

# Putting members at the core of risk management

Kelly Hurren and Tom Yorath discuss the results of Aon's latest global pension risk survey, including attitudes to member options and GMP equalisation

**E**VERY RISK THAT A pension scheme faces ultimately impacts its members. Aon's 2021/22 *Global Pension Risk Survey* found that mitigating risks that affect members' retirement prospects must be a key part of schemes' overall approach to risk management.

We surveyed 137 UK-based pension schemes of different sizes for our research. We found that buyout is now the most popular end goal for their scheme (47 percent), and that the average time to reach that end goal has fallen to 8.8 years.

While many schemes are clearly making good progress towards their end goal, risk management remains an essential component of their planning. This now extends beyond traditional risks such as investment and funding, to include governance, operational performance, and data risks.

Many of these will directly affect members. Exercises to communicate members' options, supporting member decision-making, providing protection from cyber attack, and GMP equalisation are key areas where schemes' approaches to risk have a clear impact on individuals' retirement prospects.

## MEMBER OPTIONS

Over a quarter of schemes (28%) said that they will use member options, such as enhanced transfer value (ETV) exercises and pensions increase exchange (PIE), to help them reach their long-term target.

While Covid-19 forced many

## 'Good quality data underpins member options exercises, more appropriate communications and even buyout preparations'

schemes to put exercises temporarily on hold in 2020, activity in this area is now firmly back on the agenda. Among respondents, 43% of them said they expect to carry out member options exercises to either pensioner or non-pensioner members in the next 12 to 24 months.

Making sure that members are fully aware of transfer options and whether these will be suitable for them is an important part of member-focused risk management around ETVs and PIE. Similarly, communicating with members to help them understand their options and how these might change post-buyout will become more crucial as buyout gets closer.

## MEMBER DECISION-MAKING

Poor decision-making at retirement can severely impact the rest of a member's life. Schemes are increasingly aware of this risk and are responding to it.

While bulk mailings as part of the retirement process remain the most common

way of supporting members at retirement (65 percent), more schemes now recognise that individuals need extra help. Over a quarter (26 percent) of schemes offer paid-for support from an IFA, and a further 9% say that they intend to add this. In 2019 just a fifth of respondents offered access to an IFA.

More schemes are also looking at technological support, such as online modellers, as a way of supporting members. In 2021/22, 26% said they offer online tools to members, compared to 23% in 2019.

## CYBER RISK

Cyber risk is now a tangible threat for pension schemes and their members, with attacks doubling since 2019. With this increase in risk, schemes' prevention practices will be put under greater scrutiny.

We saw in our research that schemes are starting to address cyber risk, but there is still a long way to go to ensure members are adequately protected. For example, around three-quarters of schemes are yet to address how to mitigate data transfer and asset transfer risks. However, the number of schemes that now have an incident response plan increased from 30% in 2019 to 40% this year.

## GMP EQUALISATION

Almost every scheme and their members have been affected by GMP equalisation, and our 2021/22 respondents continue to address its complexities. Although no respondents have so far met the original 2018 and

subsequent 2020 requirements, some schemes are now very close to completion. A third (33 percent) of respondents said they are in the process of implementing their solution.

Some of the actions needed to complete GMP equalisation, such as data cleansing, can also support other scheme activity. Good quality data underpins member options exercises, more appropriate communications and even preparation for buyout. However, 73% of schemes said they are yet to complete the data cleansing needed to complete GMP equalisation.

Our 2021/22 *Global Pension Risk Survey* found that respondents are responding to a wide range of risks that could affect their scheme and ultimately their members. Developing a member-focused action plan as part of a wider risk management strategy is a crucial in ensuring members remain at the heart of scheme risk mitigation, whatever the scheme's long-term plans.



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