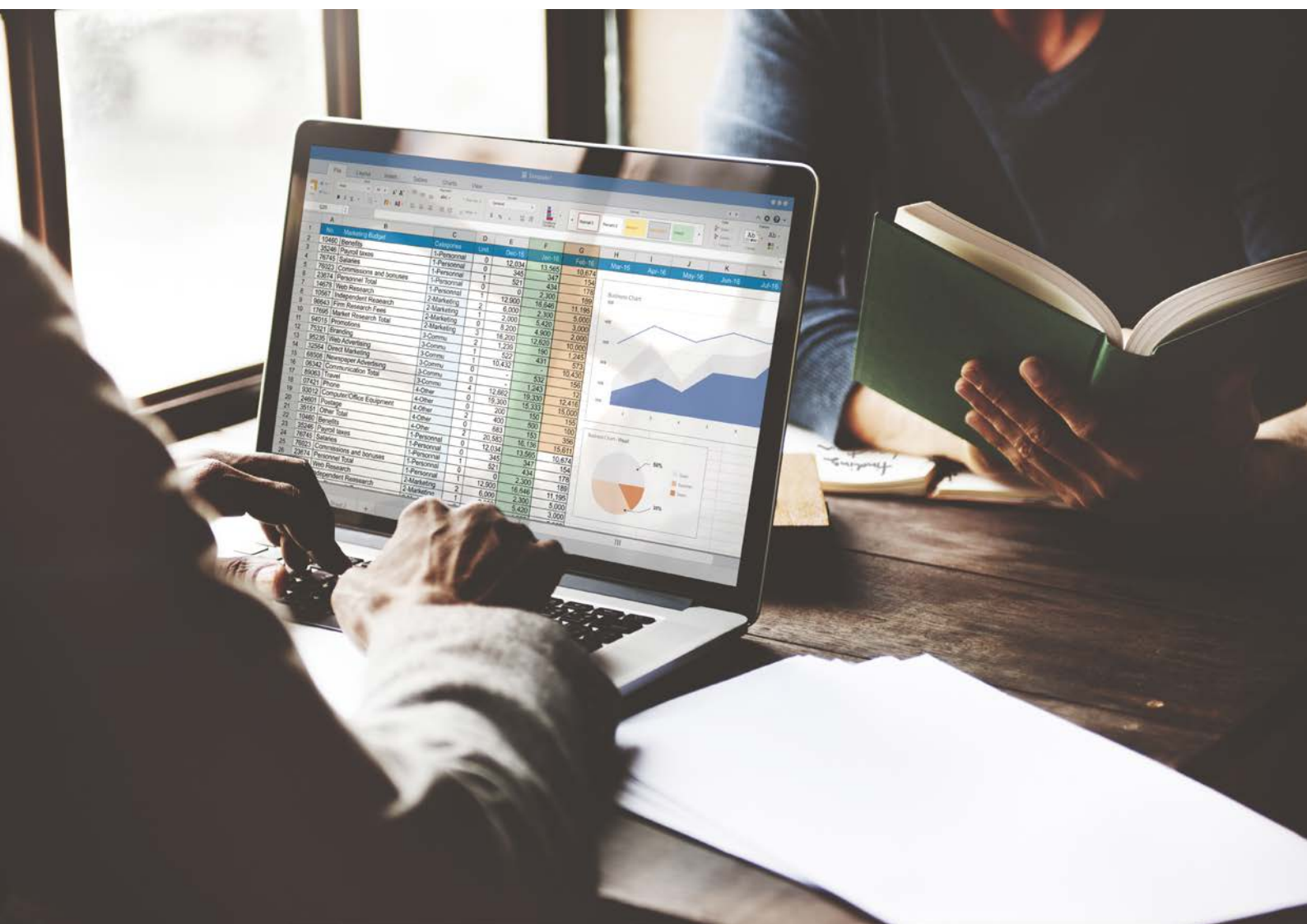
- The default DC option and alternative portfolios will both change to incorporate ESG more substantially
- The default DC option will remain the same and alternative portfolios that incorporate ESG more substantially will be offered separately
- The default DC option will incorporate ESG more substantially and alternative portfolios will remain the same
- The default DC option and the alternative funds will not change

The cost of complying with new ESG requirements also concerns businesses, especially DB schemes

A net balance of businesses with both DB schemes (81%) and DC schemes (53%) expect TCFD-aligned reporting to pose one or more challenges. Businesses with DB schemes are more concerned than businesses with DC schemes about the resource implications new TCFD aligned reporting and disclosures will bring. 1 in 4 (24%) businesses with a DC scheme say that climate-related risk reporting will create an additional administrative cost that they are worried about (**Exhibit 5.1**). This jumps to almost 3 in 5 (57%) for businesses with DB schemes (**Exhibit 5.2**).

These costs are likely to be significant, with both businesses with a DC scheme (41%) and businesses with a DB scheme (62%) thinking that the cost of publishing compliant TCFD-aligned disclosures will be greater than the government’s estimate of £15,000. Businesses continue to face challenges when gathering data to populate the report and when formulating metrics. Whilst the TCFD framework provides a standardised reporting template, without clear, available data on what constitutes green investments, firms do not have criteria to compare against. Reporting and disclosures will only have their desired impact if trustees and sponsors have access to common sustainability standards and metrics to make assessments of green credentials. The lack of standardisation leaves businesses wanting to produce high quality reports with little choice but to seek paid-for advice, which far exceeds the expense estimated by DWP.

Businesses are also worried that TCFD-aligned reporting and disclosure will increase pressure on pension schemes to divest. This is particularly concerning for DB schemes already sensitive to pressure on cash contributions, with 3 in 10 (29%) worried that its introduction will lead to divestment which risk future returns achieved by the pension scheme. For all schemes navigating new ESG requirements, employers’ overarching objective remains to maximise the retirement income of its members through competitive workplace pensions.



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"Businesses aspire to incorporate ESG more substantially into pension scheme management, but the pace of action is slow. One problem is a lack of understanding about new TCFD-aligned reporting and disclosure requirements among both employers and trustees."

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Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them. That's about one third of the private workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With offices around the UK (including in Scotland, Wales and Northern Ireland) and representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Our mandate comes from our members who have a direct say in what we do and how we do it

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales and Northern Ireland plus 16 sector based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions.

Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in what the CBI do and how they do it, from refreshing their workplan to discussing the key business issues of the day and re-calibrating its influence. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community. This formal governance process is supported by a wide range of working groups, roundtables, member meeting and events that makes the CBI unparalleled at listening to and representing British business.

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28+

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To share your views on this topic or ask us a question, contact:



Poppy Bramford
Policy Adviser
poppy.bramford@cbi.org.uk