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October 2018

PENSIONS Age

The leading pensions magazine

Sidecars
The creation of a short-term savings product to run alongside pensions

Private rental investment
Why pension funds should look to invest in the private rental sector

Savings
The growing gap between savings and retirement income requirements

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***Master trusts**: The increasing regulation of DC master trusts and its potential impact on its DB equivalent*

***Artificial intelligence:** The many possible uses of artificial intelligence within the pensions industry*

Back from the dead

Breathing new life into the pensions dashboard

Case study: The West Yorkshire Pension Fund discusses the benefits it is bringing to members

Editorial Comment

Sixth floor, 3 London Wall Buildings, London, EC2M 5PD

I've finally started a book I've been meaning to read for a long time – *Sapiens: A Brief History of Humankind,* by Yuval Noah Harari.

While reading about the evolution and development of humankind, from our beginnings as one of many human species, through to Sapiens' dominance, firstly as hunter/gatherers, moving onto the agricultural revolution, to the growth of cities, empires and globalisation, I couldn't help but be struck by its similarities with the development of the UK pensions system.

Its pension provision began centuries ago in a hunter/gatherer manner, with only a few successfully acquiring one – such as the hereditary pensions being granted to some from Charles II's reign for political favours. Akin to the agricultural revolution, a more organised method of providing old age provision began in 1908 with the formation of the state pension. Workplace pensions developed, which, like cities and nations, required rules and regulation, its own workers with various specialised expertise and a judicial force ensuring harmony in the community for its continued success.

UK pensions may not be at the same 'global village' stage of development as humanity – just consider the less than enthusiastic take up of cross-border pensions for example – but it certainly looks overseas for ideas. The Australian pensions model with its version of auto-enrolment is often considered a broad predictor for the UK's own auto-enrolment path, and the USA's ability to allow some early access to pension savings is stated as the inspiration for Nest's sidecar trial *[see page 84]*, where those saving for a pension can also put some of their contributions aside as a 'rainy day' fund.

Instead, the UK pensions industry is now at the 'age of empire'. As explored in our feature on page 76, workplace pension 'cities' are coming together as master trust empires, led by DC thanks to auto-enrolment, and DB may well be following suit. Even these are evolving, morphing into 'super empires', with some DC master trusts leaving the market or being taken over by larger entities, stimulated by The Pensions Regulator's authorisation process.

The pace of progress – for both pensions and society generally – has sped up significantly in recent decades. Technological changes have led to serious questions about its role alongside, or even instead of, humans. Have we created our own eventual demise?

The pensions sector's relationship with technology is not advanced enough for similar concerns to appear yet. Instead, frustrations are occurring due to the slow adoption of technology within the industry. Take our cover story *[on page 80]* on dashboards for example.

These concerns are acute, not just for the benefits new technologies could bring for the industry, as our feature on artificial intelligence on page 66 explores, but also due to a more fundamental issue: for people and pensions alike, we have to adapt to survive.

But whether each change leads to survival or extinction is only known with the benefit of hindsight. Take the pension freedoms of 2015. Enabling people to do what they wish with their retirement savings sparked member engagement and interest in pensions, but as a consequence of the annuity-buying requirement removal, "we no longer have a private pensions system in the UK", Pensions Institute director David Blake claimed at a recent conference, which itself was exploring general longevity trends and their impact on pension funds.

Pensions Age this month tries to make sense of all the changes occurring in the industry; to consider their impact in the foreseeable future. Looking beyond that is a tricky business however.

So what do all these developments mean, if not for the whole of humankind, at least for the long-term future of pensions? Who knows? Certainly not me – I've yet to finish the book.

Laura Blows, Editor

COVER FEATURE

Theme: Looking ahead

Features & columns

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NEW circulation figures

Pensions Age now has its new circulation - figure from the Audit Bureau of Circulations (ABC). 15,000 (July –June 2018) print distribution this is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPC, AMNT). Pensions Age is also sent as a Tablet Edition to our 25,000+ online subscribers (source: Publishers Statement Sept 18). Our print circulation is nearly 300% higher than other titles in the market.

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Dateline - September 2018

Rounding up the major pensions-related news from the past month

3 September An FCA clampdown on the triage process when clients ask about pension transfers risks poor consumer outcomes, **Royal London** argues, despite huge variations in how firms triage pension transfer inquiries. A survey of almost 400 financial advisers by the firm finds that more than two thirds of advice firms operate an initial triage process when approached about a potential transfer.

5 September The government's announcement that it will back the pensions industry to deliver a pensions dashboard is a "huge breakthrough", according to Royal London director of policy **Steve Webb**. "Backed by this renewed commitment by the government, the whole pension industry now needs to work together to drive forward this much-needed initiative," he adds.

6 September At least 24 of the 89 master trusts are expected to quit the market when the new authorisation requirements come into force, according to **The Pensions Regulator**. Of the 24, three schemes have already wound up or exited the market and 21 have triggered their exit.

7 September The UK moved up one place in the 2018 annual **Natixis Global Retirement Index** to 17th, following improvements in the material wellbeing, quality of life and health sub-indexes. In those sub-indexes, the UK ranked 16th, 12th and 16th respectively, achieving an overall score of 73 per cent. Despite the improvements, retirement prospects in the UK are behind those of some developed market counterparts as the financial landscape has impacted savers.

10 September Over half (51 per cent) of people aged 65 and older recommend waiting until reaching state pension age before using retirement funds, according to new research from **Just Group**. The study, which asks those surveyed to imagine themselves at age 55 with £100,000 in pension savings, finds that those aged between 40 and 55 were less likely to opt to keep the savings invested until state pension age (30 per cent).

11 September The **Department for Work and Pensions** (DWP) rejects a suggestion to allow individuals to retain their previous pension provider after they change jobs. Hargreaves Lansdown has been lobbying the government to introduce the new system, but the DWP announced to the Work and Pensions Select Committee that there were no plans to implement it. The proposal aims to give investors with a pre-existing pension the ability to remain with their previous provider once they join a new employer, instead of joining their new employer's scheme, in order to avoid disrupting the current default structure.

Editorial credit: Edith Rum / Shutterstock.com

13 September British Airways agrees on a £4.4bn buy-in with Legal and General for its Airways Pension Scheme, the largest bulk annuity transaction ever completed in the UK market. The deal will cover around 60 per cent of all the scheme's pensioner liabilities.

14 September The joint expert panel (JEP) investigating the **Universities Superannuation Scheme** (USS) pensions dispute sets out a list of recommended changes to the 2017 valuation. The panel, set up by the University and College Union and Universities UK, also had concerns about the methodology, assumptions and tests of the 2017 valuation, especially at USS' Test 1, which they believe formed too much of the basis for the valuation. The JEP unanimously recommends a re-evaluation of the employers' attitude to risk, which would also result in a re-evaluation of the scheme's reliance on the sponsor covenant.

17 September Greene King's Spirit Pension Scheme completes a £50m bulk annuity deal with Scottish Widows. The scheme, one of two final salary pension provisions, will have "some" of its pensioners covered, with the view to securing more in the future.

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For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

18 September Marsh & McLennan Companies, Mercer's parent company, reaches an agreement to purchase JLT for $5.6bn (£4.3bn). The deal has been approved by both companies' boards of directors and holders of JLT's common shares will receive £19.15 per share.

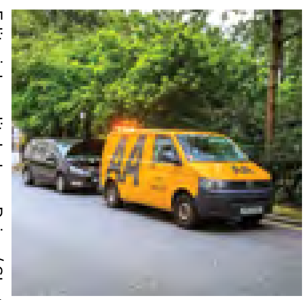
20 September A potential cut to the pensions annual allowance at the Autumn Budget, in order to find extra money for the NHS, could drive doctors away. According to **Chase de Vere Medical**, any reduction to the current £40,000 annual allowance could lead doctors to quit the service.

21 September The Pensions Regulator is looking for somebody who can be "bold and take tough decisions" as it looks to appoint a new chief executive by the end of the year. Speaking at the Society of Professional Pensions annual conference, TPR non-executive chair Mark Boyle says that they require somebody with "thick skin" who can "take the baton" from outgoing chief executive, Lesley Titcomb.

24 September The smallest pension schemes are around 15 per cent less well-funded compared to the largest schemes, according to research by **Goldman Sachs Asset Management** (GSAM). Publishing its fifth annual review of FTSE 350 defined benefit schemes, GSAM also finds that smaller schemes have experienced significantly higher funding level volatility compared to larger schemes.

25 September A total of 4.5 million UK adults took financial advice on investments, saving into a pension or retirement planning in the past 12 months – an increase of 1.3 million compared to the previous year. The ***FCA***'s latest survey, *The changing shape of the consumer market for advice*, shows however that there are 18.2 million people who have £10,000 or more in savings and/or investments and who might have a need for advice but haven't taken advice.

26 September Half of pension savers, 51 per cent, want to be able to use the pension dashboard to update their contact details for all providers, and pay more into their pensions, **Now: Pensions** reveals. Thirty-seven per cent want to be able to pay more money into their pension, 33 per cent want to be able to update their contact details for all pension providers, and 32 per cent want to see if they are on track with their pension savings against a benchmark or target.



Editorial credit: Lukasz Pajor / Shutterstock.com

27 September The **AA UK Pension Scheme** completes a £351m bulk annuity deal with Canada Life, set to cover the 2,510 pensioner and dependent members of the scheme. The deal will deliver a regular income equal to its pension payments for members. The transaction, revealed in the motor association's half-year results, is circa £47m more than AA's defined benefit obligation, a difference that will be recognised on its year-end balance sheet.

28 September The total tax take from the lifetime allowance (LTA) has increased by more than 2,000 per cent in 10 years to £102m, according to the latest data from **HMRC**. Between the 2006/7 and 2016/17 tax years, the LTA tax take from personal pensions increased from £5m to £102m, as a result of the government consistently lowering the LTA value since 2012, from £1.8m to £1m. In the past year alone, the LTA tax take increased from £66m to £102m. The amount of personal pension tax HMRC has received through the annual allowance (AA) also increased drastically over the past 10 years, from £2m to £561m. The government has cut the AA value from £255,000 to £40,000 since 2010/11.

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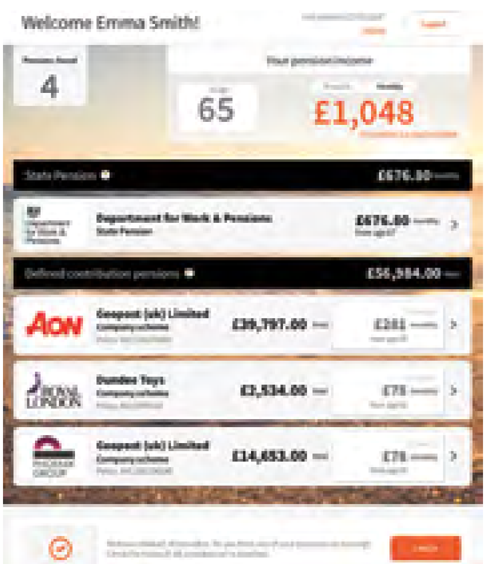
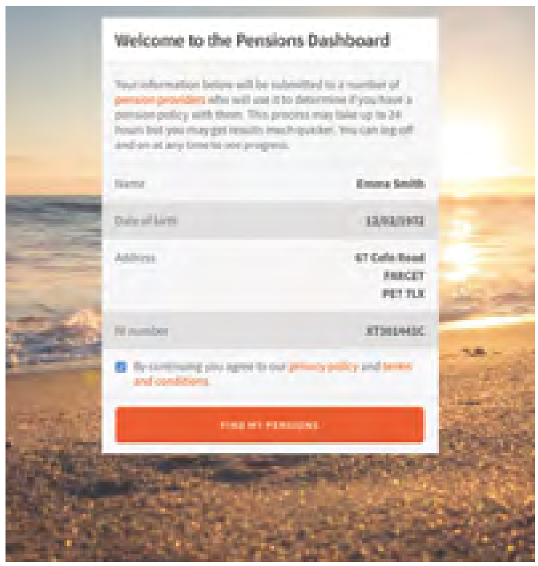
News focus

McVey backs dashboard; industry calls on govt for 'clear direction'

The industry welcomed the Work and Pensions Secretary's commitment to the pensions dashboard, but asked for 'clear direction' from the government





Work and Pensions Secretary Esther McVey has backed the industry to deliver the pensions dashboard, after months of speculation surrounding the project.

McVey announced last month, September, that the Department for Work and Pensions (DWP) backs the industry to "take a leading role" in order to "harness their knowledge", while the government continues to engage on the model.

The announcement came as a relief to those in the industry, following reports in July that McVey was looking to "kill off" the project. First set to be launched in April 2019, it was reported that McVey felt the dashboard should not be provided by the state, and that it will distract from the government's attempt to implement Universal Credit.

However, in a turn of events, McVey said: "The pensions landscape is transforming and the dashboard offers a great opportunity to give people straightforward access to their pension information in a clear and simple format – bringing together an individual's savings in a single place online.

"It's clear there is broad support for the concept of a dashboard and its potential to empower those putting money away for their futures. By taking a leading role, and harnessing their knowledge, the industry can develop a dashboard that works for pensions holders – and government will help facilitate this."

Royal London director of policy, Steve Webb, described the announcement as a huge breakthrough for the industry: "This announcement is a huge breakthrough after a period of uncertainty. There is much that the industry can do to deliver a dashboard, but only the government can supply vitally important state pension data and only the government can legislate to make sure that the dashboard's coverage is comprehensive," he said.

"Backed by this renewed commitment by the government, the whole pension industry now needs to work together to drive forward this much-needed initiative."

However, over 20 major pension providers have called on the government to provide clear direction on key elements of the pensions dashboard, including compulsion and state pension data. At a meeting examining the viability of an industry approach to the dashboard on 18 September, there was a "common desire" for the government to direct the industry on "compulsion, inclusion of state pension data, governance and digital identity".

According to Origo, which organised the meeting, the government's feasibility study is needed as a "matter of urgency" in order to get a full understanding of the government's "facilitation". The government said it would be publishing the feasibility study "in due course".

Origo managing director, Anthony Rafferty, said: "Whilst there has been a strong message that government involvement is crucial, it has been a day of interesting presentations, discussion and debate and I am very much encouraged by the level of enthusiasm, commitment and drive amongst the industry members."

Attendees also noted the importance of implementing a suitable governance structure, as well as the need for government legislation to ensure industry compulsion. "I will be updating the DWP on the key discussions and will provide Origo's perspective on the practicalities of delivering the pensions dashboard," Rafferty added.

Another industry expert has called into question the government's confidence over its ability to publish the state pension data required to establish the pensions dashboard. Speaking at the Society of Pension Professionals annual conference, The People's Pension director of policy and external affairs, Gregg McClymont, said the government "had issues over its confidence" in releasing "every single piece of pensions data in the UK".

McClymont said: "If you are the Secretary of State for Work and Pensions and it's been passed from the Treasury to you, which is significant in itself, are you confident enough, if you are thinking about it from a risk reward point of view, to sign off on releasing every single piece of pensions data that exists in the UK?"

All this comes as it was revealed that half of pension savers, 51 per cent, want to be able to use the pension dashboard to update their contact details for all providers, and pay more into their pensions, it has been revealed.

According to research from Now: Pensions, 37 per cent want to be able to pay more money into their pension, 33 per cent want to be able to update their contact details for all pension providers, and 32 per cent want to see if they are on track with their pension savings against a benchmark or target.

In addition, a further 32 per cent want to be able to transfer/consolidate pension pots, with the same percentage wanting to access their annual benefits statement. Twenty-eight per cent would like access to guidance through the pension dashboard.

Commenting, Now: Pensions director of Policy Adrian Boulding said: "Support for the pensions dashboard is overwhelming. Getting it off the ground won't be without its challenges but with government backing, and by making it compulsory, it has all the right ingredients to succeed.

"The dashboard has the potential to revolutionise the way people access information about their pension savings. At the moment savers have to complete the pieces of their savings puzzle themselves, or pay an adviser to help them. The dashboard will complete the jigsaw automatically, at the touch of a button. Sounds simple, but this is a huge step forward from where we are today."

Written by Theo Andrew and Natalie Tuck

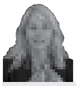
NEWS IN BRIEF

The **Pension Protection Fund** has set its next levy estimate at £500m for 2019/20, a drop of £50m on the 2018/19 estimate. The lifeboat fund has launched a consultation on the draft levy rules for 2019/20, which will be the second year in the current three-year levy cycle. It said that last year the PPF saw the highest level of claims in PPF history. However, its funding approach has allowed it to keep the levy stable.

The Pensions Advisory Service (TPAS) has been contacted by 185,509 pension savers over the past year, a fall on the previous year's recording of over 200,000 pensions queries. In its annual review, TPAS said that the new figures represented a 121 per cent increase on 2013-14, with the issues including members taking benefits, paying contributions, transferring and information/quotation requests.

The government has confirmed that it will launch a formal consultation into the first collective defined contribution (CDC) pension schemes in the autumn. **Pensions Minister Guy Opperman** said that CDC offers "interesting possibilities" as it prepares to launch a consultation. "Finally, collective forms of pension saving offer interesting new possibilities, and the department is currently working through proposals for the first CDC schemes in the UK," he added.

Legal & General has completed a £285m bulk annuity transaction with a non-disclosed Fortune 500 multinational firm, covering around 1,100 members based in the UK. The transaction was structured to allow the UK trustees to lock into commercial terms for their full scheme liabilities of around £300m upfront, but with only around £250m insured initially.



VIEW FROM TPR

The vast majority of staff across the UK are now saving for their retirement thanks to the success of automatic enrolment.

The Pensions Regulator's annual commentary and analysis report shows workplace saving continues to rise, with 84 per cent of employees now saving into a workplace pension, an increase from 77 per cent last year.

Compliance with the law remains high among employers.

Our research shows the vast majority of employers are aware of and understand their ongoing duties, find them easier than expected and are confident they can complete them. Most employers spend less than two hours a month on their ongoing tasks and one-third use an external business adviser.

Last April, the minimum pensions contributions increased from 2 per cent total contribution to 5 per cent and next April it will increase again to 8 per cent. We have been monitoring compliance with the increase in April through PAYE data provided by HMRC, and indications are that it is very high.

As well as monitoring that employers are making the correct pensions contributions, we also detect non-compliance through alerts from pension schemes, reports from whistleblowers and employer spot checks.

We know that most employers want to do the right thing for their staff and we are here to help, but we will take action where an employer is non compliant to ensure staff receive the pensions they are due and the culture of workplace saving remains strong.

Nicola Parish, executive director of frontline regulation, TPR

Full cash withdrawals from pension pots fall by 9% - FCA

With the pension freedoms still firmly in the spotlight, FCA chief executive Andrew Bailey has said he is 'not convinced' of a charge cap on drawdown

The number of people taking a full cash withdrawal from their pension pots has fallen by 9 per cent, Financial Conduct Authority (FCA) data has revealed.

In the regulator's September data bulletin, it said that while the number of pots accessed for the first time was "consistent", the number taking a full cash withdrawal was significantly down. Full cash withdrawals are more prominent with smaller pots, as 87 per cent of the pots that were fully withdrawn over the year were less than £30,000.

FCA director of market intelligence, data and analysis, Jo Hill, said: "Overall, consumer behaviour in accessing pensions remains consistent with the same period in the previous financial year. For example, the total number of pension pots accessed for the first time is similar to the same period in the previous financial year. Furthermore, the FCA found that pots that entered drawdown for the first time increased by 8 per cent.

"There has been a decline in the number of full cash withdrawals made this period, but drawdown products and partial withdrawal products taken have increased. The shift away from annuities has stabilised, with a slight increase in the number of annuities purchases this period compared to the year before."

