

Practical Diversity and Inclusion for Trustees

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We are seeking in this guide to help improve understanding of Diversity and Inclusion (D&I) in pension schemes both for trustees and for members, and to provide practical examples of how trustees might achieve their D&I goals. The authors of this guide are pensions practitioners who are at varying stages along their own personal journeys to consider diversity and inclusion in order to ensure equity.

This guide is not a rationale for D&I. To find out more about what D&I is and facts that demonstrate why D&I matters, please refer to the PLSA's [Diversity & Inclusion Made Simple Guide](#).

In some cases, there may be costs attached to implementing D&I initiatives, so all relevant areas will need to be assessed and evaluated with consideration given to the most cost-effective changes as well as the ease of implementation and those which will have the most impact.

This guide is aimed at giving some initial practical and implementable thoughts and ideas. We have reviewed how D&I potentially impacts on decision making across a wide range of scheme areas including:



Unconscious bias
in discretionary
decision making

Diversity
in trustee
appointments

Accessibility
of member
communications

Unconscious bias
in scheme rules

D&I in
investment
decisions

Actuarial
calculations

The examples provided typically focus on specific aspects of diversity under the different scheme areas. It is also worth thinking broadly about all types of diversity and giving consideration to the intersection of multiple characteristics that one individual may possess. This guide can help you to start taking practical steps to elevate your pension scheme's thinking on D&I matters.



Lynda Whitney
Partner



Susan Hoare
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Governance services

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1. Unconscious bias in trustee decision making



Sue Austen
Principal

Trustees make a wide range of decisions and unconscious bias can influence the decision-making process and outcomes. We all have unconscious biases, but the important thing is to recognise them so that we are not led by them thoughtlessly. Trustee decisions can become tricky where there is no absolute right answer. Therefore, especially when dealing with individual members, it is imperative to ensure trustees are considering all relevant information and not overlaying unconscious biases based on familiar preferences, experiences and family structures.

You may find some of the language used in the examples below makes you feel uncomfortable; this is natural given the sensitive nature of this matter. Challenging ourselves can be an uncomfortable but worthwhile process.



Discretionary death decisions

A lot of discretionary death decisions relate to family structure – and modern families are complex. Trustees can challenge unconscious biases by asking questions such as:

Would there be the same reaction to providing a discretionary benefit to an unmarried, unemployed woman where the man had been the bread-winner, if the genders were then reversed?



Could you see yourself thinking:

"She is a housewife who should be supported."

"He is unemployed and should just get a job."

What about the situation where there is both a legal spouse who the deceased has not lived with for decades and a current partner?



Could you see yourself thinking:

"We have already paid out a spouse's benefit so there cannot be a second one."

How would you deal with the situation where there was a legal (in another country) bigamous marriage?



Could you see yourself thinking:

"Well they would have only had one spouse in the UK, so we'll only pay out one benefit."

Would you have the same reaction to paying a discretionary dependant's pension to a same sex partner as to an unmarried heterosexual partner?



Could you see yourself thinking:

"They were both working, so unlikely to be financially dependent on one another."

In any of these scenarios trustees will need to consider what their scheme rules allow them to do. We discuss in a later section how the rules themselves can include biases.

Action

Undertake training to practise some of these tricky issues before they are real people in front of you. Actively take the counter-factual view and challenge, would it be any different if...?

Discretionary ill health decisions

Ill health decisions are another complicated area and you will need to start with the definition in the scheme rules.

Trustees can challenge unconscious biases by asking questions such as:

What considerations would you make on a discretionary ill health case where the diagnosis is depression rather than a bad back?



Could you see yourself thinking:

"This isn't a real illness deserving of an ill health pension."

"This is just a passing phase they will get over it."

Are you recognising the reality of a disabled person's ability to work or are you making assumptions about their abilities?



Could you see yourself thinking:

"You can't work if you have lost that much sight."

Most trustees in these circumstances are reliant on doctors' reports but remember to consider whether an occupational therapist may be able to give important additional information. Depending on your scheme rules you may need to undertake an 'any job' test rather than a 'current role' test, and this may require more knowledge of what jobs could be achieved with reasonable adjustments.

Action

Include ill health discretionary decisions in the trustee training above. Consider whether your discretionary ill health process considers ability as well as disability.

Other decision making

When making other decisions, for example the appointment of advisers or service providers, do trustees appoint those in their own image?