In a separate piece of research, the FCA revealed the number of people taking financial advice has risen by 1.3 million. A total of 4.5 million UK adults took financial advice on investments, saving into a pension or retirement planning in the past 12 months – an increase of 1.3 million compared to the previous year.

However, the survey, *The changing shape of the consumer market for advice* reveals that there are 18.2 million people who have £10,000 or more in savings and/or investments who might have a need for advice but haven't taken advice. The types of people accessing regulated financial advice are not materially different from 2017 – more men have had advice than women, and the propensity to have had advice increases markedly with age and wealth, and education levels.

With the pension freedoms still firmly in the spotlight, the FCA's chief executive, Andrew Bailey, has said he is "not convinced" of introducing a charge cap on drawdown products. Delivering a speech during a conference in Gleneagles, Bailey said the regulator had considered whether there should be charge capping, a point that has been raised by the Work and Pensions Committee.

"At this stage we are not convinced, though the option is not closed off, and would never be so. But in a market where we want to see evolution and innovation it is hard to know the right price, and there could be negative effects on innovation and competition."

Written by Theo Andrew and Natalie Tuck

VIEW FROM THE PLSA

Understanding the customers is essential for most businesses. In pensions, of course, things have always been different. Our 'customers' are mostly pretty unengaged. Most do not make active choices about their retirement saving at all – especially in an era of auto-enrolment. All that makes understanding them that bit more difficult.

I think we are now at a point where this will start changing. Pensions freedom means increasing numbers of pension savers will have to take very active – and rather daunting – decisions about how to use their pension pots in retirement. In a society in which people expect greater transparency, we can expect more people to want to know where their pension money is invested and how it is managed. If savers get more engaged, then it should be that bit easier to understand them.

That is why this year's PLSA Annual Conference is titled 'Understanding Saver Perspectives'. We'll hear from Aviva's Blair Turnbull how a major consumer-facing company goes about understanding its customers' needs, wants and idiosyncrasies. Elizabeth Costa from the behavioural insights team will reveal her insights into what really makes people tick – and what can make them save more. The programme also includes a major session on how initiatives such as the pensions dashboard, a simpler annual statement and retirement income targets can boost schemes' engagement with savers and help us to understand them better.

The PLSA Annual Conference takes place at ACC Liverpool from 17 to 19 October, with registration at www.plsa.co.uk. See you there!

James Walsh, policy lead: engagement, EU and regulation, PLSA

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PPF compensation must amount to 50% of benefits, ECJ rules

As a result of the ruling, the Department for Work and Pensions has had to halt and alter plans for new regulations regarding pension compensation for employees of companies that enter insolvency

The Pension Protection Fund (PPF) must pay at least 50 per cent of members' pensions entitlement to individuals whose employers have fallen into the fund, the European Court of Justice (ECJ) has ruled.

In a ruling delivered on 6 September, the ECJ said that it was not right for employees to receive less than 50 per cent of their accrued pension savings in the event its employer became insolvent. Currently, employees who have not yet reached pension age are entitled to up to 90 per cent of their accrued benefits, but are not offered inflationary increases – for this to fall below 50 per cent would be illegal, the ECJ has ruled.

Commenting on the ruling, a PPF spokesperson said: "We note the judgment of the Court of Justice of the European Union today and are considering it. We have already been in discussions with the Department for Work and Pensions about what changes to PPF compensation and FAS assistance will now be required."

The PPF added that is expects the ruling to increase its liabilities by 1 per cent. It is currently 122.8 per cent funded and has a surplus of £6.7bn. Grenville Hampshire initially brought the case to the Court of Appeal in July 2016, claiming that his pension was cut by 67 per cent when his company scheme was transferred into the PPF. The ECJ advocate general noted that the cap and lack of indexation suggests that thousands of people in the PPF could be receiving compensation that is too low.

The result has lead to the Department for Work and Pensions halting plans for new regulations regarding pension compensation for employees of companies that enter insolvency. The regulations, which were consulted on and drafted following the High Court ruling in *Mr. Beaton v the board of the PPF* on 12 October 2017, have been put on hold and amended following the ECJ's ruling.

In its report, *Changes to Pension Protection Fund Compensation Regulations*, the government explained its decision: "The practical effect of this is that a person's relevant fixed pension will be treated separately from their pensionable service within the scheme, and therefore will be subject to two separate caps.

"These individuals will receive more PPF compensation than someone whose pension benefits were made up entirely of actual pensionable service. This is not the government's intention and we had intended to remedy this anomaly as part of this instrument. However, there is a risk that proceeding with this change may result in individuals inadvertently receiving less than 50 per cent of their expected pension benefits within the PPF, which would run counter to the *Hampshire* judgment."

As a result, the government's new regulations will try to ensure that the PPF has the legal basis to pay survivor benefits to vulnerable groups, revalue PPF compensation that is not yet in payment, apply inflationary increases to compensation payments and include a relevant fixed pension in the application of the 90 per cent level of compensation for those already receiving their pension.

Written by Theo Andrew and Jack Gray


ALTERNATIVES MULTI-ASSET QUANTITATIVE ACTIVE EQUITIES FIXED INCOME REAL ESTATE PRIVATE MARKETS
More investment strategies.
One objective. Yours.
We're connecting one of the broadest ranges of ESG-integrated capabilities with deeper insights and diverse perspectives. It's a more progressive way of investing. Discover how we're making extraordinary investment connections at
aberdeenstandard.co.uk/connections
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VIEW FROM THE PMI

On 6 September 2018, the European Court of Justice ruled that compensation payments made by the PPF may not be less than 50 per cent of the benefit originally accrued. There may also be a requirement for pre-1997 benefits to be subject to indexation.

At first glance, the impact of the ruling does not appear particularly significant. It will affect perhaps 1,200 individuals and increase the PPF's overall liabilities by about £200 million. Given the overall size of the PPF, this represents a very small increase. However, it does represent a potentially ominous precedent.

The PPF was never intended to replicate exact benefits accrued in the schemes of insolvent employers. Whilst pensions in payment have always been ringfenced, ensuring that pensioners' benefits are paid in full, deferred pensions have been restricted on the understanding that affected members would still have an opportunity to accrue further benefits before retirement. Viewed in this context, the judgment looks like the first twist of the regulatory ratchet that proved to have such a detrimental impact on DB provision in the eighties and nineties.

In the past, we have witnessed a succession of reforms providing formal guarantees for DB members. Perversely, this had the effect of destroying DB provision as increasingly expensive schemes closed to future accrual – with some ultimately falling into the PPF. It is to be hoped that PPF guarantees are not to be improved to the point where the PPF itself becomes unviable.

Tim Middleton, technical consultant, PMI

UK moves up to 17th in global retirement index

Despite an improvement in the UK's place on the global retirement index, research by the ONS has found stark differences in the quality of retirement people experience across the UK

The UK moved up one place in the 2018 annual Natixis Global Retirement Index (GRI) to 17th, following improvements in the material wellbeing, quality of life and health sub-indexes.

In those sub-indexes, the UK ranked 16th, 12th and 16th respectively, achieving an overall score of 73 per cent. Despite the improvements, retirement prospects in the UK are behind those of some developed market counterparts as the financial landscape has impacted savers.

Natixis Investment Managers head of institutional sales, Lucas Crasborn said: "The financial environment is still having a pronounced effect on the UK, with low interest rates and high levels of government indebtedness putting a strain on people's retirement."

The UK's ranking in the GRI was negatively affected by its performance on the fourth criteria assessed in the GRI, finances in retirement, which evaluates how sound a country's financial system is, how conducive it is to the preservation of savings and the maximisation of income for retirees.

In the finances in retirement sub-index, the UK ranked in 32nd place, the second lowest amongst the top 20 countries in the GRI and behind some emerging market economies. The low ranking in finances in retirement was due to poor scores for old age dependency (35 per cent), government indebtedness (31 per cent) and the favourability of interest rates (1 per cent).

Crasborn added: "The UK scored particularly low on interest rates, which impacts savers and retiree incomes, particularly those holding liquid, cash-like instruments such as bank deposits, certificates of deposits and money-market deposit accounts. Interest rates are unlikely to return to the levels seen in the early 1990s and 2000s and savers need to think about how to secure their long-term financial futures."

However, there were some positives, including in bank nonperforming loans, where it ranked 7th overall and meeting inflation targets (100 per cent).

Despite the UK's improvement on the GRI, figures from the Office for National Statistics revealed stark differences in the experience of retirees across the UK. For example, pensioners in London have only £6 left over on average after their monthly household spending. In comparison, north-eastern pensioners have an average of £109 per household remaining at the end of the month.

Hargreaves Lansdown has analysed the ONS data and found that retirees living in London, Yorkshire and the Humber, the South East and the South West are the worst off once they complete their monthly spending. Pensioners in the North East, Northern Ireland, West Midlands and East Midlands have the most money left at the end of the month.

Written by Jack Gray


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VIEW FROM THE AMNT

The new football Premier League season has just started with the usual hope, anticipation and hyperbole.

Even before a ball is kicked there is the drama of the 'transfer window'; an opportunity to bring in new players to raise expectations of success. However the hopes of late summer are often dashed in the harsh reality of winter when high priced players are looked on as costly mistakes.

So in the pension industry; the enthusiasm and hope for pension liberation which provided greater options for individuals also opened its own 'transfer window.'

Pension transfers hit a record of £10.6bn in the first quarter of 2018, according to Office for National Statistics data, and in findings by Royal London the volume of transfers out of final salary pensions in the UK increased by more than 50 per cent in 2017.

But are all transfers beneficial? The clubs in the Premier League find out the hard way by relegation and increased debt, particularly those newly-promoted clubs who imprudently spend all their promised income before the season even starts. The temptation is the same for individuals under pension freedom with the effects too clearly seen in the British Steel pension fund when members were targeted by unscrupulous advisers or simply given poor advice. The effects of this scandal are yet to be fully known.

The danger to football clubs is relegation; for pension members it's penury in old age.

Stephen Fallowell, member, ANMT

AMNT Association of Member Nominated Trustees

PPF 'likely' for Kodak pension scheme, trustees say

In other pension fund news, the appointed joint expert panel for the USS has recommended changes to the scheme's 2017 valuation, and British Airways has agreed a £4.4bn buy-in with L&G

Members of the Kodak Pension Plan (no. 2) (KPP2) have been told by the scheme's trustees that it is "likely" the scheme will enter the Pension Protection Fund (PPF).

In an autumn update for members of the fund, the trustees said that Kodak Alaris will not be able to support the plan long term, and so things will have to change in the future.

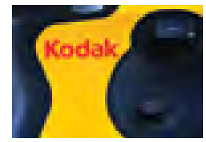
"The most likely outcome is that the plan will in due course move into the Pension Protection Fund," it read, explaining that the lifeboat fund acts as a safety net for defined benefit members.

The KPP2 scheme was formed after Kodak Limited's parent company, Eastman Kodak, filed for bankruptcy in 2012, with the company no longer able to sponsor the original pension scheme. At the time members were given the choice to switch to KPP2 or transfer into the PPF.

The trustees acquired a number of businesses from Eastman Kodak, grouped under the name of Kodak Alaris. As a result, the scheme's sponsoring employer is a special purpose company with no trading assets, with Kodak Alaris instead being an asset of the scheme.

In a statement, PPF chief executive Oliver Morley said: "The PPF has and continues to work closely with KPP2's trustees, their advisers and The Pensions Regulator on the future of the pension scheme."

However, Work and Pensions Committee chair Frank Field has questioned The Pensions Regulator's chief executive, Lesley Titcomb, on the lessons that can be learnt from the Kodak pension scheme.



Editorial credit: Vytautas Kielaitis / Shutterstock.com

In other news, the joint expert panel (JEP) investigating the Universities Superannuation Scheme (USS) pension dispute has set out a list of recommended changes to the 2017 valuation. The panel, set up by the University and College Union and Universities UK, also had concerns about the methodology, assumptions and tests of the 2017 valuation, especially of USS' Test 1, which it believed formed too much of the basis for the valuation.

The JEP unanimously recommended a re-evaluation of the employers' attitude to risk, which would also result in a re-evaluation of the scheme's reliance on the sponsor covenant. It also suggested adopting a more consistent approach between the 2014 and 2017 valuations, which would affect the scale and timing of deficit recovery contributions.

And finally, British Airways has agreed on a £4.4bn buy-in with Legal and General for its Airways Pension Scheme (APS), the largest bulk annuity transaction ever completed in the UK market. The deal will cover around 60 per cent of all the scheme's pensioner liabilities.

The transaction accounts for existing longevity reinsurance contracts of circa £1.7bn that APS entered into via a captive insurer with Canada Life Reinsurance and PartnerRe, which were incorporated into the buy-in arrangement. APS is now 90 per cent hedged against all longevity risk.

Written by Jack Gray and Natalie Tuck

People on the move


Jo Hill

The Pensions Regulator (TPR) has named Jo Hill as its new executive director of strategy and risk.

The appointment will take effect in November, when she will leave her role as director of market intelligence, data and analysis at the Financial Conduct Authority (FCA).

Hill will be responsible for overseeing TPR's new approach of clearer, quicker and tougher regulation and influence how it works with the pensions industry to protect workplace savers.

She will also spearhead TPR's plan of more proactive oversight of some of the highest risk pension schemes across DB, DC and public service and attempt to make better use of data to foresee emerging risks and to plan accordingly.

TPR chairman, Mark Boyle, commented: "I am extremely pleased Jo has been appointed to this key role at TPR. The effective use of data in the early detection and mitigation of risks is crucial and Jo will help maximise our effectiveness as we strive to make workplace pensions work for savers."


Richard Lockwood

Nest has confirmed that its chief financial officer, Richard Lockwood, has joined its board as a trustee, from September. Lockwood will take on the role for five years and comes after Nest's board moved to a unitary board structure. He has been with Nest for four years and has 25 years of experience working in finance, following previous roles at the Home Retail Group PLC, BAA, Kingfisher, Whitbread and BP.


Stephen Murphy

Smart Pension has named Stephen Murphy as board chairman, which was effective September 2018. Murphy has experience as chairman at Ovo Energy Group and was chief executive of Virgin Group, where he replaced founder Sir Richard Branson, between 2005-2011. Murphy replaced former Lord Mayor of London, Sir Anthony Jolliffe, at Smart Pension, who stepped down after three years in the post.


Lawrence Churchill

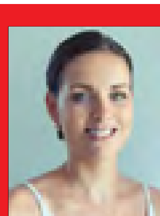
Clara-Pensions has appointed Lawrence Churchill CBE as chairman of its corporate board. Churchill brings more than 40 years' experience in financial services, 30 of which have been at board level, to his new role. He was the founding chairman of the Pension Protection Fund (PPF) and advised parliament on the passage of the Pensions Act 2004, which established the PPF and TPR.


Michelle Ostermann

RPMI Railpen has appointed Michelle Ostermann as chief fiduciary officer, investments, effective from 1 January 2019. Ostermann will be responsible for determining the investment strategy and risk appetite of the £28bn railway pension scheme. She was previously employed as senior vice president at British Columbia Investment Management and brings 25 years of experience to her new role.


Mark Bennett

Willis Towers Watson's master trust, **LifeSight**, has announced the appointment of Mark Bennett as director of sales. Bennett joins from Legal & General's workplace pensions team to help drive growth and capitalise on market opportunities in the master trust sector. He brings almost 10 years of experience in the defined contribution sector to his new role at LifeSight and it is hoped he will use this to accelerate its growth.


Alison Hatcher

The Pensions and Lifetime Savings Association (PLSA) has announced the appointment of three new non-executive directors to its board, effective this month.

Alison Hatcher, Patrick Heath-Lay and Catherine May will join the board as a number of the existing board members are coming to the end of their tenures and stepping down.

Hatcher is the global head of corporate sector with HSBC Global Asset Management (UK), Heath-Lay is chief executive officer at B&CE and May, an experienced non-executive director with expertise in corporate affairs and governance, will join as an independent.

PLSA chair Richard Butcher commented: "I am very pleased to welcome three new members to the PLSA board with such extensive and broad experience. I am certain Alison, Patrick and Catherine's expertise will ensure we can build on the hard work of the association to date and continue to represent the interests of our members."

VIEW FROM THE PPI

Brexit: What does it mean for private pensions? Let's talk about the elephant in the room.

This is a question the PPI have often been asked, but have so far not had the available evidence to answer. It is very difficult to say what Brexit means for anything, until we are a lot clearer about what Brexit actually means.

Potentially the biggest impact on private pensions is not necessarily on the administration, or rules surrounding payment, or even the tax treatment of private pensions across borders. The biggest impact will be from the investment performance of pension funds, which is linked to the performance of the UK and EU economies, as well as the economic performance of the rest of the world.

The performance of UK pension funds is linked to the UK economy, as a large proportion of their assets are invested in the UK economy, through equity holdings or bonds. Therefore, one of the main determinants on the actual amounts that UK individuals receive from private pensions, or the cost to UK employers of funding them, will be the UK's economic performance.

Although we can look at the potential impacts around the margins of private pensions, the very big Brexit unknowns – such as the impact on the economy – are more important. In terms of the impact on how much people have as a pension, this is likely to swamp any other implications arising from the precise details of future regulation.

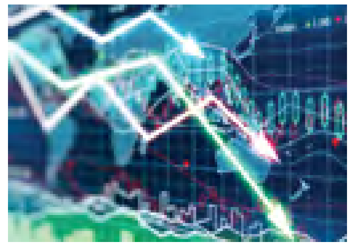
So for now it is still a case of wait and see before we can start to give a more definitive answer.

PPI director Chris Curry

PENSIONS POLICY INSTITUTE
PPI

Market commentary: The next global financial crisis

With the global financial crisis of 2008 now 10 years behind us, has the banking industry learnt from its lessons, and are there any dangers on the horizons for pension funds as we approach the end of the latest market bull run?



Depending on who you are speaking to, there have been a number of key lessons learnt since the last financial crisis.

According to Kempen Capital Management senior portfolio manager, Rob Scammell, the banking sector is "significantly more capitalised, more heavily regulated and with stronger balance sheets", which he argues, should have made pension funds more resilient.

However, RBC Global Asset Management head of EMEA business development, Paul Williams, believes that the progress does "not automatically insure us against the future".

Epoch Investment Partners managing director for global portfolio management, Kevin Hebner, agrees and suggests that historically low interest rates, alongside a "tidal wave" of quantitative easing-driven liquidity, has "encouraged many to gorge on debt".

"It is especially difficult to reconcile the unwinding of central bank balance sheets at a time of record peacetime government debt and multi-century record low yields. Prior to Lehman Brothers' bankruptcy this trifecta would have been all but unimaginable," he said.

Much of the discussion at the moment is based around the current market bull run fizzling to an end, and of course, nobody knows exactly when or how this might happen, but will pensions funds be ready to mitigate against this uncertainty?

BlackRock head of UK strategic clients, Andrew Tunningley believes that schemes may have learnt their lessons, arguing that in the lead up to the Lehman collapse, pension funds were heavily reliant on equities, with only around 25 per cent holding liability-driven investment (LDI) programmes.

"Everyone was maybe a bit too relaxed and risk-orientated to make up for defined benefit deficits that had built up and needed to be recovered.

"Since then, schemes have become more wary of how unlikely events could indeed happen and are building more resilience in their portfolios, de-risking and exploring covenants. The risk now is that there could be too much demand in the corporate credit market, leading to supply problems and potentially currency risk exposure."

A remedy for this, believes Williams, is a strategy based around the combination of active, passive and the use of exchange-traded funds in the same portfolio.

"By providing efficient and risk-aware market exposures, this could be critical for pension funds as we approach an uncertain time in market performance."

Scammell, however, argues that pension fund strategy and risk management has already, for the most part, changed for the better.

"The first half of the crisis saw equities fall, impacting asset valuations; whilst the second half saw long-dated bond yields fall, impacting liability valuations. Together, these challenges should have given trustees a greater understanding of their balance sheets," he concluded.

Written by Theo Andrew

What's in a name?

Capital Fund Management explores the differences between smart beta and alternative beta

Are smart beta and alternative beta the same thing? Some people use the terms interchangeably.

No, they are not the same – despite some people mixing them up. Often, the mistake stems from a lack of understanding of what 'traditional' equity beta actually is, and from there, the differences between the strategies that diverge from it.

'Traditional' beta is the return investors receive for holding the stocks in the simplest form of an index – the market capitalisation weighting. When the market goes up, they generally make a positive return, when it goes down, a negative one.

It is crucial for investors to understand the difference between choosing an alternative beta or a smart beta strategy as each will react very differently to market movements.

They should also be aware of the many differences between the two strategies including the portfolio volatility and processes involved.

What are the key differences between the two strategies?

The main thing to realise it that smart beta strategies include the equity beta of the market but are designed to give a better risk-adjusted return. The Sharpe Ratio – or the measurement of the return you get for the amount of risk you take – is usually higher for smart beta equity strategies than for traditional long-only equity portfolios.

This is because smart beta strategies give investors exposure to equities that have proved over time to have higher Sharpe Ratios than the market as a whole, due their factor make up.

Factors are present in all securities and the precise mix of them are responsible for how a security acts in certain market conditions.

Research has found that up to 86 per cent of the risk taken by smart beta strategies is that an investor would have taken by holding a market-cap-weighted portfolio.*

Alternative beta on the other hand, aims to produce a higher return than 'traditional' beta by creating a diversified market-neutral portfolio. These strategies are designed to have almost no correlation with equity markets, and instead track certain factors.

By doing this, the volatility profile of an alternative beta strategy should be quite different to the general market or a smart beta portfolio.

How do the strategies differ in practice?

Smart beta strategies provide exposure to equities by weighting an index to something other than market cap. They buy stocks and generally avoid derivatives and other financial instruments that have embedded leverage.

They rebalance frequently, but not strictly in line with market movements, meaning exposure to factors can lag.

Alternative beta strategies are constructed as long/short portfolios to ensure minimal beta exposure. They buy stocks and derivatives, and typically use leverage to meet risk and return targets.

Alternative beta strategies usually have a higher turnover of holdings as they typically target a constant risk, reassessing both this position and factor signals daily, based on the market environment.

Where should an alternative beta strategy sit in an investor's portfolio?

Unlike smart beta equity strategies, which mainly take a long-only approach and can sit in a standard growth stock portfolio, alternative beta funds are different.

As they are largely uncorrelated to equities, alternative beta strategies need to sit alongside absolute return strategies or in the diversifying section of an investor's portfolio.

Are the fees between the two strategies comparable?

Smart beta strategies can initially appear a cheaper option than taking an alternative beta approach, but taking the costs at face value largely ignores the differences between the two that we have discussed.

Most of the returns from smart beta strategies come from the performance of the equity markets themselves. The active part of the portfolio is relatively small – up to just 14 per cent of the risk, in some cases.

Today, investors can access market returns either exceptionally cheaply or, in the case of the larger indexes, at no cost at all.

In contrast, nearly all the of the risk for typical alternative beta strategies should be derived from non-market factors. Once investors take this into account, the price comparison is much fairer.

Capital Fund Management
CFM is a global quantitative and systematic asset management firm applying a scientific approach to financial markets to develop alpha and alternative beta strategies.

In association with CFM INSIGHT.DATA.CLARITY.

*Source: 3 Things to know about Smart-Beta funds' Wall Street Journal, October 4 2015

VIEW FROM THE SPP

There has been much debate about what kind of Brexit is going to occur, given the limited progress and lack of consistency or transparency around the UK's negotiating position. The only thing we can seriously plan for at this stage is a so-called 'Hard Brexit', where the UK leaves the EU without an agreement on the future trading relationship (or a transition period), and reverts to World Trade Organisation (WTO) rules.

Certainly, the UK could weather the storm and would likely recover eventually – but it is unlikely that the economy will surpass where it would be had we simply continued the current EU trading arrangements. Seeing any growth post-Brexit is not a 'dividend' if it is less than we would have grown without Brexit.

But we must differentiate between the 'economic' impact of WTO rules and the 'investment' impact. For pension schemes, the investment impact will be much more immediate, as the markets will immediately price in the WTO arrangements, irrespective of the political fallout. For pension schemes, unlike most of the real economy, there might truly be a tangible Brexit dividend.

How should pension schemes prepare? Revisit hedging of liability interest rates and currencies. Review exposure to UK equities relative to other markets. And be prepared to think strategically, beyond just market movements: covenant implications; new funding approaches; accelerating de-risking; and preparing action plans proactively, together with the sponsor. The worst thing would be to merely react to events. Doing nothing is not a sensible option.

SPP investment committee member Christy Jesudasan

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In my opinion

On the master trust application window opening
"We have worked hard to ensure we have been clear about the evidence we require from master trusts to demonstrate they meet the standards laid out in law. It is now up to trustees to review the code of practice and guidance, and submit applications through our portal."
TPR executive director for frontline regulation Nicola Parish

On TPR naming master trusts exiting the market
"Whilst it is undeniably important to understand which providers will indeed be exiting the market, it is also just as important that this information is shared at the right time. That right time is likely to vary from provider to provider once a clear solution and plan of action has been put in place. It is vital that the consumer feels protected and informed throughout this process without causing any undue or unnecessary fears."
Hymans Robertson senior consultant Sharon Bellingham

On cohabiting couples being eligible for national insurance bereavement benefits
"Importantly, this may mean that national insurance bereavement benefits will be extended to these couples. Today, cohabiting couples miss out on thousands in bereavement help so this is will also be another reason for them to enter into a civil partnership."
Quilter tax and financial planning expert Rachel Griffin

On private sector pensions
"We no longer have a private sector pension system in the UK. The moment you get rid of the requirement to annuitise as part of a pension product, you stop having a pension product and start just having asset accumulation. You have just got savings."
Pensions Institute director David Blake

On the Labour party pledging to keep the triple lock
"We will fulfil that obligation with the triple lock on pensions protected, along with the winter fuel allowance, a free bus pass and a national health and care service that can look after you and your families with respect. That is solidarity between the generations."
Labour leader Jeremy Corbyn

On The Pensions Regulator's new regulatory approach
"We absolutely want to avoid this becoming an additional level of bureaucracy. One of the things we've heard time and time again is it would be easier for schemes if they had a fixed point of contact. One of the key outcomes of going down this route is that those schemes, and subsequently others, will have a fixed point of contact."
TPR non-executive chair Mark Boyle

On scrapping triennial valuations
"The actuarial valuation is a dangerous sideshow and needs to be overhauled, so that it becomes an opportunity to recalibrate the strategy, rather than a process in and of itself."
Redington managing director Marian Elliott


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VIEW FROM THE ACA

The first report on our *2018 Pension trends survey* suggests that employers are as uncertain as the politicians as to how rising social care costs can be funded. Whilst tax rises have some traction in meeting the immediate problem, a constantly rising tax rate to meet this and other funding priorities seems likely to prove increasingly unpopular, particularly if it falls on the working population.

It will be interesting to see whether the government's upcoming and long-delayed green paper will be as wide-ranging as we hope, looking at longer-term pre-funding solutions, such as a social insurance scheme – which the Secretary of State responsible seems interested in – or the 'care pension' concept championed by, amongst others, Sir Steve Webb, or – for example – other ways, such as re-setting and re-framing the cap so it is an 'all-inclusive cap'.

Certainly, in this complex area, actuaries have a role to play in helping the government find a solution to social care funding by developing insurance solutions; developing equity release products to fund social care and applying knowledge of demographics and long-term financial modelling to propose alternative funding solutions.

Further reports on the *Pension trends survey*'s findings are due to be published over the next two months and a final report in November. An ACA Placard discussion paper, *Social Care in Crisis: Finding a comprehensive longer-term solution*, is available at www.aca.or.uk (see 'Publications' page).

Association of Consulting Actuaries chair Jenny Condron

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Soapbox: Younger generations need engagement support

Engagement with pensions is an issue that everyone should be able to agree on. Greater involvement from young people is vital for their financial future, especially since the freedom and choice reforms in 2015. As individuals now have more responsibility for their pensions than ever, the education and engagement of the younger generation has never been more important.

A recent study from Hargreaves Lansdown showed that young workers were willing to engage with their pensions, if it was conveniently accessible through technology. Ninety per cent of under-20s surveyed logged in online to view their workplace pensions.

Despite this, young people are still disinterested in pensions. The Association of British Insurers found that more millennials value owning a cat or dog (23 per cent) than having a comfortable pension (20 per cent). It is this kind of statistic that must be a concern, as young people do not seem to realise the importance of a healthy pension.

The government dithering over the pensions dashboard has not helped the situation. It would be key in helping young workers take a greater interest in their pension scheme as it provides a convenient and accessible platform for all of their pensions. Especially since auto-enrolment has come into force, the need for engagement and understanding has never been higher. Individuals are living longer and having a greater number of jobs than ever before, and multiple schemes will be arduous to keep track of without a dashboard or similar platform.

Although young people will engage through technology, it will be wasted without education on managing and planning pensions. The rise of defined contribution schemes increased the need for learning due to their complexity for markets in comparison to defined benefit schemes. Control over different investment options and strategies can be daunting for those uneducated in pension finances and a lack of knowledge can leave savers vulnerable to those willing to take advantage of them, including scammers.

The government delaying the introduction of a cold-calling ban will also have a negative impact on those inexperienced in pensions. Scam victims in 2017 lost on average £91,000 of their pension savings to scammers and the government has set up 'Project Bloom' to try and tackle the problem. However, one would think that if they were serious about addressing the issue, they would not have delayed the cold-calling ban or the pensions dashboard.

Brexit is the excuse to why legislation is being delayed, but it seems unfair to pension savers that their finances should take a backseat while the government sorts out the mess it created. Especially now, when education and engagement are more important than ever for young savers.

Written by Jack Gray

Five reasons transitions fail

Girish Menezes explains the five risks when moving to a new outsourced administrator

Outsourced pension administration is now the norm, with 80 per cent of schemes assessed outsourced by a third-party administrator. Switching administrators is now more common. One major employee benefit consultancy has exited the administration-only market and at least two third-party administrators are suffering extremely low service level agreement statistics. Furthermore, many schemes are finding that, having spent decades with one administrator, they are paying a premium of 50 per cent or more over market rates.

Transitions seem daunting and can be stressful though. What can we learn from experience? Are there some transition principles that stand true regardless of services outsourced or geographic location? After over 20 years in HR and pensions operations, I've found the following five risks are the 'make or break' of a smooth transition project:

So much to do, so little time

Inevitably, life gets in the way of the best laid plans. Project kick-offs are delayed, procurement teams prevaricate, diary coordination is a nightmare. However, rarely does one see the go-live date changing. The contract with the ceding administrator, the software license for the current administration platform, or the retirement date of a key employee may provide a hard switchover date for the contract. Compressing the transition timeline sets your new administrator to fail. Begin earlier, reach a decision quicker or pick up the cost of delaying your go-live.

Meet the (right) people

Outsourcing makes relationships critical. An administrator is less engaged if the trustee and member stand at arm's length. During the sales phase of the project, a senior set of stakeholders engage and negotiate a deal. Once the dust has settled, first the transition teams and then the business-as-usual operational teams have to make the deal work. It is vital that these teams meet one another regularly and in person to build long-lasting relationships. Going one step ahead, it is useful for the member services team to have every opportunity to meet the membership, to understand their specific challenges. Members may be factory-workers, teachers or stockbrokers, with very different expectations. Money spent on travel across a city, intra-country or even inter-country, is well worth the investment.

Manage the incumbent

A key responsibility for the client is to manage the incumbent. To negotiate an exit agreement with specified requirements, costs and timelines. Take a view on ongoing projects and take difficult decisions on who completes these and when. Insist on regular transparent reporting to get an early view of resourcing and backlogs at the ceding administrator. Your new supplier-partner should advise on responsibilities during the blackout window: work-in-progress, answering queries, calculations, settlements, etc. However good your new supplier may be, it is the client who needs to act as enforcer.

Create a partnership

Clients rightly view the RFP and negotiation phase as an opportunity to expand the requirements envelope. Define all-encompassing requirements, negotiate aggressively or insist on non-standard processes. Every penny saved pushes the supplier closer to zero profitability or worse. Negotiation is

frequently done by the sales team, leaving the operations team to cut corners. It is worth specifically noting that efficient, swift and error-free administration is a result of standardisation and automation. Bespoke processes, non-standard requirements and inefficient structures cause errors and slows down the administration process. Review your requirements realistically and be open to your new partner introducing a refreshing new solution.

Teething problems

Even an expert pianist will take time to get comfortable with a new score. Expect to continue to provide support post go-live. There may be gaps in your deeds, transfer of a significant backlog or special cases that were not clearly flagged as part of the transition. There will be the occasional crisis averted and false dawns. The key to getting past these is to support one another and not to play the blame game. After all, what you are looking for is a partnership that will last decades.

Keeping these five principles in mind, transitioning your pension administration from one administrator to another can be relatively straightforward. There will always be challenges. However, the end result will be that you can stop worrying about day-to-day administration and focus on the larger strategic issues instead.

Written by Girish Menezes, head of administration, Premier Pensions

VIEW FROM THE ABI

Automatic enrolment has proven a good step forward to increasing pensions savings. The proportion of employees with an active workplace pension has risen from 47 per cent in 2012 to 73 per cent in 2017, and approximately two-thirds, or 10 million, of these employees have their pensions savings in a master trust. While these schemes have existed for years, the rise in their popularity has led to closer scrutiny of how they are run, and rightly so. These invaluable savings must be properly protected.

The ABI has advocated for tighter regulation to increase the security of master trusts and decrease the risks to scheme members for some time. It is important that consumers saving into these schemes have the same level of protection as their contract-based equivalents. So we welcome The Pensions Regulator's (TPR's) new authorisation regime and risk-based supervision and enforcement policy, and its joint pensions strategy with the FCA. To gain authorisation the schemes will have to demonstrate they meet standards across five areas set out by TPR, including the qualifications of those running the trust, governance, system and processes, continuity strategy, scheme funding and their financial sustainability.

Auto-enrolment is introducing millions more savers to the importance of planning ahead for their retirement. It's good to see TPR taking the necessary steps to make sure these new savers are being backed up by an authorisation regime that is effective and robust.

Reuben Overmark, policy adviser, retirement and savings, ABI

ABI Association of British Insurers

Diary: October 2018 and beyond

PLSA Annual Conference

17-19 October 2018

ACC Liverpool, Kings Dock, Liverpool Waterfront, Liverpool

The association's flagship event is a three-day conference attracting over 1,500 attendees – the most important event of the year for anyone involved in pensions (trustees, pension scheme managers, administrators, HR specialists, finance directors and their advisers). The event includes a trade exhibition of approximately 80 exhibition stands.

For more information, visit:

https://www.plsa.co.uk/Events/Calendar-of-events/Conferences

SPS: Current Investment Issues for Pensions Funds

8 November 2018

Le Meridien Piccadilly Hotel, London

Enjoying its 25th anniversary, this annual day-conference will aim to examine, discuss and debate some of the more important and pertinent investment issues, challenges and opportunities currently facing pension fund investors. It will be revealing ways for pension fund investors to manage the many risks they face and will also explain how to turn unexpected shocks into investment opportunities. The conference is by invitation only.

For more information, visit:

http://www.spsconferences.com

Pensions Age Great Western Conference

13 November 2018

Bristol Marriott Hotel City Centre, Bristol

Following strong demand, *Pensions Age* has launched its first ever Great Western Conference to meet the needs of pension fund managers, pension trustees and those working in the pensions sector in Bristol and the surrounding areas. This one-day conference will cover all aspects of pension provision and will help delegates improve their pensions knowledge and understanding with a series of presentations from leading pension professionals and policymakers from across the industry.

For more information, visit:

http://www.pensionsage.com/westernconference/index.php

PMI: DC Workplace Pensions Symposium

5 December 2018

Eversheds Sutherland offices, London

This PMI technical seminar plans to take a comprehensive look at defined contribution workplace pensions and discuss a multitude of issues facing this sector, including governance, default funds, service delivery, communications and members' retirement outcomes. It is aimed at anyone involved in the pensions industry.

For more information, visit:

https://www.pensions-pmi.org.uk/events/dc-workplace-pensions-symposium/

Visit www.pensionsage.com for more diary listings

Month in numbers

3.3 million

Almost 3.3 million cohabiting couples could now be eligible for national insurance bereavement benefits after Prime Minister Theresa May announced that heterosexual couples will be allowed to enter into civil partnerships.

The ruling means that heterosexual couples could be able to receive survivor benefits, which are currently only provided to married couples and civil partners. According to Royal London, the decision could lead to a "multi-billion pound windfall".

21 per cent

Around a fifth (21 per cent) of those with a workplace pension contribute more than their employer, according to research by the Pensions and Lifetime Savings Association.

£102 million

The total tax take from the lifetime allowance tax charge has increased by more than 2,000 per cent in 10 years to £102m, according to the latest data from HM Revenue and Customs.

Getting your factors straight

James Edwards explains how investors can make sense of the many different multi-factor strategies on offer

Factor investing has grown in popularity in recent years as investors seek low-cost ways to access well-understood drivers of return in markets. In response, the investment industry has seen an explosion of factor investment products, with 'styles' and 'smart beta' also used to describe the approach.

As diversification is the cornerstone of any strategy, it is perhaps therefore not surprising that a recent FTSE Russell survey found that multi-factor strategies have been the most popular approach for institutional investors around the world.

According to the 2018 Credit Suisse *Global Returns* yearbook, researchers have identified at least 316 factors that may drive markets. Whilst not all will stand up to independent testing, how are investors to make sense of what is on offer and the risks to which they are exposed with so many approaches?

Unintended consequences

Let's consider the momentum factor as an example. Momentum is the tendency for rising asset prices to rise further and for falling asset prices to fall further, perhaps reflecting investors' tendency to underreact to market moves. The momentum factor has had a strong run of performance: over the past 12 months to August 2018 the MSCI US Momentum index returned 28 per cent, outperforming the standard US index by over 8.5 per cent.

Whilst over the long-run momentum has performed strongly, it has seen some sharp reversals. Notably, momentum underperformed market cap weighted in 2008, and its maximum drawdown (peak to trough performance) during the financial crisis was almost 56 per cent. What has driven the recent run of strong performance? The largest constituents of the US Momentum index should need no introduction comprising household names such as Amazon, Microsoft, Netflix, Intel, Visa and Mastercard. Indeed, the index has around 42 per cent in technology companies.

Buy… high? Sell higher?

Momentum could be characterised as the strategy that buys high and sell higher, running counter to the classic maxim of buying low and selling high. It should come as no surprise then that the momentum factor is therefore underexposed to 'value' companies (companies that look cheap or less expensive relative to some measure of intrinsic value).

Given that momentum is underexposed to value, what do the largest stocks in the MSCI US Enhanced Value index look like? Household names again, including Apple, Pfizer, Bank of America, Intel, Cisco and Citigroup amongst them. In fact, 12 per cent of the index is Apple alone, with around 27 per cent of the index represented by technology firms.

It is clear therefore that stocks will often exhibit one or more factors due to the simple fact that the correlation of the company fundamentals used to construct a factor will not be zero. Because of these correlations, a simple combination of the most common and well understood factors may result in a portfolio with unintended exposures: a portfolio that does not differ much to the cap weighted index, or alternatively a portfolio with unintended concentration in particular segments of the market.

Styles come and go and but true style is timeless

We are strong advocates of multi-factor approaches. We believe they fulfil an important role in pension fund portfolios and enable access to systematic return drivers at low cost.