Could you see yourself thinking:

"They are like me, so I know they will do a good job."

"They have lots of experience and I want someone who has seen lots of business situations."

This example is much subtler because is this trustee rightly seeking experience or wrongly slowing the improvement on diversity with an undue focus on experience which is a proxy for age and historic practices?

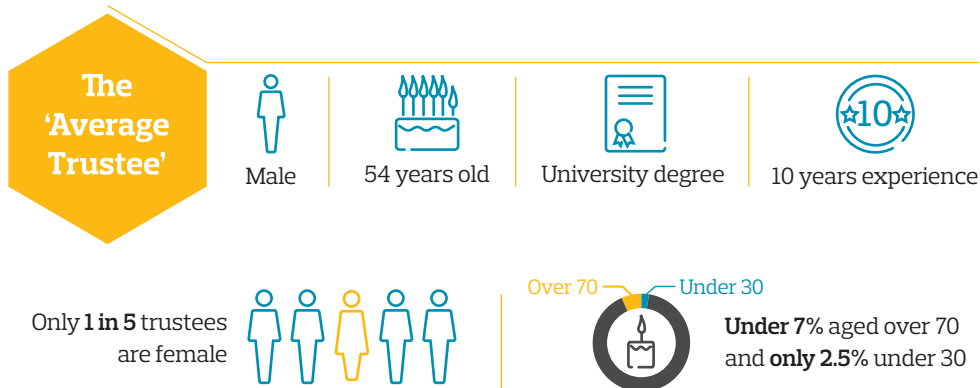


2. D&I in trustee appointments



Sarah Butlin
Principal

Aon's research in 2016 with Leeds University Business School¹ showed that the average trustee was:



There have been some noticeable improvements in gender diversity in the last few years but there is still more work to do to ensure all aspects of diversity are considered. Locating credible statistics regarding BAME (Black, Asian, Minority Ethnic) or more specifically just black trustees is scarce, but it is fair to assume that representation is very low.

Cognitive diversity – having a range of people with different styles of problem-solving or thinking – is another facet which it can be useful to consider in improving decision making of trustees.

Attracting diverse candidates

If you are struggling to attract diverse candidates, first consider what type of diversity is missing? Secondly, you may want to ensure your recruitment communication expresses inclusion and participation. It is well documented that women and minorities are less likely to apply for a role if they feel they cannot meet all the requirements outlined in a job specification. To broaden the talent pool it can be made clear that willingness to learn is more important than existing pensions knowledge, and that it is OK to have skills in some areas with no expectation of having skills across all areas.

It is also important to consider the language used in your communications when seeking to fill a trustee vacancy. There are software applications that many companies use for their own external job advertisements to ensure the language is gender neutral (tools such as Applied, Adpro and Textio or the free site [eemploy](#)). Although this software typically only

considers gender, we have found it can help more broadly. The software looks for a balance of words that have more stereotypically male associations such as “confidence, decision, and lead” and those more stereotypically associated with females such as “responsibility, commitment and communicate”.

Consider prompts in communication with members. For example, share a photo of the current trustee board and say:



“Would you bring a different perspective to our team? If so, could you be our next trustee?”

Action

Can you use your HR department's software on your trustee job advertisements? Could a communication specialist look specifically for D&I concerns.

¹ Mapping the Trustee Landscape

Election or selection?

If you use trustee selection, you can select a candidate who adds diversity to your decision making either by adding cognitive diversity or through diversity of characteristics or experience. It is a bit harder with trustee elections but if you use this route you can:

- Work with the employer in relation to the employer nominated trustees to help fill skill or diversity gaps.
- Sponsor diverse candidates to offer skills or experiences they need to give them a better chance in an election.
- Nudge the membership by including messages that the Board is looking to improve its diversity in any election communication.

Action

Create a D&I Policy to articulate what it means in the pension scheme, reflecting on your employer's D&I policy in its creation. Assess the characteristics and cognitive diversity of the existing trustee board, highlighting gaps. Then ensure you have diversity in any selection panel to help you select the right candidates to fill those gaps. Actively seek out diverse candidates and support them whether it is in a selection or election environment.



3. Accessibility of member communications



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To reflect inclusion in member communications consider physical, mental and digital accessibility as well as a broad outlook. Advice often sets out minimum communication standards to aid access, but an effective D&I communications strategy goes beyond that in an effort to enhance wellbeing and engagement.

Physical accessibility

Physical disabilities come in many forms, so it is good practice to take the necessary steps to ensure communications meet as many requirements as possible. Provision of different formats such as large print or braille can be expensive but are essential to ensure inclusivity for some due to their age or reading preference.

Have you considered whether online formats are compatible with screen readers or if cyber security is compromising accessibility? Similarly, if the scheme provides any video or multi-media resources, ideally also include alternatives appropriate for the blind or deaf, such as subtitles and appropriate descriptions for images, text imbedded in films and moving graphics.

People who have colour vision deficiency (colour blindness) may not be able to engage fully with aspects of your communication, finding it difficult to identify and differentiate between certain colours, such as blue and yellow, or red and green.

Photo sensitivity is another area to consider, as some people can suffer seizures from flashing lights and strobe imagery. It is common practice to inform the audience with an advanced warning if these elements are included.

RNIB transcription service

The RNIB and commercial providers offer transcription services for businesses that can ensure your members have communications in their preferred format. Or if that is beyond the pension scheme's means, individual members can access a RNIB transcription service that is currently free of charge <https://www.rnib.org.uk/services-we-offer-reading-services/transcription-services>. However, the scheme should ensure that any time limits are sufficient to allow a period for transcription to occur before member decisions are required.

Action

Ask if your website or app is fully consistent with WCAG 2.1 Web Content Accessibility Guidelines or has been built on a platform that abides by these guidelines.





Mental accessibility

Inclusion is about making people feel comfortable. Pensions can seem scary and the language we use is therefore important. Do you have an idea about the reading age or numeracy level of the scheme membership? Have you thought about whether non-English communication is more accessible for some members?

We have also found that there are significant parts of the scheme membership who are not what you might expect. For example, just because the employer is an actuarial consultancy does not mean all the staff are comfortable with complex financial projections.

Action

Consider whether members will understand the information you provide to them and the decisions you expect them to make.

Digital accessibility

What digital tools does your membership typically use. Consider

- Some office-based employees will be very comfortable with emails and websites that are optimised for a desktop or laptop.
- Some employees may have no access to a computer at work.
- Some members may have no access to a computer at home but do have access to a smartphone, or vice versa.
- Some members, particularly older pensioners, may not be comfortable with technology at all.

Also consider what media members might be more comfortable with. For example, some members may be more comfortable with a smartphone app, as the user experience and information presented is more curated, and often more screen-reader friendly.

Action

Consider what media to use and how they will work for different member preferences

A true story of failed communications

A DB scheme was reducing the accrual rate from 1/60th to 1/80th and doing roadshows. At one site there was very little pushback at the roadshow. When queried afterwards the answer was “Well 80 is bigger than 60 so it must be a good thing” – the communication had failed.

Vulnerable members

Although it is not directly applicable to many pension scheme situations, the FCA defines a vulnerable customer as “someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.” A practical example of considering vulnerability is shown in the [Code of Good Practice for Incentive Exercises](#) which states members over age 80 should only receive a short communication allowing them to opt-in to an exercise and not be sent a full option pack if they have not opted-in.

Action

Consider whether vulnerable members are communicated with appropriately, remembering vulnerability is not just about age but also state of mind, for example following a death



Broad D&I in communications

Are your communications successful overall? For example, if your DC scheme vision is to achieve one of the PLSA’s retirement living standards, have you segmented the membership based on diversity characteristics? They could show a gender pension gap, an age pensions gap, etc. Remember that whatever is measured is focused on and so is more likely to be improved. So within the confines of GDPR (General Data Protection Regulations), can the HR department help assess other diversity data? For example, could you measure an ethnicity pensions gap?

Action

Monitor the impact your communications have on achieving your objectives, including any D&I objectives.

Think carefully about the imagery and ensure it is representative of the membership and appropriately inclusive. Does the choice of images show unconscious bias towards youth, certain family structures, ethnicity or activities?

Pronouns (he, she, they, etc) and titles (Mr, Mrs, Mx, Herr, Professor, Captain, etc) can be very important to some people. They may recognise something important about their identity, their nationality or a hard-earned professional status.

Action

Review the images you use in pension communication through a D&I lens

Action

Check the administration system is flexible enough to recognise a wide range of preferred pronouns and titles including ‘write-in’ options so, as new conventions develop, the system is not left behind.