We believe that insufficient attention is paid to the construction of the underlying single factors however. In a perfect world, the underlying factors would be entirely uncorrelated. Put another way, when constructing a factor, investors should adjust the underlying data for common factors, so that the end result is a pure or 'true' factor.

Why does this matter? As noted earlier, the commonality across different factors means that the correlation between these 'raw' factors may be high, making diversification more challenging. In the case of the momentum and value examples, we have the opposite problem: the strategies are almost entirely opposite, so a naïve combination of the 'raw' value and momentum factors could end up with almost no difference in position versus the cap weighted index.

So, constructing a multi-factor portfolio with 'true' styles should therefore offer better diversification versus market cap weighted portfolios and a more optimal combination of factors. The optimal portfolio should in turn lead to better risk-adjusted returns in the long run and therefore offer pension schemes a better chance of meeting their long-term investment objectives.

Written by James Edwards, director, sales, UK institutional, BMO GAM

In association with

BMO Global Asset Management

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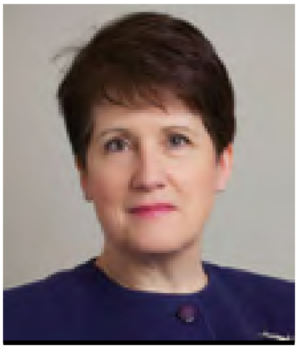


Ahead of the game

Theo Andrew talks to Margaret Snowdon OBE about starting out in pensions, her early ambitions of working in the Post Office and stripping car engines, and how many of her ideas have found their way into other people's hands

What is your pensions career CV?
I started as an administrator and moved to consulting on how to make admin more efficient. I enjoyed consulting and broadened my topics to cover most areas in pensions, except investment (that's why after 40 years, I am not rich). I now work as a non-exec director with a few organisations, including XPS, TPR, Phoenix and Moneyhub. I also lead a few voluntary industry groups, including PASA, IEMB and PSIG and I am involved with taskforces like the TTF, the ITF and also the PAT (it looks like I'm driven to work in three letter acronyms!) Oh and dashboard. I love it all, but I'm hopeless at turning down a good cause. My passion is for making things better and doing the right thing. I am not a lobbyist, but more of an agitator, I think.

What other areas have you worked in and what roles have you held prior to joining the pensions industry?
I got into pensions deliberately and there aren't that many of us over 40 who did that. I started my career as a psychologist with a post-grad research interest in ageing and especially in the impact of pre-retirement education on longevity and quality of older life. At the ripe old age of 23, I was lecturing 50-somethings on how to live in older age and thought that was faintly ridiculous. I started at the bottom with (what became) Aon but being very practical, I found I was good at it and progressed quite quickly through the ranks.

What is your greatest work achievement so far?
Difficult to say. It is great to see some propositions that I put forward many years ago suddenly coming into being in someone else's hands. A little frustrating that I was right, but too early. In terms of one single thing, I would say my greatest achievement was the Code of Good Practice on Combating Pension Scams. It was a voluntary effort, bringing the industry together to achieve something worthwhile, which hadn't really been done before. We started in 2014 and version two came out this year. Version 2.1 is in the wings. The amount of work that like-minded people are prepared to put into something good never ceases to amaze me.

What is your biggest regret within your career?
I don't regret anything. Doesn't mean I wouldn't change some of my decisions. I have given away most of my ideas and seen other people become richer from them, but then again, they are braver than me, so deserve it. I rest easy knowing I helped.

Excluding your current role, what would be your dream job in or out of pensions?
If I was politically inclined, I would like to be a pensions minister or a pensions commissioner. I am very practical and want to see the right things done for consumers and the industry – it doesn't need to be either/or. This is what I have always tried to do throughout my career. However, I wear my heart on my sleeve too much.

What was your dream job as a child?
To work in a post office. I could count out pennies very fast and made my own stamps with paper and an old Singer sewing machine. I could also strip car engines and change electrical plugs pre-eens, so could have been an engineer like my dad. Later I wanted to be a doctor. Maybe I should have switched, but that's not my style.

What do you like to do in your spare time?
What spare time? When I can, I scuba dive and make flowers out of sugar. I also love DIY and make some noble efforts at gardening (Monty Don has nothing to fear from me).

Any particular skills or party tricks?
I like to think I am multi-skilled, but I am a very good cook and my sugar flowers look real (I have had people try to smell them), so that's a skill I suppose.

Who would be your ideal dinner party guests?
Robert Peston, Mary Beard, Yuval Noah Harari and Susan Calman. I love history, current affairs and thought leadership, but need a bit of Scottish humour to keep it all balanced.

Do you have a particular phrase or quote that inspires you?
I studied philosophy and was always struck by a comment by Albert Camus that "integrity has no need of rules". I think it is a shame that we seem to need so many rules in the pensions industry.

Written by Theo Andrew

Tackling the effects of change

Gary Cowler considers how freedom and choice is impacting member engagement

Since the advent of pensions freedoms in 2015, schemes and their administrators have seen an increased number of administration queries, and a change in the nature of those enquiries.

Here we look at how the increase in potential choice for members is changing the landscape for trustees and sponsors – and how you can respond.

Member interactions with administrators increasing

In the past few years, the volume of member interactions with administrators has grown significantly. Our own administrators have seen data change requests leap by over 50 per cent since 2013, for instance, while transfer out enquiries have jumped by a staggering 200 per cent in the same period.

This increase in volumes has been accompanied by heightened member expectations and a growth in IFA involvement. Aon's *2017 Global Pension Risk Survey* found that while only 10 per cent of UK schemes currently provide paid-for IFA advice for members, a further 23 per cent plan to do so in the near future.

Interaction with IFAs has become a part of the role in this new environment; as that does not look like changing, it is important for schemes to manage it efficiently.

For trustees, sponsors and administrators, this creates both challenges and opportunities.

For schemes, there is potential to encourage employee engagement with their pension provision, with the ultimate aim of improving member outcomes.

For administrators, it brings an increased workload – although this too can be a positive, acting as an impetus to improve processes and systems.

Responding to changing member demands

There are several questions trustees and sponsors can ask their administrators to assess how well they are responding to changing demands.

1. Can they handle a growing number of incoming enquiries? While online contact is growing, members are also increasingly contacting administrators by phone; this can be the quickest way to get in touch, and also enables members to talk through any further queries as their options are explained.

2. Are their call-handling processes as efficient as they can be? Dealing with increasing call volumes is not just about the size of the team, but relies on team members' knowledge and capabilities. The best administrators have invested in their infrastructure and people, ensuring they have the tools, know-how and skills to resolve queries on a single phone call – 75 per cent of Aon's enquiries, for instance, are now resolved on the first call.

3. Do their teams give consistent messaging? Training and knowledge-sharing play a role in making sure members receive reliable, consistent messages, no matter which team member they speak to. This reduces the need for follow-up, improves member experience and increases administrator efficiency.

4. Can they dedicate adequate resource at times of increased enquiry volumes? Administrators should be able to use the management information at their disposal to analyse workflows and resource accordingly. Around the end of the tax year or when there is a material change within the sponsor's business, for example, they should expect an increase in call volumes and provide commensurate resource.

Member interest in transfers is also impacting enquiry volumes; Aon's *Member Options Survey,* carried out earlier this year, saw 90 per cent of schemes reporting an increase in transfer volumes, while our own data has shown a sevenfold increase in transfers settled since 2014.

5. How is their member communication? AI and robo-advice are predicted to be the next stage in member engagement, with more than a quarter of respondents to our *Global Pension Risk Survey* planning to put in place technological solutions (ie robo-advice). What strategies does your administrator have to embrace new technologies? What do they offer in the way of online member support – modellers, for instance, which can help to make members more informed before they approach their IFA or your administration team?

In all these areas, trustees and sponsors should not just ask what their administrator is doing, but collaborate with them to build an approach that fits with their scheme members' specific needs.

A good administrator will already have strategies to deal with these evolving challenges, and will be working not just with trustees but with their actuarial colleagues and any retained IFAs to deliver integrated responses and the best possible member experience.

If you have not yet asked how your scheme's administrator is reacting to the shifting pensions landscape, now might be the time.

Written by Gary Cowler, partner, Aon

Are trustees managing pension risk effectively?

Crowe's risk management survey 2018 reveals the biggest risks facing UK pension arrangements. Are trustees really managing their pension risks and are they doing enough?

In conjunction with *Pensions Age,* Crowe surveyed 108 pension schemes to understand their views on pension risk management practices relating to occupational trust based defined benefit (DB) and defined contribution (DC) pension arrangements. Set out below are the key findings.

Almost 90 per cent of respondents told us that they believe pension risk management has become more challenging in the past 12 months. This is primarily due to increased complexity of DB risks and the increasing number of DC risks. This perception may be in response to trustees becoming more aware of the risks facing their pension scheme, due to having to respond to initiatives such as 21st century governance, data protection and integrated risk management (IRM). It also highlights that more work needs to be done to reassure trustees that their pension scheme's risks are being managed appropriately.

Are trustees really managing their risks or do they just think they are?

There seems to be a disconnect between trustee perception versus reality when it comes to controlling pension risks.

With the exception of cyber risk and fraud risk, the responses clearly demonstrate that trustees are very confident that their risk controls are helping to manage their risks appropriately. In fact, confidence levels have increased dramatically in the past 12 months.

Contrast this with our general experience when reviewing risk controls where, in too many cases, the controls associated with specific risks are just not appropriate, such as:

- they do not reduce 'impact' or 'likelihood' scores
- they provide more commentary rather than focused actions
- they tend to be too subjective
- they have not been reviewed in detail in years
- no documentation exists confirming that the controls are actually being actively applied.

Combine this with the fact that only one-third of pension schemes have appointed an independent audit firm as internal auditors to help them review their risks/controls and we then have a problem.

Trustees need to reassure themselves that any controls identified continue to be appropriate, effective and applied.

What are the biggest risks facing UK pension arrangements?

Trustees of DB schemes continue to focus primarily on managing financial risks, with concerns relating to employer covenant being a clear winner. Whereas, trustees of DC schemes see the greatest risks being those potentially resulting in members not being treated fairly or making the wrong decisions.

Trustee concerns over DB administration risks (particularly for large schemes) have increased considerably in the past 12 months. In terms of DC risks, there was a difference in views. Trustees of hybrid schemes were concerned with poor communication/default fund design whereas trustees of DC-only schemes were concerned with meeting regulatory requirements and cyber-risk.

Are trustees doing enough when it comes to integrated risk management?

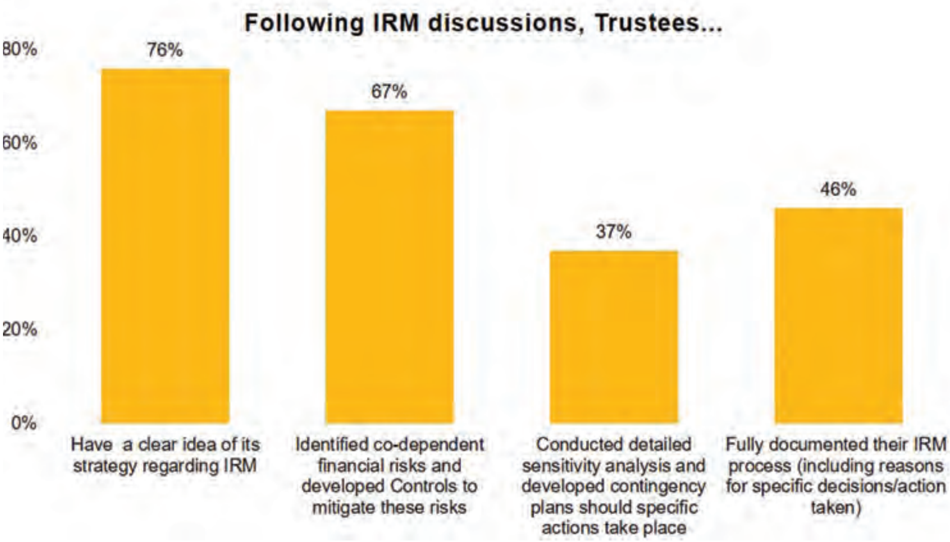
The results highlight that most pension arrangements are taking IRM seriously, with 60 per cent of pension schemes spending more than three hours each

Top 10 risks facing DB schemes

Position	Risks	Importance score
1	Employer Covenant	3.10
2	Funding volatility	2.05
3	Inappropriate Investment strategy	1.68
4	Investment under-performance	1.62
5	Administration	1.12
6	Meeting regulatory/compliance requirements	0.82
7	IT/Cyber risk	0.80
8	Sponsor/Trustee relationship	0.80
9	Trustee capabilities/governance	0.58
10	Quality of risk management	0.58

Top 10 risks facing DC schemes

Position	Risks	Importance score
1	Poor investment performance	2.13
2	Design of default fund/Inappropriate investment strategy	2.05
3	Poor communications	1.97
4	Inappropriate decision making by members	1.51
5	Meeting regulatory/compliance requirements	1.46
6	Administration	1.23
7	IT/Cyber risk	1.18
8	Fraud/scams	1.03
9	Inadequate Controls	0.69
10	Quality of risk management	0.51



year considering IRM and related topics. However, of concern is the 14 per cent of pension arrangements who have spent less than one hour on this subject; this includes the 22 per cent of large pension arrangements.

A successful IRM discussion by trustees should result in the trustees having developed a suitable IRM strategy, being clear about their co-dependent risks and being prepared for various scenarios. In the chart below, we set out the proportion of respondents who feel their IRM discussions have resulted in them meeting these specific objectives.

With approximately two-thirds of pension schemes not developing contingency plans and one-third not being clear regarding co-dependency risks, there is clearly further work required by trustees in this area. This is reinforced with 30 per cent of pension schemes not using the trustees' appetite for risk to help them manage their risks effectively.

And finally…

Too much of trustees' valuable time continues to be spent focusing on risk scoring/prioritisation and not enough time on discussing quality risk solutions and reviewing the appropriateness and effectiveness of the risk control mechanisms. This can unfortunately give trustees the perception that everything is OK when in reality it is not.

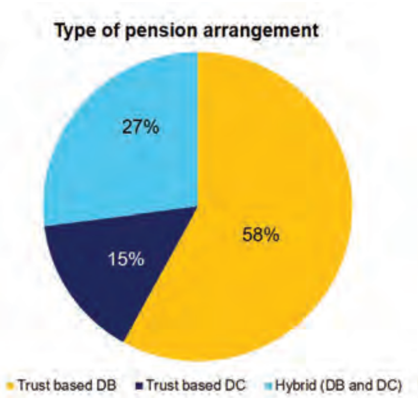
Trustees should ask themselves three very simple questions at the beginning of each trustee meeting:

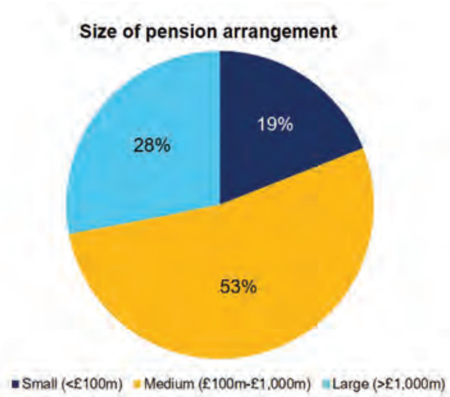
1. What are the scheme's top three risks and what are we doing about them?
2. Are we within our risk appetite/tolerance parameters?
3. Are our risk controls working well?

Trustees should then rely on their pension manager or advisers to manage the risk programme (consistent with the risk management policy) outside of the trustee meeting, and allow the trustees to take an oversight or strategic role towards risk management going forward.

If you would like further information regarding our survey results or to find out more about how Crowe are helping pensions schemes manage their risks effectively, please contact Andrew Penketh on 0207 842 7355.

Participants represented a broad range of different types of UK pension schemes, both in terms of size and by type of arrangement.





About Crowe

Crowe is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

Written by Andrew Penketh, national head of pension funds, Crowe UK

In association with Crowe

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Pensions Age Autumn Conference 2018

After a not-so-quiet summer in the pensions industry, our annual autumn conference certainly had a lot to cover. It did not disappoint. With speakers from the regulator, asset management firms and pension funds, there was a lot for a packed room to get stuck into

It was back to school for the pensions industry at this year's autumn conference and there was plenty to talk about. With a number of 'autumn' government consultations, incoming regulation and the impending Autumn Budget, attendees were keen to delve into the nitty gritty.

Gathering once again at the De Vere Grand Connaught Rooms in Central London, a range of speakers delivered a number of talks on interesting topics from a Nationwide case study, to what trustees need to think about when they are facing tough administration decisions and investment strategy frameworks. A theme apparent throughout was risk.

Update from TPR

The Pensions Regulator kicked off the day and were quick to give even more detail around their clearer, quicker, tougher approach to regulation. TPR lead investment consultant, Fred Berry, outlined its new regulatory approach, as well as giving an update on the growing number of initiatives the watchdog has taken on over the past couple of years.

Included in this was its new governance and risk management approach to schemes. TPR is set to introduce one-on-one supervision for 25 of the biggest defined benefit, defined contribution and public sector schemes, looking to move to 60 schemes over the next year.

Furthermore, Berry described to delegates how the regulator has identified around 50 pension schemes to "probe" over "excessive" dividend payments, relative to pensions contributions. The schemes, he said, would be contacted in the build up to their triennial valuations, while this year's annual funding statement has stronger expectations concerning contributions over dividends.

"The 2018 version of the annual funding statement had the usual messaging around integrated risk management and contingency planning, but also stronger than previous years in regard to contributions," Berry said.

"It is focusing on our belief that for schemes with strong covenants, their sponsor should be paying more, it is the 'fix the roof while the sun is shining' argument and that argument is especially pertinent where the sponsor's dividends are excessive compared to contributions to the scheme.

"This then gives a platform to trial our new commoditised approach, setting out clear expectations, then using our data analytics to identify schemes … and further narrowing down on schemes who are approaching valuation because it might have the most impact."

Berry concluded by talking about what the regulator's investment team has been doing. He noted the financially material risk posed by pension funds not taking environmental, social and governance (ESG) seriously enough, and how TPR are trying to work more efficiently.

He said: "Regulators have to be seen as value for money and we are working to get more bang for our buck, and the rational behind the new process is being able to interact with a wider range of schemes given the resources we have got … about 10 per cent of the regulators work is enforcing, about 90 per cent of its work is about engaging and networking with the industry."

Giving an update on all things legal in the pensions industry at the moment, certainly no mean feat, was DLA Piper partner Matthew Swynnerton. From the defined benefit white paper, to scams, GDPR, RPI to CPI and the Lloyds GMP case, there is a lot for the regulator and the industry to be thinking about.

Changing the game

Another theme that emerged from the conference was the efforts that some firms were making to try and change the way we think about traditional services.

Mercer principal Tim Banks talked about the evolution of fiduciary management and how they shouldn't be seen as the overseers as they once were, but that schemes should be able to pick and choose elements of fiduciary management, a process he called "partial delegation".

He said: "Increasingly as a fiduciary management provider, and I think this is going for all fiduciary managers, we are working with entities that traditionally you would have called our competitors, so the market is evolving and clients are picking and choosing who they want to work with for different services that goes into fiduciary management."

When it comes to investing, an area that has previously only been attainable for the larger pooled funds is infrastructure. High-ticket prices are often a barrier to entry for smaller funds'. However UBS head of asset management, Bronte Somes, believes this can change.

According to Somes, growth in the sector has been exponential since 2007 and smaller pension funds should perhaps consider getting into the market through listed infrastructure, or through funds of funds, however she did concede that this could result in higher fees and charges. A risk many pension funds are probably unwilling to take.

On the age-old issue of member engagement and communication, Ferrier Pearce executive chairman Nigel Pearce gave an eye-opening demonstration of its prototype savings app for the 'Uber Generation'.

Pearce said that schemes must engage with their members or be left behind. He laid out a four point plan to engagement, which included engagement in conversation, appealing to emotions, a convenient service and opportunity on the move.

According to Ferrier Pearce, 55.2 per cent of social media conversations about pensions are sad in tone, while just 33.8 per cent are happy, 7.3 per cent angry and 3.9 per cent fearful; a major risk Pearce concluded.

Risk

The theme of risk continued, as Aon partner, AIS head of large clients, Mark Rogers, spoke of the importance of active diversification in order to mitigate certain risks, more specifically, allocating to a number of different credit structures.

Rogers compounded his point by talking about how it is not just important to be active across investments, but how it is imperative to be active in your choice of fund manager, as well as diversifying your exposure to managers.

"We pulled together other managers in order to have diversified exposure to managers and point two was to be a little bit more opportunistic to get the exposures that we want over time … It means you can close and vary your allocation to managers and be strategic about the opportunities that are available to you."

In addition to choosing your managers strategically, Rogers also spoke about the correct time to fire your manager. When you spot changes in the way the fund was being managed, not

just when it is experiencing losses and poor performance, but a fundamental change in approach, then it would be time to downgrade.

"The manager was taking more risk and more risk than we wanted and more risks that was in the mandate," he added.

Risk however, according to Charles Stanley senior portfolio manager, Bob Campion, is all about how its deployed.

Campion believes efficiency is key, demonstrating to all of the attendees his live and die attitude towards taking a risk, which is complicated to deploy, he says, but has a number of simple rules. In order to succeed when risk taking, your objective must be clear, with a clear structure and tactics of how you plan to win.

His approach delivered a breath of fresh air to the way the industry approaches the subject.

Despite starting out by listing all the things that can go wrong for pension schemes, such as administration error, increasing longevity, failing sponsors, regulation changes, lengthy valuations and economic downturn, with the right strategy and tactics, any pension scheme can succeed, he said.

Campion talked about how most people are inherently risk averse, but through knowing your biases and getting your numbers right, risk needn't be feared.

He rounded off his presentation with the numbers to back up his theory, highlighting how using risk efficiently could boost returns by up to 1.5 per cent.

Risk was also on the agenda for M&G fund manager, Tristan Hanson, who set himself the task of defining different risks to schemes investment strategies, such permanent loss, inadequate returns and overvalued assets – taking particular aim at bonds.

"German bonds rallied but it's now three years that you've only had inflation and no return, and in the UK, we had the low in yields after Brexit, there has been two years with no return over inflation. With safe-haven government bonds, the most likely outcome is that they are priced to deliver negative returns over the long run."

When it comes to returns for schemes, Stamford Associates head of fiduciary management advisory, Carl Hitchman gave us a lesson in what schemes should be expecting from their actuarial valuations, and not to be too disheartened if liabilities aren't disappearing. He also proposed three key risks that pension scheme trustees should be thinking about.

"There are lots of elephants in the room. The first is schemes turning cashflow negative, the second is the risk that comes with liability-driven investment and the third is the perverse effect that legislation and regulation is having on investment decisions for trustees," Hitchman said.

Another issue for trustees is that of administration. Premier head of administration, Girish Menezes, discussed the pitfalls around when trustees should be looking to change administrators and why.

According to Menezes, the number of schemes looking to change administrators has grown massively, which has also driven up prices. However, he believes that by not doing so, schemes run the risk of hiding bad legacy data.

"If you as a trustee or you as a pension manager aren't investing in cleaning up your data, which under GDPR guidance you really need to do, it's only when you get the clean data you can move towards more automated processes and calculations and turn around efficient member delivery."

Jupiter chief investment officer, Stephen Pearson, discussed the risks around ESG, and how it is important to work from an active, and not a passive, framework when it comes to being engaged in the issue. At the heart of the issue, he argued, was governance.

Rounding off proceedings was Nationwide pension fund chief investment officer Mark Hedges. He discussed the amount of risk that he had to manage around the company's two defined benefit schemes – and not just with investment.

He argued the recovery strategy that the building society had put in place over past 10 years and how it is at risk of being undermined by a number of modern day risks such as cyber security and populism.

Nationwide's pension fund deficit increased by £250 million the day after the Brexit vote and a further £350 million in the following three months.

"We weren't fully hedged on the private markets and the FTSE is mainly constituted of non-UK generating income streams. We saw a further £350 million increase over the next three months as rates continued to tumble," he said.

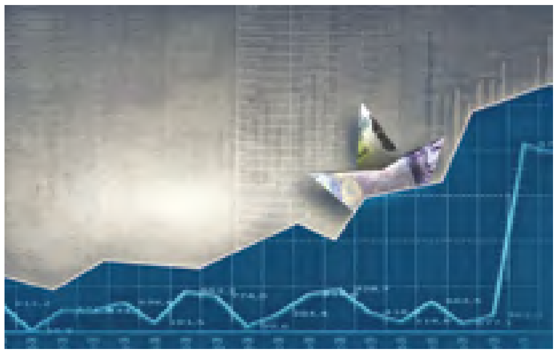
"The one thing we found with what's going on in the market is we don't actually believe anything anymore. In the days of social media we get alternative facts."

Concluding the conference, Hedges rounded off a strong theme of the day, that quite simply, you cannot always be in control, or always know what is going to happen. However, by mitigating against risk as much as possible, and keeping members front of mind, pension schemes can weather the storm.

Written by Theo Andrew

Leveraged loans: Untested waters

The leveraged loans market is becoming bigger – and riskier, says Andrew Cole, head of multi asset at Pictet Asset Management



The leveraged loans market is booming: the first half of this year, $800 million of such debt was issued globally – more than in the whole of 2015, and over double the amount in 2008.

The appeal is clear. For companies, it is an attractive source of financing at a time when the global economy is holding up well and many banks remain reluctant to lend. For investors, the returns have been relatively high, with a lower volatility than high-yield bonds. It also chimes in with the broader boom in private – rather than public – assets.

But, as the credit cycle enters its later stages, we believe there are reasons for caution. In its current shape, the leveraged loans market's ability to withstand jolts is largely untested. This is particularly worrying as issuers' leverage is rising while credit protection is weakening.

So far this year, 57 per cent of new leveraged loans issued have been 'covenant lite' – featuring less protection for the lender and giving more flexibility to the borrower in areas like tests on collateral, leverage, payment schedules, etc. A decade ago, the proportion was virtually zero.

Debt-to-EBITDA levels on US leveraged buyout (LBO) deals have also been rising: the share of LBOs levered at six times or higher stood at nearly 50 per cent in 2017 from 30 per cent in 2013.

Such deterioration in the quality of credit has two consequences. One, it will likely lead to lower recovery rates in case of default as the weaker covenants can enable companies to issue more debt than normally would be the case. Not only does that reduce their ability to pay, but it also increases the risk a loan will be subordinated by future borrowing.

At the same time, credit pricing now provides little room for default. In the US – by far the biggest leveraged loan market – the average spread at loan signing date has dropped significantly to just 383 basis points mid-2018 from a peak of 473 basis points in March 2015.

If defaults were to rise to 5.5 per cent from about 2 per cent currently – which would still be far short of the 10-15 per cent rates typically seen during recessions – and the recovery rate dropped to 50 per cent, the excess spread would be wiped out. In other words, it would take only a relatively modest deterioration in conditions for investors to lose all the additional compensation these assets are offering in exchange for increased risk and reduced liquidity.

Admittedly, the high-yield bond market has been subject to similar trends and also currently offers investors limited compensation for the degree of risk. But its borrowers tend to be of a higher quality, with the majority BB rated, compared to B for leveraged loans.

Any asset comes with some risks, and the key to successful investment is to fully understand what those risks might be. Arguably the biggest problem with private credit is that the asset class is largely untested against adverse conditions, having not yet weathered a significant default cycle. The majority of private debt funds were created well after the financial crisis.

A further risk is that leveraged loans, a traditionally very illiquid asset class, are increasingly structured in vehicles with open-ended liquid structures, such as mutual funds and ETFs. This liquidity mismatch is likely to cause problems in a period of market stress – a fact that has already been noted by the International Monetary Fund (IMF).

Thus, as the credit cycle enters its later stages, we are mindful of the risks to the credit market in general and to its private lending segments in particular. Those investing in this asset class should be cognisant that protection is weaker and returns are lower than has been the case historically. The outlook for these products – as yet untested but likely to be highly correlated to other parts of the credit universe – is uncertain over a two to three year time horizon. And given the impact leveraged loans can have on corporate capital structures, any turbulence could have implications for other asset classes and even for the global economy more broadly.

Written by Andrew Cole, head of multi-asset, London, Pictet Asset Management

Source of all data: Bloomberg, LCD/S&P Global Market Intelligence, August 2018.

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Summary
• **Conservatives:** Work and Pensions Secretary Esther McVey reiterates her commitment to an industry-led pensions dashboard.
• **Labour:** Jeremy Corbyn pledges to keep the triple lock pensions policy, and hadow Chancellor John McDonnell asks pension funds to demand that companies sign up to the Fair Tax Mark.
• **Liberal Democrats:** Vince Cable announces plans for a major tax shake up including a flat-rate tax relief on pension contributions.

Fading into the background

With political party conference season upon us once more, Natalie Tuck looks at the policy pledges for pensions from the main political parties

Pensions, it appears, continue to fade into the background of the current political agenda. The subject was mentioned at all three of the main political parties' conferences, but it is clear that it's not a political priority.

Prime Minister Theresa May was the only party leader to make no mention of even the word pension in her speech to delegates, with Labour leader Jeremy Corbyn and Vince Cable both making references.

However, perhaps more concerning was the failure of Labour Shadow Work and Pensions Secretary, Margaret Greenwood, to talk about any policy relating to pensions in her speech. She uttered the word twice, in reference to her colleagues' "vital work" they do in holding the government to account, which includes Shadow Pensions Minister Jack Dromey.

There was also a notable omission of pensions from Chancellor Philip Hammond's speech, but the incumbent Work and Pensions Secretary, Esther McVey, touched briefly on the area, reiterating her support to an industry-led pensions dashboard.

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"More people than ever are saving into a workplace pension, up nearly 50 per cent in the past six years, and significantly driven by younger people. Through automatic enrolment, we have helped create almost 10 million new pension savers," she said.

"And we will be giving people the opportunity to access their pension information through an industry-led pension dashboard, building on the government's check your state pension online service."

On the subject of state pensions, McVey said the Conservatives "support pensioners who have worked their whole lives, and contributed enormously to the success of this country".

"We are providing certainty in retirement through the state pension, which has increased by £1,450 per pensioner since 2010. In sharp contrast to the 75p increase pensioners received under Labour in 2000 - remember that?"

In addition, she said the

Conservatives will continue to apply the triple lock on the state pension to pensioners living in the European Union after the UK leaves in March 2019.

Labour's Shadow Work and Pensions Secretary may have left out pensions, but Labour leader Jeremy Corbyn pledged to keep the triple lock if his party is elected. Corbyn said the party owes it to the older generation to rebuild Britain "so you too have peace of mind and dignity".

"We will fulfil that obligation with the triple lock on pensions protected, along with the winter fuel allowance, a free bus pass and a national health and care service that can look after you and your families with respect. That is solidarity between the generations."

Keeping the triple lock would mean the state pension would continue to rise in line with the highest of earnings, inflation or 2.5 per cent.

The Labour Party also wants pension funds to join other shareholders in demanding that companies sign up to the Fair Tax Mark. The certification scheme was launched in 2014 and seeks to encourage and recognise organisations that pay the right amount of corporation tax "at the right time and in the right place".

Making just a passing remark to pensions, Shadow Chancellor John McDonnell revealed his initiative to bring institutions such as pension funds, churches and trade unions to launch a shareholder campaign to demand companies sign up to the Fair Tax Mark.

Delivering his speech, McDonnell said that "we need to exert some power over our tax system", noting that there is a "minority" who do not live up to the standards of those that "pay their taxes and support our community".

"One way is to mobilise shareholder power to demand companies uphold basic tax justice standards. Numerous institutions from churches to trade unions and pension funds have large-scale shareholdings in many of the companies that avoid taxes," he explained.

"So today, I'm announcing my intention to bring together these organisations to launch a shareholder campaign. We'll be demanding companies sign up to the Fair Tax Mark standards, demonstrating transparently that they pay their fair share of taxes. So fair warning to the tax avoiders, we are coming for you."

Tax was also a focus for the Liberal Democrats, but with pensions tax relief listed as part of a major tax shake up proposed by the party.

Speaking on *The Andrew Marr Show*, 17 September, ahead of his speech to conference, Liberal Democrat leader Vince Cable said pensions tax relief should be treated equally between high earners and low earners.

Currently, those paying the lower rate of income tax at 20 per cent receive 20 per cent tax relief on their pensions contributions. Those paying the higher rate of income tax at 40 per cent, receive 40 per cent tax relief.

Former Liberal Democrat MP Steve Webb, who served as Pensions Minister between 2010 and 2015, previously suggested introducing a 33 per cent flat-rate pension tax relief amount.

Delivering his speech to conference, Cable said the Liberal Democrats would "resurrect a sense of fair play in the way the government raises money", as he proposed tax reforms across the board.

"We would rebalance pension tax relief away from the highest earners, towards those least able to save. These reforms could raise substantial sums. We would not splash the money on short-term spending. It could be invested in a sovereign wealth fund, saving for the future. And that fund would be further boosted by the eventual sale of RBS shares."

Written by Natalie Tuck

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A decade of recovery

On the 10-year anniversary of the financial crisis, Sunniva Kolostyak explores the impact and lessons from the market crash

Summary
- Despite still not being back to pre-crisis levels in some areas, the market is overall stronger since the financial crisis.
- Over the past 10 years, schemes have seen low growth and interest rates but regulations have made it safer for savers.
- Risk management has become more transparent.
- The next crisis will come from an area where conventional wisdom is wrong.

"The global financial crisis was the story of an over-leveraged, interconnected banking system, just waiting for a shock significant enough to bring the whole system to a crisis point."

That is at least how Epoch Investment Partners managing director and global portfolio manager Kevin Hebner sees it. The market crash in 2008 is often defined by the collapse of Lehman Brothers, which on the 15 September had its 10 year anniversary. The collapse unleashed a wave of chaos across global markets, leading to a decade of exceptionally loose monetary policy, according Hargreaves Lansdown's report.

"In the UK, it was also the catalyst for the government bailout of RBS and Lloyds, after the latter was persuaded to rescue HBOS just days after Lehman filed for bankruptcy," senior analyst Laith Khalaf explains.

The collapse is what some call the darkest period of the financial crisis. When the bank filed for bankruptcy, the global market threatened to cave in on itself, leading to a 4 per cent fall in the FTSE 100 and a 5 per cent fall in the S&P 500. Four days later the UK stock market had lost 9.5 per cent of its value and by Christmas the market had dropped almost a quarter.

According to Hargreaves Lansdown, £10,000 invested in the FTSE All Share just before Lehman's collapse was worth just £6,581 six months later. This has, however, since been reversed, as the same £10,000 would now be worth £14,893 without including dividends, and £21,352 with dividends reinvested.

But not everything is back to pre-crisis levels. As the deepest of the seven recessions since the 1950s, the 2008 crash caused the economic output to fall by 6.1 per cent, and it took 21 quarters for GDP to recover, according to ONS data. Unemployment, which rose to 8.5 per cent after the crash, has since receded to 4 per cent, but real wages are still below the levels seen in the period leading to the meltdown.

Low growth

The wide-ranging implications of the market crash reached the pensions industry as well. PLSA director of policy and research Nigel Peaple says one of the key consequences for schemes in the UK was a sustained period of low growth and low interest rates.

But it is not all bad, he points out. The last decade has led to a significant amount of new regulations that were aimed to provide "greater security and transparency across financial services".

"In the same period we've seen some fundamental changes within the pensions landscape, such as automatic enrolment – which has brought 10 million members into mainly defined contribution workplace pension saving –

and the further closure of many private sector defined benefit schemes to future accrual," Peaple says.

Final salary pension schemes saw a significant rise in pension liabilities as the gilt yields were driven to a record low following the crisis in a bid to ensue monetary policy, according to Bloomberg and the Pension Protection Fund (PPF). The 10-year gilt yield started at 4.5 per cent and fell to around 3 per cent directly after. It has since fallen below 2 per cent after the eurozone debt crisis, and to a little over 0.5 per cent after the EU referendum.

While lower interest payments on government debt is good for the treasury, some defined benefit schemes have, according to the PPF, seen deficits widen and have faced calls from their pension trustees to add more money to the pot.

Since the collapse, a typical gilt fund has produced a total return of 71 per cent for investors, Khalaf says. "It's difficult to see this trend continuing, with UK monetary policy tightening, albeit at a glacial pace. Unless that is, the UK suffers another economic shock, which would see safe havens like gilts rise in value again."

Learning from mistakes

While plausible, another economic shock would not strike in the same place, the industry claims, as the lessons learnt in the past 10 years would prohibit that. Barings head of macroeconomic and geopolitical research Christopher Smart says there are several top lessons to take away from the collapse of Lehman Brothers, first being the laws of gravity.

"When something falls from a great height, it needs a great deal of cushion to absorb the impact. Banks that were far too levered could hardly be expected to survive the impact – and they didn't. There will always be debates about the correct amount of loss-absorbing capital to have on hand, but it is almost always more than you think."

He also mentions that sound plumbing is another good investment as "the establishment of central clearing houses for derivatives represents a marked improvement in financial transparency," meaning it no longer casts doubt on flows through the entire system if a counterparty has an issue.

Smart also explains that too much regulation naturally strangles both innovation and growth and that good leadership matters as humans are emotional. Kempen Capital Management senior portfolio manager Rob Scammell agrees, saying the economy and financial markets will always be at the mercy of human nature and the debt cycle – but that over the past 10 years, pension funds have developed to become more resilient to their effects.

Before, Scammell points out, companies were worried about the solvency of counter parties and the quality of the collateral they posted. "Now with central clearing and collateral posted mostly in cash or high quality sovereign bonds derivative risk management has become notably more transparent."

The most forward-thinking schemes, with a clear distinction between how trustees dealt with the challenges of the crash, have lowered equity allocations and increased its LDI allocation following strategy reviews, he continues.

"It also explains the increasing popularity of alternative assets that provide fixed cashflows often linked to real assets, such as infrastructure," Scammell notes. But change has not been universal. "Some schemes still hope for a return of 2005 with high long-dated yields and rising equity valuations."

RBC Global Asset Management head of EMEA business development Paul Williams says that in terms of pension funds, there has certainly been a welcome focus on what positive impact asset managers are having on their clients.

"A focus on transparency, client protection, fee compression and the large scale move towards passive management have all conspired to ensure managers are demonstrating the value they add to clients."

What next?

As the laws of gravity state, the market will come down again, but Smart explains that it is not a question of when it will happen but where. His money is on new forms of finance developing outside the banking system.

"Odds are, the next real crisis will come from areas where conventional wisdom turns out to be fundamentally wrong. Last time, we discovered that house prices in Las Vegas are not uncorrelated with those in Miami. We also learned that a package of questionable debt does not become AAA-rated just because someone agrees to insure it."

Despite not believing the next crisis is close, Hebner says he believes that severe liquidity disruptions, which were at the core of the last crisis, will be a key attribute.

"Bull runs do not die of old age, they are either killed by seismic events or more often by central banks with changing fiscal policy."

Peaple says the PLSA supports regulations and policies that will protect future pensioners. "With many employers facing an uncertain economic future, we welcome government proposals to strengthen protection for savers, improve scheme funding and governance, and to facilitate pension scheme consolidation."