4. Unconscious bias in scheme rules



James Burke
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Lynda Whitney
Partner

You may think of the scheme's guiding document, the scheme rules, as being free from any issues that would impact D&I, but they were written by people with views of their time, perhaps decades ago. Below are some examples of scheme rules and a commentary on their history and potential embedded prejudice. You or your scheme lawyer could undertake a D&I audit of your rules and then discuss with your sponsoring employer whether changes can be made.

Civil partnerships

Initially in 2005 most schemes did amend their rules to allow for civil partnerships but only in respect of service from 5 December 2005. This limitation was challenged in 2017 and the Supreme Court ruled (*Walker v Innospec Limited*) that the scheme could not restrict the payment of benefits to the surviving partners of same-sex married couples and civil partners to post 5 December 2005 service, where no such restriction is applied to the partners of other married couples.

Action

You probably must pay the full benefit anyway, but do your rules incorrectly imply otherwise?

Marriage

Many scheme rules give priority to a legal spouse (including Civil Partner) and provide some benefits specifically to them. Many schemes then have a discretionary dependants rule, but it does not always provide the same benefit as to the spouse. For example, GMPs are only paid to the legal spouse and in some cases the discretionary benefit is of a lower value than the spouse's benefit. This is an unconscious bias towards marriage that does not allow trustees to even consider the circumstances of the case.

Action

Does your financial dependant rule allow the trustees discretion to provide a benefit that is the same as a legal spouse?

Trans or non-binary

In most areas if Barber equalisation has been completed successfully, then male and female benefits are equalised, so a change of gender or a choice to be non-binary has no impact. However, this is not necessarily the case for pre-17 May 1990 benefits. Most scheme rules are silent on the issue. There is some guidance in law on the treatment of pension benefits for those with formal Gender Recognition Certificates, but this does not cover all circumstances.

Action

Is it helpful for the scheme rules to spell out what happens to pre-17 May 1990 benefits for a trans or non-binary member?



5. D&I in investment decisions



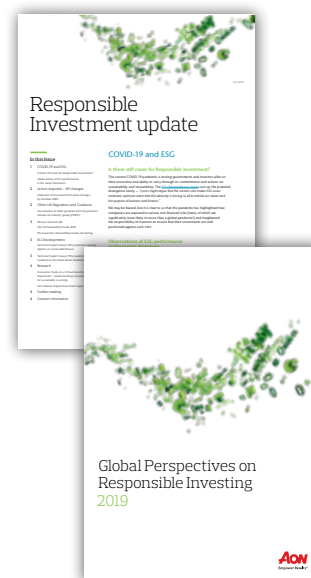
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Members are getting more interested in where pension money is invested whether they are DB or DC members. D&I is obviously part of the debate as it is part of the ‘S’ in ESG (Environmental, Social and Governance), but it can be argued that it is wider than that and makes up a broader part of Responsible Investment (RI). Reflect on the views of a diverse membership considering their beliefs, whether religious or otherwise. Those beliefs might span a broad range from climate change to better working conditions for workers.

There is increasing focus on ESG and embedding this into investment decision making. Some areas to consider include:

- Understand the ESG ratings of your current fund managers.
- Consider the trustee board’s Responsible Investment beliefs.
- Especially in DC schemes, consider the likely differing beliefs of individual members (e.g. opinions on Sharia funds, Carbon neutrality, etc) and the funds offered.
- Apply your Responsible Investment beliefs to manager selection (and a small thing – we suggest you do not call ‘manager selection’ a ‘beauty parade’, as this gives the wrong message about what is a serious exercise).
- It is increasingly common for fund managers to have a Responsible Investment or ESG policy, but fewer have a D&I policy – trustees can ask if the manager has a D&I policy, what milestones this contains for promoting D&I and the fund manager’s beliefs about how diversity of thought can improve their decision making.

This is a huge topic that this document cannot fully do justice to, so to learn more see [Aon’s Responsible Investment website](#).



Action

As well as the statutory requirements, consider whether you want to sign up to and implement the proposals of organisations such as UN Principles on Responsible Investment or the Taskforce on Climate Related Disclosures. Or consider joining Aon’s RI network – email talktous@aon.com



6. Actuarial calculations



Jay Harvey
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Mental Health Group

Assumptions of life expectancy based on age and gender are at the centre of most actuarial calculations. At best, actuarial calculations are only right on average and will not be right for any individual. The tricky question is how much does the actuary try to look at the specifics of the individual when undertaking a calculation for them?