But as BlackRock's head of UK strategic clients Andy Tunningley says: "The ball is now in the schemes' court and trustees need to recognise how they need to take steps to prepare for such events. If anything, schemes do need to take some responsibility for resilience themselves and not rely on the system being their backstop."

Written by Sunniva Kolostyak


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LGIM's approach to responsible investing – *We believe responsible investing can not only mitigate risks, but also lead to better long-term financial outcomes without sacrificing performance* **p48**

Part of the mainstream – *Andrew Williams explores how responsible investing has moved from a niche thought to part of the mainstream considerations of pension fund investors* **p50**

Responsible investing focus:

A second wind

Anton Eser, chief investment officer, LGIM

Sponsored by Legal & General Investment Management

LGIM's approach to responsible investing

We believe responsible investing can not only mitigate risks, but also lead to better long-term financial outcomes without sacrificing performance

From diesel emissions to oil spills, there have been many tangible examples in recent years of how failures in the way companies are run can have a harmful impact on the environment, society and investor returns.

We believe responsible investing can mitigate the risk of such outcomes and has the potential to improve returns through the integration of environmental, social and governance (ESG) considerations, active ownership and long-term thematic analysis. Crucially, it can also unearth investment opportunities, which the market may not fully appreciate, and should not require a trade-off with performance.

At LGIM, as one of the world's largest asset managers with a long history of corporate engagement on the most material long-term issues, we have the scale and ability to make a real, positive impact on the companies in which we invest and on society as a whole. We share this objective – made far more attainable by ongoing improvements in ESG data – with a growing number of clients.

Responsible investing cannot be just a box-ticking exercise. So from the votes cast by our industry-leading corporate governance team to the investment processes deployed in our funds, we continue to take steps to embed the principles of responsible investing across our entire business – and act on them.

At a time when populism is destabilising global politics, the world faces a growing debt burden and a demographic drag looks set to dominate growth prospects, we believe that such an approach is more necessary now than ever as new systemic threats continue to emerge.

Against this backdrop, there is a clear change in the behaviour of consumers, who are demanding more sustainable products and services due to a growing awareness that they are responsible for the societal and environmental implications of their choices.

A similar shift is underway among investors. Increasing numbers expect the asset managers most likely to deliver the greatest shareholder value over the long term to be those that truly recognise the importance of incorporating long-term themes alongside ESG considerations into their investment processes.

Managing the managers

There are an almost overwhelming number of ways to characterise and conduct responsible investment strategies. We support the consensus view, established by the UN-backed Principles for Responsible Investment, that responsible investing aims to incorporate ESG factors, in order to better manage risk and generate sustainable, long-term returns.

Importantly, unlike other approaches, such as ethical investing, we define responsible investing as seeking to deliver desired financial outcomes, rather than being subject to moral or ethical considerations.

And while the collection of hard, empirical data on responsible investing remains somewhat in its infancy, a growing body of academic and industry work indicates that it can indeed engender better risk-and-return outcomes.

Guess who's coming to your AGM

Active ownership forms a key part of how we conduct responsible investing, as we feel it is incumbent upon us to take our stewardship responsibilities seriously, not least because of our size. This is reflected in the following activity:

- Company engagement
- Using our voting rights globally, with one voice across all our active and index funds

• Addressing systemic risks and opportunities
• Seeking to influence regulators and policymakers
• Collaborating with other investors and stakeholders

Insights gleaned by our corporate governance team, which spearheads much of this work, help us to assess a company's ESG profile. This is most comprehensively evaluated by looking at two different drivers of investment returns.

The first is how its business activities can impact its bottom line; for example, the risk of pollution by a miner leading to the loss of a key licence to extract resources from a country. The second is how long-term trends may determine consumer demand for products and services; for example, the implications of the global battle against plastic for petrochemical companies and demand for oil.

As a result, we conduct a combined research effort across asset classes to evaluate long-term themes – energy, demographics and technology – and understand how they shape, and are shaped by, the political environment.

Making responsible investing mainstream

We have devoted significant resources to extending our capabilities in responsible investing across our business. We also work to make a positive impact through strategies such as our Future World funds, which go even further in addressing sustainability issues.

Markets, meanwhile, do not yet reflect the systematic incorporation of ESG considerations by their participants. But as investors are increasingly recognising that these factors play a crucial role in determining asset prices, we believe responsible investing is destined to become the new normal.

As it becomes mainstream, we are likely to see a virtuous circle of more investors demanding higher standards in order to allocate capital to companies, and more companies raising their standards in order to receive that capital.

We also expect growing numbers of investment decision-makers to view the consideration of ESG factors as a fundamental part of fiduciary duty, as they acknowledge that it need not entail the sacrifice of investment returns.

For our part, we will continue to endeavour to embed these principles in everything we do, in order to deliver sustainable, long-term returns for our clients and help bring about the real, positive change of which the world is in urgent need.

Written by Anton Eser, chief investment officer, LGIM

Part of the mainstream

Andrew Williams explores how responsible investing has moved from a niche thought to part of the mainstream considerations of pension fund investors

Summary
• In recent years, responsible investing has moved gradually from a niche investment area for pension schemes to being part of the mainstream.
• Many people now demand more from their investments, particularly when faced with increased regulatory pressure and heightened awareness of the financial cost of inaction in managing risks like climate change.
• More and more observers now report that there is, at the very least, no negative trade-off between performance and responsible investment.

Pension fund managers across the UK are increasingly aware of the need to consider the environmental, social and governance (ESG) impacts of the investments they make. So, what have been the recent trends in the way that UK pension funds invest responsibly? Has the level of interest in responsible investment increased in recent years? What are the main factors influencing the decision to invest responsibly? And do UK funds remain concerned about sacrificing performance when undertaking responsible investment?

Mainstream

In recent years, responsible investing has moved gradually from a niche investment area for pension schemes to being part of the mainstream. According to Aberdeen Standard Investments' head of ESG investment – clients and products, Cindy Rose, the main recent trend has been the fact that pension funds increasingly recognise that responsible investment is more about engagement with companies rather than a simple screening in or out approach. In her view, this entails engagement "with a view to moving the dial with companies towards better practices to provide better risk and opportunity management".

As Legal & General Investment Managements' (LGIM) head of sustainability solutions, Caroline Ramscar, explains, the market is changing, meaning that people want and expect more from their investments, particularly now that they're faced with escalating regulatory pressure and an increased awareness of the financial cost of inaction in managing risks such as climate change. That said, Ramscar stresses that climate is not the only issue that should matter to investors – and points out that the focus is broadening as the financial implications of diversity and good governance are increasingly recognised.

As far as LGIM is concerned, Ramscar reveals that, as an established long-term investor, its focus on the future means that it has always believed in taking structural changes into account and is working to embed principles of responsible investing across the entire business. In practical terms, this means that LGIM approaches responsible investing through the integration of ESG considerations, alongside active engagement with companies and long-term thematic analysis.

"This plays out in how we engage with companies, develop innovative products, evolve our investment process and manage risk to deliver sustainable long-term value. We have evolved our approach by extending our Future World fund range in 2018. The ability to have impact at mainstream level is what we have been aiming for – the solution needs to be mainstream to be successful in realigning assets to sustainable investments," she says.

"Our strategies range from index approaches targeting issues such as climate and gender diversity, through to multi-asset, real assets and fully unconstrained active strategies, giving our clients choice across mainstream sustainable investment products."

Exponential growth

In terms of uptake, Ramscar reports that LGIM has observed a marked increase in the level of interest in responsible investing among UK pension schemes in recent years – with investors increasingly realising that ESG factors play a crucial role in determining asset prices and are beginning to view consideration of these factors as a fundamental part of their fiduciary duty. Even so, Ramscar believes that the UK still lags the rest of Europe in terms of ESG integration for a number of reasons, including the perceived inability to measure investment impact and the lack of stakeholder demand.

"Both of these are being addressed as the quality of data continues to improve, and government intervention is placing greater onus on trustees to consider ESG integration," she says.

Elsewhere, KBI Global Investors' head of responsible investing, Eoin Fahy, believes that the level of interest in responsible investing has grown exponentially in recent years. Although conscious of the difficulty of measuring such trends in a numerical or quantitative way, he reveals that an analysis of interactions with prospective clients showed that in 2018 (to date) about two-thirds of new business requests for proposals (RFPs) received by KBI involved the company answering very detailed questions about its approach to responsible investing.

"Four or five years ago, it was rare to be asked more than a single, often

quite perfunctory, question about our responsible investment approach, and more often there were no questions at all on this topic. So, we can say with absolute confidence that the level of interest has increased very rapidly," he says.

Although it is somewhat more difficult to be sure exactly why this has happened, Fahy highlights several potential reasons, including the fact that the aftermath of the global financial crisis focused minds on corporate behaviour and that the millennial generation, now moving into middle and senior management roles, are known to have a more favourable approach to responsible investing than older generations.

"Similarly, the increased number of women in senior management roles today, relative to a decade or more ago, may possibly be a factor," he says.

"The general acceptance that climate change is a real and urgent issue, for society, for our environment, and indeed for the global economy, may be another factor in driving the much-increased interest in responsible investing, particularly as it relates to issues like fossil fuel divestment and clean energy funds," he adds.

Performance impact

According to Ramscar, another crucial factor influencing the increased uptake of responsible investing is the fact that many investors now recognise that it need not entail the sacrifice of investment returns.

"UK pension schemes are certainly keen not to give up any investment performance when undertaking responsible investing – as are most other investors, too. But we believe responsible investing should not require a trade-off with performance. In fact, it has the potential to mitigate risks and improve long-term financial outcomes by helping to identify the companies that will succeed in a rapidly changing world," she says.

Meanwhile, Rose argues that sacrificing performance only becomes relevant if you screen out stocks.

Ultimately, Fahy believes that UK pension fund trustees want to be sure that they are acting in the best interests of their members and within relevant laws and regulations – meaning they are careful in their deliberations on undertaking responsible investment.

"It is rare to see trustees switching to a responsible investment strategy without a careful consideration of the issues. They ask themselves whether this is within their legal powers, whether it might endanger investment returns, whether it is what their beneficiaries and sponsors would desire," he says.

Fahy also argues that, in reality, it is "quite unlikely that a careful consideration of these issues will, in the end, throw up material barriers" and points out that trustees are well within their powers to consider material ESG risks and take reasonable measures to address those risks via a responsible investing approach to their investments.

"Companies that are well-managed when it comes to the consideration of ESG factors such as good corporate governance, management of carbon emissions and other pollutants, or the respectful treatment of their workforces, are also likely to be companies that are well-managed in more general terms and thus likely to outperform," he says.

"So, to us, while UK pension funds certainly do – and should – consider whether a responsible investment approach could result in lower investment performance, such consideration usually results in the conclusion that there is at the very least no negative trade off between performance and responsible investment," he adds.

Written by Andrew Williams, a freelance journalist

In association with

Summary
• The pensions sector is undergoing the biggest change in its history.
• Consolidation of schemes will lead to a shrinking of many, if not all, of its service providers.
• New roles will emerge in the areas of advice, data, marketing and technology.
• The potential of an 'Amazon-style' disruptor cannot be ignored.

The winds of change

Unprecedented change within pensions and advances in technology are threatening to destroy traditional roles and leave the industry with a very uncertain future

The pensions industry has, in the past, been notoriously slow moving. In its heyday it was easier to observe change within a secluded monastic community in the depths of Tibet than in a trustee board meeting. But you would have had to have been a resident at one of those monasteries for the past 10 years to not know that it is now undergoing an unprecedented metamorphosis.

The migration in the occupational arena from defined benefit to defined contribution – in the private sector at least – is all but complete. And as this shift reaches its conclusion, another has begun in earnest. Trust-based schemes under both guises are set to undergo an unstoppable wave of consolidation. Meanwhile, at a micro level, pension freedoms, tech disruption and increasing member awareness could challenge traditional savings routes and mechanisms to breaking point.

How the pensions job market will adapt to these new realities is unclear. But there are some professions within it that already have to face up to a very different future.

Out with the old

"An obvious one is the actuarial profession," says Altus Consulting's head of retirement strategy, Jon Dean, referring to estimations that the UK's DB fund universe could be reduced to less than a thousand schemes by the early 2030s.

"It will be a lot less about the funding of DB schemes and a lot more about helping DC customers to plan their retirement needs with stochastic forecasting."

Investment consultancy and management, as well as professional trusteeship, are other threatened areas. As ARC Pension Law partner Jane Kola explains, with occupational DC rapidly consolidating due to an unpalatable regulatory environment, there is a possibility that standalone DC trusts will become an endangered species within a few years. And DB's current slower rate of amalgamation may turn out to have provided a false sense of security.

"As funding improves more will look to move schemes to the bulk annuity providers," says Kola. "That market is now very busy and the much-talked-of capacity crunch seems to have arrived with the insurers being more picky about which schemes to insure leaving some in a close to buyout limbo.

"For the less well funded but still solvent there is a respectable chance that some sponsors will see the attractions of the commercial consolidators just entering the fray now. It will take time for those to get traction, but if the buyout market becomes crunched these might fill the void for the schemes in limbo and those heading in that direction."

Automation and tech is also likely to lead to the demise of numerous back office jobs within the investment management and contract-based provider worlds. Last year, Japan's Fukoku Mutual Life Insurance replaced its team of claims handlers with IBM AI Watson, an artificial intelligence programme that can analyse data, text, images, audio and video. And, as Dean says, if the investment industry builds a true blockchain trading mechanism, then a lot of middlemen such as custodians and transfer agents — to name but two — will no longer be needed.

For TPT Retirement Solutions' head of direct distribution, Adrian Cooper, this means an inevitable shrinking of the fund management universe – as well as significant M&A activity in other service provider areas to the occupational pensions market within the next 10 years. He highlights Marsh Mac's takeover of JLT in September, as a glimpse of what may be to come.

New opportunities

However, as doors start to close on traditional roles, new ones crack open.

For BoringMoney.co.uk's founder, Holly Mackay, one of those opportunities lies in marketing and communications. "So many people don't know the basic idea that you get at least £20 for every £80 you put into a pension, up to certain limits," she says.

"The basic product sets we have are fine – we need marketeers and customer-centric leaders from outside of the pensions industry to come in and lead us. There is a reason Audi is not managed exclusively by engineers."

Communications to members is also set to become much more individualised. Standard Life's head of pensions strategy, Jamie Jenkins, says tailoring messages will become more possible with the use of big data and tech. For bespoke messaging to work to its full potential, however, Jenkins believes that providers and schemes will have to hire many more data scientists and tech-minded professionals.

Mackay's point becomes particularly pertinent when the spotlight is turned onto the self-employed. Currently outside the auto-enrolment regime, only 12 per cent of the UK's 4.5 million self-employed save into a personal pension, according to the PLSA.

Once new savers have been drawn in and encouraged to save more, however, a new problem arises, thanks to pension freedoms.

"Our research increasingly points to the replacement of the traditional three stage life (education, work, retirement) with a more flexible multi-stage life," explains State Street Global Advisors' EMEA head of pensions and retirement strategy, Alistair Byrne.

"The pensions industry needs to adapt to that. People may need earlier access to some of their savings, for example for retraining, while the ability to draw down some savings in retirement alongside income from part-time work will be valuable."

Added to that is a chronic lack of understanding when it comes to the use of pension pots at retirement. As the Society of Pension Professionals president Paul McGlone points out, there are increasing numbers of members with decent amounts of money who "do not have a clue" as to how to manage or spend their savings.

McGlone argues that improved solutions are needed to give people some hope of spending their pots in a way that doesn't let them run out of money too early or results in them leaving a large amount for HMRC when they're gone.

All of this presents a huge opening for the IFA sector. Royal London pensions specialist Helen Morrissey says that more

advisers will need to go beyond their current at-retirement responsibilities, such as making sure that income drawdown clients are invested in the right assets, and begin offering guidance on potential future care needs and the role of housing and equity release.

This will also result in an increased focus on inheritance planning for financial advisers. KW Wealth's head of wealth, David Inglesfield, says that in 20 to 30 years' time, many people will be leaving large amounts of money to the next generation, with pensions playing a big part. This will also lead to many more retirees choosing to transfer pensions into IHT efficient products such as SIPPs.

"That IHT sector will become a mass sector as many people will have to deal with it," he says.

Digitalisation

The advice sector does not just have a skills gap, however. It is also short of qualified advisers who can offer affordable help.

Dean believes that advanced automated tools will eventually move beyond the current hybrid robo-human advice model that is appearing, to help boost coverage. Digitalisation, meanwhile, can help fill the void in the meantime.

"Taking the financial planning and retirement planning skills associated with *[pension freedoms]* and digitising them to enable them to help more customers, more quickly and cheaply is key," says Moneyfarm's head of UK investment consultants Will Hedden.

"I would expect longer term to see more product innovation around drawdown and managing customers living longer in retirement."

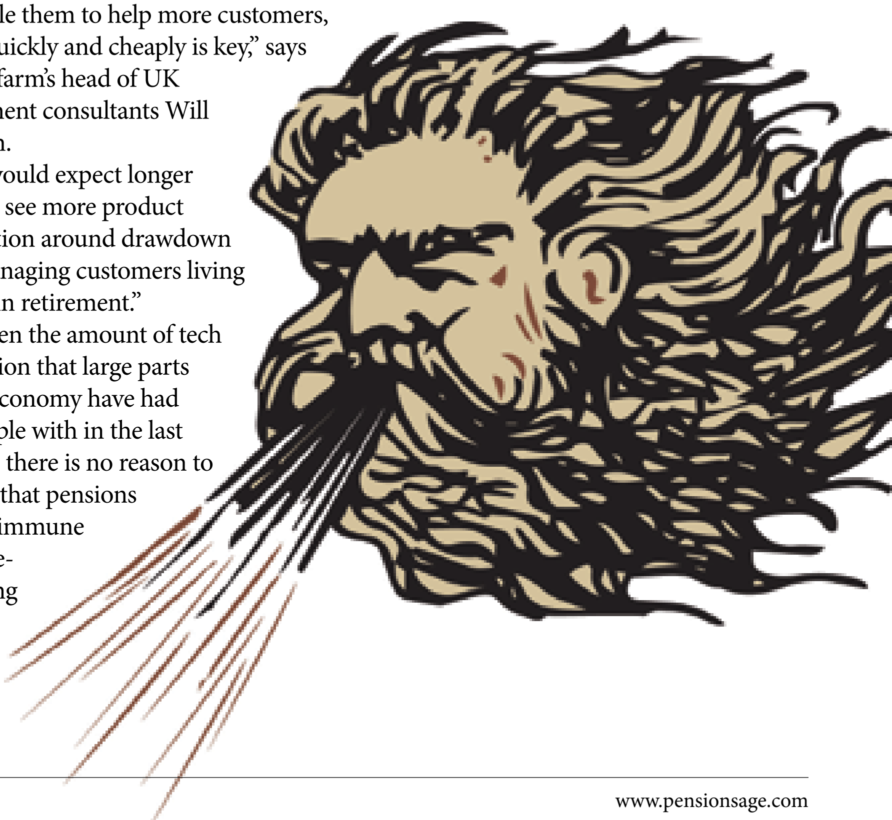
Given the amount of tech disruption that large parts of the economy have had to grapple with in the last decade, there is no reason to believe that pensions will be immune to game-changing new entrants. Jenkins says that it is a certainty that savers will be able to view all their pensions products on one webpage before too long, probably in the form of the long-anticipated dashboard. And, Morrissey predicts, as people become more familiar with the dashboard, this will likely fuel demand for more online offerings to help people track their savings.

This will act as the cue for market disruption, says Dean. "With masses of self-employed needing to get engaged in pensions I suspect we'll see at some point some Amazon-type new entrant that gets people excited and engaged in pensions for the longer term, just using digital tech."

If that were to happen, then large numbers of previously gainfully employed pensions professionals may think about booking themselves in for a retreat at a Tibetan monastery.