When considering the factor to convert pension to cash at retirement it could be argued:

"It is unfair on principle to use different factors for a man or a woman because it results in unequal benefits."



"On average, women live longer so a woman's pension is worth more and should use a different factor."

"A female smoker and a male non-smoker could have similar life expectancies but the scheme doesn't know the smoking status so do I use the information I have (gender) or do I ignore it?"

Approximately 80% of schemes who undertook factor reviews with Aon in 2017–19 chose to use unisex factors for commutation. But note that many unisex factors are actually a weighted combination of gender related factors.

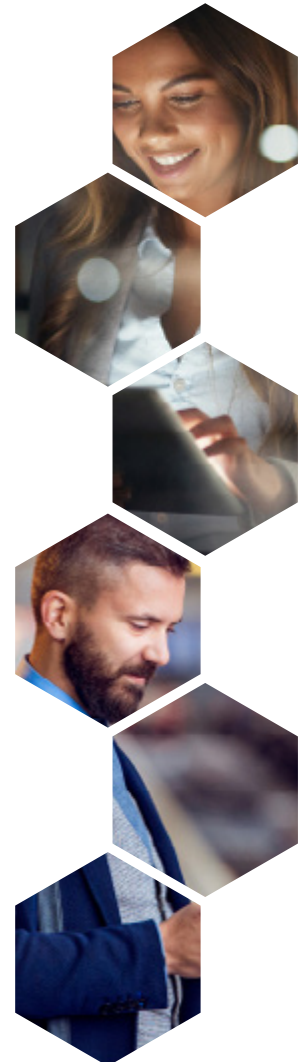
However, unisex factors do not address all the diversity issues, and are not necessarily straightforward for all scheme factors.

Action
At your next factors review consider the merits of adopting unisex factors.

Valuation assumptions

A pension scheme valuation is a projection of a whole pool of people. The actuary need be less concerned about whether they are accurately describing each individual (and recognising their diversity) because they are not really looking at individuals but averages of individuals. In this environment it feels acceptable to use gender, age, ill health status, as a proxy for wealth and so longevity derived from a postcode, etc. But we would be interested to hear if you disagree.

In the future we may see these average assumptions reflect diversity, if it would be material. For example, assuming that a proportion of members are married to same-sex partners.



Conclusion

Diverse and inclusive practices make individuals feel valued and respected. In an ideal world, having to make active efforts to be more diverse and inclusive of all people should not be necessary but we live in an unjust world where discrimination and unconscious bias exist. Equity and equality are not privileges afforded to all, which is why when setting objectives for your pension scheme you should consider whether D&I can be part of that list and how you would implement improvements and monitor change.



Summary checklist

Create a D&I Policy for the pension scheme having reflected on the corporate D&I policy.

Unconscious bias in decision making

Undertake some training on unconscious bias.

Actively take the counter-factual view and challenge whether it would be any different if...?

Consider whether your discretionary ill health process considers ability as well as disability.

D&I in Trustee appointments

Assess the characteristics and cognitive diversity of your existing trustee board.

Use a diverse selection panel.

Actively seek out diverse candidates and support them.

Accessibility in member communications

Are your communications physically accessible?

Will members understand the information you provide?

What media mix do you use?

Monitor the impact your communications have towards your D&I objectives.

Are your images diverse and appropriate?

Can you recognise a wide range of preferred pronouns and titles?

D&I in investment decisions

Understand the ESG ratings of your current fund managers.

Consider your Responsible Investment beliefs.

Consider the likely differing individual members' beliefs and the funds offered.

Ask your fund managers if they have a D&I policy and what milestones this contains for promoting D&I.

Consider whether to sign up to any charters or approaches.

Unconscious bias in scheme rules

Undertake a D&I review of your rules looking for historic anomalies.

Actuarial calculations

At your next factors review consider unisex factors.

Write in your own ideas

Brainstorm other areas D&I might impact.

Authors

To write a guide on diversity and inclusion has required input from a wide range of people at Aon. These people have brought their pensions expertise but also their lived experiences.

Full contact details have been provided by client-facing consultants who are happy to talk to you about how to implement this for your pension scheme.



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