There, in the quiet mountains, they can contemplate their change in fortune and ponder an uncertain future.

Written by Marek Handzel, a freelance journalist



> **Summary**
> • Private rental sector is growing all the time, with one in five households currently renting, expected to grow to one in four. Rents are increasing by 0.9 per cent annually.
> • Pension funds have been showing increasing interest in this niche market.
> • Stable income and long-term investments, which can potentially ride out volatility in the residential property market, are among the main draws.
> • But maintenance costs, potential turnover of tenants and illiquidity must be taken into account and carefully managed.

Safe as houses?

Sandra Haurant considers why pension funds should be looking at private rental investments

The property or pension question is one that private investors have posed to themselves for many years. For many, faith in bricks and mortar remains firm, while the fluctuations of the stock market can be off-putting. The latest Office for National Statistics (ONS) *Wealth and Assets Survey,* published in August 2018, asked non-retired people which was the safest method of saving for retirement. Employer-backed pensions came first with 40 per cent of the vote, but investing in property came a strong second with 29 per cent. Among the self-employed, property was the most popular choice, with 42 per cent of people voting it the safest method of saving for retirement.

For pension schemes, though, the private rental sector (PRS) is an area that did not command quite so much interest. But things are beginning to change. Continuing low interest rates, poor bond yields and a need for regular income are driving the quest for reliable investments, and some believe that private rental investments can provide a promising mix.

As PiRho Investment Consulting's director, Phil Irvine, says: "Many pension schemes are looking into secure income assets, which includes rental housing, sometimes in specialist niches such as student accommodation, social housing, and so on."

Going up?

There is certainly growth to be seen here; according to the Office for National Statistics, tenants in Great Britain saw rents rise by 0.9 per cent in the 12 months to August 2018, an increase which had remained steady since the previous month. In England, private rental prices rose by 0.9 per cent, in Wales by 1 per cent, and in Scotland by 0.5 per cent, while in London increases were smaller at 0.3 per cent.

Local authority pension schemes have been putting more than a toe in this particular water lately. Derbyshire Pension Fund, Nottingham Local Government Pension Fund, and Staffordshire, Teesside and West Midlands Pension Funds recently became key investors in a closed-ended institutional housing fund run by Hearthstone Investment Management, known as Hearthstone Residential Fund 1 (HRF1). The local authorities invested £100 million into the 10-year fund, which has bought properties, including two Manchester apartment blocks.

Meanwhile, the Universities Superannuation Scheme (USS) announced in May that it was entering into a £330 million joint venture agreement with Places for People, investing in the UK private rented sector. Core funding for the partnership comes from USS, with Places for People's investment arm, PfP Capital, acting as asset manager, and Touchstone, its specialist property management business, taking on the day-to-day management of the property portfolio.

Ways in

Pension funds wanting to invest in residential property typically do so through pooled investment vehicles managed by real estate fund managers – and there are a number of funds that have been specifically established with institutional investors, including pension funds, in mind. "Some of these pooled vehicles are specifically Build to Rent (BtR) focused," says JLT Employee Benefits' senior investment consultant and head of manager research, David Will. In other words, buildings that are specifically built with the rental market in mind.

Asset attraction

So what is it about private rental that appeals to the pensions sector? Will says: "As pension funds are maturing and becoming cashflow negative, the UK PRS offers a number of features that they are seeking, namely stable, predictable income streams, diversification from other traditional asset classes that they invest in, such as commercial real estate, equities and bonds, defensive characteristics, including capital preservation and inflation linkage, and technical support from the long-standing structural supply and demand imbalance." And, he adds: "Last but not least, support from the UK government, which sees the PRS and BtR in particular, as a means of creating better quality and professionally managed housing stock for rental on a large scale."

For PfP Capital managing director Chris Jones, pension funds investing in the rental sector is, on many levels, a question of common sense. "The trend over the past decade or so has been owner occupation falling and rental accommodation continuing to rise and we see that trend continuing into the future," he says. It's an assertion that is backed up by research published in 2017 by estate agent Knight Franks, which showed that some five million households, or 21 per cent of the total, currently live in private rented accommodation, a figure anticipated to rise to 5.79 million by 2021.

For pension schemes, then, the private rented sector may offer the opportunity of a dependable income with good prospects for the future. As Will says: "The main benefits to pension fund investors are robust, stable income streams from an asset class that is supported by a long-standing supply and demand imbalance in the UK housing market, low correlations with other asset classes and the sector's defensive characteristics."

After all, as he says: "People always need somewhere to live, and the rental market has been robust during economic downturns, potentially resulting in lower capital falls from the rental market compared to the sales market." And Jones agrees: "The rental sector can often ride out the vagaries of the residential property market."

The rewards, then, can be stable and relatively generous, in the right climate. Will says: "Expected returns from the pooled vehicles that pension funds can use to access this sector are typically in the region of 6-8 per cent net of fees."

Risks

But there are, of course, risks. While, as long-term investments, private rental sector funds may absorb the worst of the property market fluctuations over time, residential property, by its nature, can be a relatively illiquid asset, and a need to sell at a low point on the chart could spell significant capital losses.

There are other considerations too, Irvine says: "Investment in rented property for pension schemes has typically been popular on the continent, but less so in UK. One of the advantages of this sector is that these are investments in real assets that have inflation characteristics," he says. "On the disadvantages side, these have historically been relatively small investment lots with quite high cost in terms of monitoring, repairs and collection of rents."

Anyone who has ever been involved in the upkeep of a property will know that there are inevitably costs involved. Maintenance can be onerous, and with rental properties, there is always a degree of 'churn' to manage, with tenants coming and going over time. For Jones, this is why choosing the right investment is essential: "I think one of the key risks for investors in this sector is the ability of the manager to manage the portfolio over the life of the investment or fund," he says. Jones claims that PfP is able to manage a portfolio in a way that ensures the operational costs are kept as low as possible, and at a level where the firm is able to ensure "appropriate asset management is undertaken, and that we are providing a quality service to the customer". After all, as he says: "A happy customer is one who will remain in the property and continue to pay their rent."

And, of course, a tenant is not simply a customer; when the investment is somebody's home, there are many important dimensions to be taken into account. As Will says, the fact that "people always need somewhere to live" makes rental property a relatively future-proof asset, on the face of it. But, adds Will: "There are [...] some caveats for pension funds to consider. Most importantly, there is the moral question. Could this be viewed by pension scheme members and other beneficiaries as exploitation of the people who are unable to purchase their own property or who choose to rent?"

The counter argument is that properly, professionally managed properties provide good quality homes for those who rent. And with a private rental market, which looks set to continue its upward trajectory, like the age-old pension versus property question for private investors, it is unlikely pension schemes will shut the door on this sector any time soon.

Written by Sandra Haurant, a freelance journalist

Why MAC strategies are relevant now – *Many pension schemes are seeking to allocate investment to a credit solution as they search for more sustainable returns. Jeff Boswell of Investec Asset Management discusses how multi-asset credit strategies could meet these needs* **p60**

The maturation of MAC funds – *Lynn Strongin Dodds explores how MAC funds have come of age* **p62**

Multi-asset credit focus:

A rising star

Jeff Boswell, strategy leader, Investec Asset Management

Why MAC strategies are relevant now

Many pension schemes are seeking to allocate investment to a credit solution as they search for more sustainable returns. Jeff Boswell of Investec Asset Management discusses how multi-asset credit strategies could meet these needs

Global growth remains lacklustre and the outlook for inflation highly uncertain. As a result, central banks are continuously looking at the efficacy of their monetary policy and how to sustain the economic recovery. This has resulted in government bonds losing their income generating qualities, with investors having no choice but to look elsewhere. Multi-asset credit (MAC) strategies typically offer a higher yield, while offering defensive qualities via risk management using several different credit asset classes. The strategy seeks to provide a strong income element on a consistent basis that few other assets can provide. An investor must also consider the security of that income. If, for example, income generation is reliant on equity dividends, there is a risk that these could be deferred in the case of a bad year or poor outlook for the firm, while the coupon of debt securities is pre-determined.

Core credit

A substantial allocation to credit is increasingly being recognised as part of the solution in solving the yield conundrum. This asset class substitution is coming from a variety of traditional asset classes, from de-risking core equity holdings to re-vamping vanilla credit portfolios, through to addressing low-yielding government bond portfolios. Not to mention those DB schemes that are facing the threat of becoming cash-flow negative and struggling to pay pensions without selling-down assets. The capture of this credit risk premium is, however, difficult to execute in practice, with the relative attractiveness of individual credit markets changing on a daily basis. MAC strategies seek to find the best risk-adjusted return within the credit markets, while also allowing the fund manager increased flexibility in managing portfolio risks. We regard this unconstrained, flexible approach to credit investment as ultimately replacing a large proportion of traditional segmented credit asset class investing.

Challenging rates and bond markets

With the US Federal Reserve embarking on its rate hiking cycle and the European Central Bank seeking to end its QE programme by the end of 2018, it has raised concerns for fixed income investors about the impact of higher rates. In our view, while the likelihood of a normalisation of rates to long-run averages (eg 6 per cent for 5-year US Treasury) from today's levels seems low, any movement in that direction will have a significant impact on bond markets. As we know, not all fixed income instruments, or fixed income strategies, are created equal. Unconstrained MAC strategies, which have the flexibility to derive returns from a broad opportunity set, have typically delivered robust performance through recent interest rate volatility. A key element of this performance is a focus on generating returns principally from credit spreads, rather than any significant duration views.

Volatility is on the rise

Volatility spikes have been much more common in recent years. In our view, such volatility is likely to remain in these uncertain financial markets. Macroeconomics (low growth), monetary factors (low central bank rates, low dealer liquidity) and politics (antiglobalisation, terrorism, and divisive campaigning) are all contributing to the increasing spikes in volatility. In this environment, we believe a flexible and reactive investment strategy will be far better placed to navigate this array of risks with the potential to perform well in both up and down markets.

MAC well positioned for a challenging interest rate environment

In our view, the likelihood of a true normalisation of rates from today's level may seem low, but any movement in that direction would have a significant impact on government bonds and other rate-sensitive instruments. Even if full normalisation is not a near-term phenomenon, interest rate markets are bound to go through periods of volatility in reaction to rate-raising rhetoric or action.

Not only do MAC strategies have a variety of tools at their disposal in managing their portfolios through challenging interest rate environments, but their focus on generating returns principally from credit spreads provides an effective counter to interest rate volatility. The short duration profile of MAC means there should be no need to predict interest rate moves in the same way as for a typical credit strategy.

The unconstrained MAC approach

to investment, across a variety of on and off benchmark instruments, provides the opportunity to not only construct an attractive portfolio diversified across a variety of sources of returns, but one which is capable of negotiating an uncertain interest rate environment. This versatility, coupled with appealing income generation, will prove helpful in negotiating the yield challenged environment facing many investors.

Capturing the right asset mix is essential

Each credit asset class has its own idiosyncrasies, the understanding of which are critical when constructing a broad based credit portfolio. While a siloed credit investing approach may capture the beta of a variety of markets, capturing the right asset mix, and getting the timing right from an asset allocation perspective is exceptionally difficult. This is one of the key drivers that sparked the evolution of MAC strategies, whereby rather than attempting to thread the needle in terms of this top-down timing, MAC strategies principally construct their portfolio through bottom-up credit selection, looking for the best value across the credit markets for a given level of risk.

This approach ensures that rather than relying upon market timing, a MAC manager would typically look for opportunities that are attractively valued within one market over the other. Although a robust top-down process is still critical in terms of establishing a broader portfolio risk bias, as well as any preference for a particular region or sector, MAC portfolios are typically driven by the aggregation of the bottom-up driven best ideas across the credit spectrum.

"Rather than attempting to thread the needle in terms of this top-down timing, MAC strategies principally construct their portfolio through bottom-up credit selection, looking for the best value across the credit markets for a given level of risk"

By its very nature, credit as an asset class also has an asymmetrical payoff profile. A poor investment in credit, which results in a significant capital loss, is unlikely to be compensated for by another credit investment, given the inherent cap in its upside. Hence the idiosyncratic risk of one position can have a disproportionate impact on the expected return of the portfolio as a whole. This is why bottom-up credit selection, even in the implementation of a top-down bias or thematic, is essential.

While any MAC manager should undoubtedly be aware of macroeconomic drivers, socio-political events, and secular trends, we believe the essence of the MAC proposition is to apply a balanced approach, whereby even in implementing any top-down view, it should be executed with the objective of finding the best individual investments to reflect that view.

We believe a structure of disparate regional teams, siloed into different asset classes, has the potential to result in structural biases which goes against the grain of what MAC is trying to exploit. As such, a robust decision making structure, with strong alignment of interest from stakeholders, is essential in efficiently executing a best ideas bottom-up driven strategy.

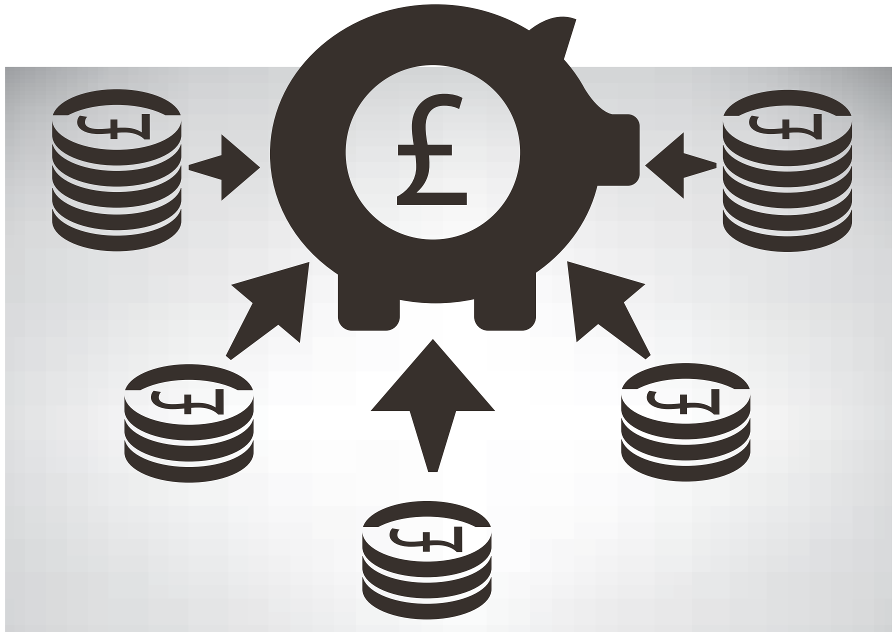
The future of MAC

The current yield challenges facing many investors undoubtedly require a new way of thinking in terms of asset allocation. While credit has long been a core income generating component of many traditional asset allocation models, the evolution of financial markets, coupled with the complexities of investing in the current environment, have cultivated a different way of credit investing. We believe the breadth of opportunity set and flexibility afforded to the MAC manager in seeking its target return should not only result in a better investment outcome, but also one that is better than the sum of the underlying constituent parts.

Written by Jeff Boswell, strategy leader, Investec Asset Management

In association with Investec Asset Management

Investments carry the risk of capital loss.



Summary
• MAC funds continue to gain momentum as investors look for better risk-adjusted returns with lower volatility, especially in a rising rate environment.
• As the asset class develops, the breadth and depth of instruments being included has broadened but investors need to look underneath the bonnet to see what is included.
• The challenge is that because construction of portfolios can widely differ, comparisons between different offerings can be difficult.

The maturation of MAC funds

Lynn Strongin Dodds explores how MAC funds have come of age

Over the past year, there has been a steady march of UK pension funds going down the multi-asset credit (MAC) route. They range from the £1.1 billion Enfield Pension Fund's £50 million allocation to the £23 billion Greater Manchester Pension Fund's (GMPF) £1 billion allotment. The investment case is compelling – superior risk-adjusted returns with low volatility – but performance can be patchy, which is why schemes have to carefully choose their managers and the assets they slot in.

Looking at the US where MACs have been an embedded feature on the investment scene for a longer time period than Europe and the UK, a study by Bfinance shows only 23 of the 58 institutional MAC funds with a track record of more than three years (at October 2017) analysed generated a better three-year Sharpe ratio.

As for gross annualised performance, slightly over half of the group outperformed global corporate bonds, while only a handful beat the Bank of America Merrill Lynch Global High Yield Index. Moreover, the studies found that some investors have been disappointed by the slow sector rotation, particularly during the energy price collapse and high-yield debt crisis when a tweaking of the asset allocation might have enhanced returns.

Why invest

However, this has not dampened the appetite for MAC funds, perhaps because performance is not the only motivating factor. "There are several reasons why pension funds invest in MAC funds," says Mercer senior fixed income consultant Noel Collins. "Many schemes did not have exposure to high-yielding, sub-investment grade asset classes because they were seen as riskier. One of the advantages of a MAC is that it gives them, especially those without an effective governance approach, access to a number of different credit investments and the managers make the decisions when to move between them."

Collins says one of the main drivers has been the long journey of de-risking, which has seen UK pension schemes slash their equity allocations from 68 per cent to 25 per cent over the past 15 years. "If you move away from equities and traditional government bond returns are too low, then MAC funds are in the middle ground," he says. "They offer a reasonable return profile – not as high as equities – but better than traditional bods."

M&G Investments director, global institutional distribution, Annabel Gillard, also believes there has been a change in mindset brought about by liability-driven investments. She notes that credit is no longer seen as a quasi-liability hedge in an LDI context but part of the growth bucket in its own right. "I do not believe MACs are a flash in the pan because they are targeted for investors who want better risk-adjusted returns but also want to manage volatility. Many MAC funds target Libor plus 3-5 per cent cash but have much less volatility than equities and diversified growth funds, which first appeared in the late 1990s."

According to Gillard, an indicative

range (based on M&G MAC funds versus MSCI equities) is that volatility can be as low as a third to a half of the volatility of equities, while in diversified-growth fund world, the general consensus in the industry is that they typically exhibit two-thirds of the volatility of equities.

Another equally important trend influencing demand for MACs is the rising interest rate environment in the US and to a lesser extent the UK. Within MAC strategies, credit spreads are significantly more important than duration in determining performance, according to Investec strategy leader, multi-asset, Jeff Boswell. Credit spreads are negatively correlated to interest rates, helping to dampen any rate sensitivity. "At the moment the MAC story is particularly strong given where we are in the credit cycle," he adds. "They offer greater diversification and source of returns and give managers the flexibility of an unconstrained universe to build portfolios that perform well through different market cycles and events such as geopolitical risk."

Approaches

However, as with any investment strategy, investors are advised to take a good look under the proverbial bonnet in terms of the asset classes and research skills being deployed. There are a plethora of different funds and analysis being deployed, which makes comparisons between the various offerings difficult. For example, some fund managers deploy a bottom-up selection approach as opposed to top-down and a certain segment of the MAC population avoids overly complicated or heavy derivative use. There are also different benchmarks used, although a Libor plus index seems to be the most common.

"The first MAC funds typically focused in the sub-investment grade space investing across leveraged loans and high yield," says Boswell. "However, as the asset class has matured, there has been an evolution and a broadening of the assets to also include structured credit, investment grade and emerging market credit. You may have two funds with the same name but from an investment perspective, there is a whole range of outcomes that can be achieved."

CQS partner and head of long-only multi-asset credit Craig Scordellis believes MAC strategies should reflect a real partnership between asset manager and owner to establish risk, return and liquidity targets. "There are different MAC approaches but it is important to understand the risk/reward and liquidity profiles. We focus on strong returns, low volatility and rate risk mitigation. We are in the privileged position to be able to invest across a wide geographic span of alternative credit classes which include senior secured loans, high yield, asset backed securities and convertibles."

Currently, around 70-80 per cent of the CQS long-only strategy is in floating-rate instruments in order to seek to immunise investors from interest rate hikes. Although it employs a bottom-up credit analysis, it is avoiding particular sectors, such as retail groups and energy companies in the high yield sub-sector, according to Scordellis.

Opinions are more divided over emerging markets that have lost their lustre this year due to interest rate hikes in the US and the negative impact of the country's ongoing trade war with China. This has led to a widespread weakening of currencies with for example, Turkey's lira falling more than 40 per cent, Argentina's peso more than halving, India's rupee reaching record lows, and South Africa's rand, Russia's rouble, and Brazil's real each losing between 15-20 per cent so far this year. The dollar strength has also raised credit risk since dollar-denominated debts have become more expensive to service in local currencies.

However, some analysts believe that the strong fundamentals and long-term growth prospects in major emerging economies will outweigh the short-term jitters the markets are currently experiencing. As BlueBay Asset Management's head of UK and Ireland Anthony Pickering says: "Although not all investors opt for this approach, we believe that offering a balance of largely investment-grade, emerging-market debt and sub-investment grade developed market debt in a MAC construct can offer both an attractive yield due to the combination of the emerging market and credit risk premia, as well as a balanced risk profile."

There is also some debate about whether MAC funds should invest in illiquid assets. Advocates contend that the illiquidity premia can enhance the returns and dampen the volatility while others such as Royal London Asset Management head of institutional John Burke believe it can make it difficult to dynamically allocate. "We invest in an intermediate level of illiquidity, to include loans, secured and unsecured high yield debt, leveraged loans, asset backed securities and emerging market debt. We don't invest in distressed debt because you have to go through a restructuring process and you may lose flexibility in redeploying assets," he adds. "If, for example, something extraordinary happens you want the opportunity to reinvest but won't be able to do if you are in an illiquid asset."

Looking ahead, MAC funds will continue to develop and widen their appeal. Pickering also sees the higher coupon bond universe being viewed as part of the income, as well the growth portion of a portfolio.

"As defined benefit schemes go cashflow negative, they do not want to be forced sellers in order to meet their liability payment needs, preferring to seek sources of income instead," he says. "The high fixed-coupon rates of these bonds represent an attractive level of income that can be used for this purpose by both corporate and public DB pension funds."

Written by Lynn Strongin Dodds, a freelance journalist

In association with Investec Asset Management

Working for all

West Yorkshire Pension Fund business development manager Yunus Gajra speaks to Jack Gray about the fund's work for its members and what it is doing to promote responsible investment

Please could you give an overview of the West Yorkshire Pension Fund pension and its current position?
West Yorkshire Pension Fund (WYPF) is part of the Local Government Pension Scheme (LGPS). The City of Bradford Metropolitan District Council is the administering authority for WYPF. Bradford Council's administering authority responsibilities are met by WYPF's in-house pensions administration and investment teams.

WYPF provides a shared service administration for Lincolnshire and more recently the London Borough of Hounslow Pension Fund. In addition, we now provide pensions administration for 14 fire authorities for the firefighters' pension schemes. Across all the clients WYPF provides pensions administration for over 400,000 members and 700+ employers.

The fund is currently valued at £13.56 billion and has the lowest total cost per members at £38.03. The national average for LGPS in 2016/17 is £214.87.

How are its services tailored to its members?
WYPF's service delivery continues to be underpinned by our accreditation to ISO 9001:2000. Our quality management systems ensures that we are committed to providing the best possible service to customers.

To ensure we're meeting the expectation of our customers WYPF carries out a survey of a sample of members both online and via a paper version. Feedback is measured and monitored and any corrective and preventive action is taken where negative comments or complaints are received.

WYPF's website continues to be a popular place where members go to get information about the pension scheme. This is in line with WYPF's 'avoidable customer contact' policy that encourages members to go to the website in the first instance.

For those considering retirement within approximately the next two years, WYPF runs workshops so that members can make realistic plans. Partners are encouraged and welcome to attend. Delegate satisfaction results from these workshops are in excess of 99 per cent year-on-year.

Our contact centre continues to be a popular way for members to communicate with us about their pensions. Over 80,000 calls were received last year with 91 per cent answered within 20 seconds.

Over 99 per cent of annual benefit statements were issued to active members by the new shortened deadline of 31 August imposed by The Pensions Regulator. We also produced 100 per cent of deferred benefit statements this year.

With WYPF's MyPension service members (current, deferreds, pensioners) can view their pension record and statements, payslips, P60s and update personal details. WYPF also has active Facebook and Twitter accounts.

How does the WYPF approach investment and what does it feel can be done to boost responsible investing?
The fund's investment portfolio continues to be managed in-house on a day-to-day basis, supported by the fund's external advisers. In 2016/17, the fund's investment management costs were £20.58 per scheme member, the lowest for all local authority pension funds.

The fund's Investment Strategy Statement sets out fund policies for investment and risk. In accordance with this, investment decisions are taken based on financial and commercial considerations so as to yield the best return by way of income and capital appreciation. The fund actively invests in low carbon and renewable energy technology where suitable opportunities arise. As at 30 June, the fund had £300 million invested in low carbon and green investments, with a further £250 million committed and awaiting drawdown.

The fund is committed to ensuring that the companies in which it has a shareholding adopt sound principles of corporate responsibility, particularly in relation to environmental and employment standards. The fund will utilise its shareholding wherever possible, through the voting policy and engagement, to exert influence on those companies falling short of acceptable standards.

WYPF is a member of the Local Authority Pension Fund Forum, which exists to promote the investment interests of local authority pension funds. It also issues research and guidance relating to climate change and employment standards and promotes best investment practice for the LGPS nationally.

WYPF is also a member of the Institutional Investors Group on Climate Change, which seeks to promote a better understanding of the implications of climate change amongst its members and other institutional investors, and to encourage companies and markets in which its members invest to address any material risks and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

The WYPF first became a signatory to the Carbon Disclosure Project in 2007 and, in 2017, the fund became a supporter of the ClimateAction100+ project.

What have the main challenges been for the scheme and what initiatives is it taking moving forward?

One of our big challenges is ensuring that the Northern Pool maintains our very low cost base. To achieve this we must ensure that the arrangement we have maintains the very high standard of governance that has been exercised over the fund for many years, and the commitment to internal management.

Quality of data is another big issue, particularly from clients we have taken on recently. Gaps in data and inaccuracies in relation to fund employers and all categories of scheme members have been identified and having a clear measurable data improvement plan will focus resources to clear up and rectify these. Accurate data reduces the need for the actuary to have to make assumptions about the data when valuing liabilities. These steps will also help us meet the requirements of GDPR and help cope with the threat of cybercrime.

The number of employers within the fund continue to grow and financial challenges continue to affect not just the small employers but the big ones too. Ensuring employer risk and funding are adequately assessed, monitored and embedded within our governance structures and reflected in our scheme funding strategy continue to be a key priority for the fund.

How has the scheme dealt with the pooling process?

WYPF, along with Greater Manchester and Merseyside Pension Funds have created the Northern Pool in order to meet the criteria for pooling investments released by the government on 25 November 2015. The pool currently has assets under management of around £46 billion, well above the £25 billion criteria set by government. For now, the fund's public-market assets will continue to be held in segregated mandates owned directly by the administering authority, but managed by the pool. All non-listed assets will be managed by the Poolformation. Subject to value for money requirements being fulfilled, new investments in private market assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships.

How has the scheme's relationship with the regulator changed?

Following initial engagement, discussions have been held with TPR about working with the Metropolitan Group of LGPS Funds (Mets) as a cohort aligned to this aim. The Mets welcomes this opportunity to proactively engage with TPR at a high-level and has drafted a framework with a view to facilitating this engagement. The basis for engagement between the Mets and TPR is intended to be proactive and high-level aligned to TPR's cohort regulation, to increase awareness of the challenges faced by the funds and to drive best practice in a consistent manner.

The proposed engagement is envisaged to be high level, to explore ideas and, where possible, to receive guidance from TPR so as to develop best practice amongst the Mets Group Funds.

The proactive engagement will be two-way, with Mets Group Funds proposing ideas and an understanding of how LGPS funds operate, with TPR providing guidance that could help shape the actions taken as a group.

In operating as a collective for the purposes of engagement with TPR, the aims will be to increase consistency, efficiency and share best practice amongst the individual funds.

What are the biggest opportunities for the scheme moving forward?

Through our collaboration and shared service partnerships with Lincolnshire Pension Fund and the London Borough of Hounslow and 14 fire authorities we have demonstrated our ability to find innovative solutions to deliver a high quality service to both employers and members. We welcome opportunities to work collaboratively with other local authority pension funds to deliver a high-quality service and to further reduce costs for our partners.

Written by Jack Gray

Summary
• Artificial intelligence involves machines having the ability to learn, be it from humans or through self-teaching.
• The pensions industry is lagging behind other financial sectors with its use of AI.
• Potential AI applications within the pension industry include robo-advice, dashboards, chatbots and administrative functions.
• Data quality and security, and lack of up-to-date systems are all reasons for the slow take up of AI within the pension sector.

The future is now

Laura Blows considers the use of artificial intelligence within the pensions industry

'Artificial intelligence' (AI), machines that can 'learn', and therefore work for, with, or even outsmart, human intelligence, has captured the public's imagination ever since its beginnings in 1952. Over the years, high-profile examples demonstrating its capabilities have elicited excitement, from IBM's Deep Blue computer beating world champion Garry Kasparov at chess in 1997, to 20 years later, Google DeepMind's AI software AlphaGo Zero teaching itself to become the world's best player of board game Go.

But AI is more than just fun and games. While headline-grabbing examples may lead to joy or fear about what self-thinking machines may mean for humankind, what is not always realised is that we are already living with, and interacting with, these intelligent machines – take Netflix's use of AI to enhance user experience and recommendations, for example.

AI is broadly defined as computer systems being able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision making, and translation between languages. This is achieved through the machine actually 'learning', as opposed to simply regurgitating masses of dictionaries, for example. This can be either through a human 'teaching' it, such as through the inputting of processes, or, in the 'purist' definition of AI, the machine learning for itself.

Trafalgar House managing director Garry Wake finds there is very little consistency with the use of the term 'artificial intelligence'. "Some organisations are merely re-badging automated or batch processing systems as AI solutions, but these examples don't do justice to the concept or opportunities," he explains.

Smart Pension co-founder and MD, Will Wynne, agrees, stating: "It's fairly easy to programme a computer to recognise individual spoken words or instructions, so the fact that a computer can respond to spoken commands doesn't necessarily mean it's 'AI'. But understanding different accents and different contexts of words, making judgements on the basis of things said earlier in the conversation, or on the basis of one type of member versus another, requires a level of intelligence too complex to simply be programmed using traditional 'If X then Y' type logic."

Chatbots – the use of a computer to handle customer queries – are often the first thought that comes to mind when considering the application of AI for the financial services industry. Many examples of this have already occurred globally.

For instance, Dunstan Thomas chief innovation officer Andrew Martin highlights the Royal Bank of Scotland using the IBM Watson machine learning platform to create the bank's digital assistant chatbot, 'Cora'. A Brazilian bank uses the same machine for its chatbot, which is 'trained' on 62 of its banking products, answering 283,000 voice-based customer questions in 10 months, with average response times reduced from 10 minutes to mere seconds and a 95 per cent accuracy rate, he states.

Moving on from just answering queries, Martin also notes that the Bank of America (BoA) developed a financial management chatbot, 'Erica', which works on an understanding of the person's money movements within their BoA account. "As the platform matures, it's possible the chatbot could offer options designed to improve customers' cashflow management or avoid breaching overdraft levels, for example," Martin says.

Pension uses

That's not to say there aren't any examples of AI being used within the pensions sector. In April, the Finnish Centre for Pensions announced that it had taught a machine-learning algorithm to predict those retiring on a disability pension, based on socioeconomic, earnings and benefit data. It managed a 78 per cent accuracy rate.

Over in Denmark, PensionDanmark has automated around 80 per cent of its administrative decisions, and aims to increase this further. Meanwhile, Mercer global product strategy leader Chris Lomas mentions his company's Australian business having the Mercer 'Superbot', which is a financial advice chatbot accessed through Facebook Messenger.

Even in the UK, the Department for Work and Pensions is using AI to crack down on benefits fraud.

Despite these notable exceptions, it is generally agreed that the pensions industry lags behind other financial sectors in its adoption of AI.

However, there are many potential applications for AI within the pensions sector. On the customer-facing side, potential AI applications for pensions include the pensions dashboard, robo-advice and chatbots. According to PwC's *Pensions Technology Survey 2018,* 53 per cent of employers surveyed plan to invest in automated member communications in the next three years. These chatbots in particular, with their speech interaction, could provide alternative access for people with disabilities (such as partially sighted, motor impairment etc), AHC head of web consulting and development Sam Charles notes.

Wynne gives the example of how AI could be used within a pensions dashboard."Let's say there are 30 different possible elements you may include on a dashboard. AI could be used to understand how thousands of members interact with their dashboards, and what they appear to find most useful. When a new member first logs into their dashboard, it could therefore automatically provide them with the handful of five or six elements they'd find most valuable on the basis of their profile. As their needs change over time, it could automatically suggest different dashboard elements they may find useful in reaction to that," he says.

Over the past year we have already seen companies work with home digital assistant Alexa to enable their clients to access pension services through this interface, along with the first white-labelled robo-advice system to assist IFAs *[see boxouts]*.

Increasingly, such technology will also do more to fill the gaps in the industry in providing automated guidance or advice, PASA eAdmin knowledge partner Chris Connelly says.

"Initially we have seen these tools act as a triage mechanism to increase the throughput of cases that are relatively straightforward to provide guidance for, whilst automatically referring those exception cases that require a human intervention. Increasingly, these automated rules will evolve so that more of these exceptions or fringe cases become automated. Also there will increasingly be acceptance that these tools can provide actionable advice, rather than guidance. However much of this advance will be about adoption and regulatory approval rather than the ability of the technology," he explains.

For PASA board sponsor and chair of the eAdmin working group, Girsish Menezes, the best use of artificial intelligence he has seen in the market is delivering cost-effective, automated advice post a fact find. "This compresses the time taken to analyse all of the member's permutations and combinations from eight hours to 20 seconds," he says.

On the savings side, AI could be used to improve an individual's retirement saving investment strategy, Mercer UK DC and individual wealth innovation leader Shri Rengasamy says. "As members get older, their investments automatically move into more conservative, less risky options. This is already achieved without AI, but lacks customisation based on a user's specific financial circumstances, risk preferences and lifestyle habits – things which can be taken into account using AI, leading to a personalised portfolio recommendation."

Scheme benefits

But is not just the members who can

benefit from this technology. For the pension scheme itself, AI could be implemented so that certain activities trigger scheme-level transactions, such as re-underwriting scheme members or re-initiating buyout quotations based upon market movements, Connelly suggests.

It is on the administration side where the most benefit is likely to be seen for schemes, such as chatbots taking on ever-larger volumes of routine administrative enquiries, freeing up staff to concentrate on complex tasks.

AI will also be able to improve automation of services, even with paper and voice as part of the process, Connelly adds. "There will be more applications allowing us to analyse and assess paper and voice interactions – automating decisions or processing based on those inputs will then avoid the need for a customer agent to re-key any instructions or updates," he explains.

Real-time member activity can be monitored using AI, enabling schemes to use this live, accurate, data to further personalise member interaction.

Fraud would also be easier to spot, as the system could learn to spot abnormal activity and flag up any potential issues.

The result of this increased response times and improved data is both time and cost-efficiencies for the management of the scheme, along with the potential to improve member engagement.

According to Lomas: "The biggest wins in artificial intelligence today are often discussed as those 'narrow' tasks in which humans would perform very poorly. A good example of this is evaluating large data sets. In the pensions industry there is a vast amount of data that is rarely activated. Artificial intelligence has the potential to highlight populations in employers' schemes that will not be able to retire (due to insufficient savings), or those that will face other decisions, like what to do when saving in to a pension is no longer efficient. The loop then goes back to personalisation and education, to drive new actions."

Reluctance

But pension schemes are not rushing out to obtain these 'wins'. According to Wake: "Data quality and levels of digital engagement remain the persistent issues. To achieve a sufficient return on investment for this type of technology you need to have complete confidence in the underlying data, as well as a membership who interact through digital channels. With relatively low levels of digital member engagement and poor quality data still presenting challenges for many schemes, investing in AI, beyond the augmented customer service interactions, demands more of a compelling business case."

The tighter personal data security demanded by GDPR means that access to sensitive personal data demands very tight cybersecurity protection with multiple layers of authorisation and authentication, Martin states, which could be another challenge for schemes.

AI is about organising IT systems so that databases can be accessed and analysed to provide insight and generate actions, so as Martin warns, "AI is only as good as the accuracy of the algorithms sitting behind it making sense of all the data coming in".

Therefore you need to allow a period of several months for interaction numbers and larger data quantities to feed through to greater accuracy and speed of response, he adds.

Older systems may not even be capable of effectively integrating AI. "Many DC platforms are often 30 years old, Wynne says. "Some elements of technology can be applied on top of very old systems, but to truly take advantage of things like AI, your tech set-up has to be built in such a way to allow data to be joined up securely, and accessible to AI algorithms without adding risk."

Redington head of DC and financial wellbeing Lydia Fearn agrees that the implementation of AI will be easier for newer administration systems. "Clearly cost can be a barrier too, but as AI becomes the norm, this should be less of an issue," she adds.

Addressing this problem may not be high on the list of pension managers' priorities however, but according to PASA working group member Michael Watkins, there is a learning curve for the industry. "The reticence, I'd imagine, would be due to the use of legacy systems, and poor data," he says. "However, the benefits far outweigh the cost of change in this instance. We've reached a sweet-spot in society where speed of the development of, and the cost of, technology mean that it's more accessible and more useful than ever before."

But the reasons why the pensions industry has been shy to take up this technology may not all be internal. Its implementation has not always been perfect. Take Swedish bank SEB's chatbot Amelia, which was used as a customer service agent for simple queries, with the ability to learn from the human responses when referring on a query it couldn't answer itself. In its first three months it handled 60 per cent of customer service calls. However according to LCP head of flexible benefits Dipa Mistry Kandola, writing for *HR Magazine* in August, Amelia has been fired due to its "underwhelming performance".

Martin notes that in the pensions market, there is "inevitably a degree of nervousness" around chatbot 'chatting' linked to highly-regulated products as it creates the potential to inadvertently provide false or misleading information.

"The circa 95 per cent accuracy levels on offer (and that's when chatbots are well bedded-in) would still make most heads of risk and compliance lose sleep if applied to pensions transactions; especially when past experience tells us that when things go wrong in the pensions industry they typically go very wrong and could prove very difficult to unwind," he says.

Rengasamy agrees that decision making that has heavy fiduciary requirements will be quite low on the AI opportunities list, and the implementation must be extremely conservative. "Paying out a death benefit due to human error versus a machine making the error has very different optics, and any mistake an AI makes once, potentially means it can do so over and over again."

To minimise these risks, Connelly recommends a thorough test plan to ensure that the rules being taught, or learned by AI are delivering the required outcomes.

The human touch

However, "in principle, applying specific examples of automated tools to replace or decrease human interaction should reduce risk rather than increase it", he says. "The fundamental risk being removed is that of human error, or human inconsistency."

But as early AI development quickly plateaus as the sophistication and complexity of member enquiries rapidly escalates beyond a pool of very relatively basic interactions, Wake says, "many providers are developing forms of AI to support human interaction, rather than take it over completely".

For Charles, "the advantage of a human operator for complex tasks is they can ask a question in different way if a customer doesn't understand, they can change their tone to be appropriate for the line or questioning/response, they can manage 'off-script' or 'edge case' questions throughout the course of the process".

However, PwC's P*ensions Technology Survey 2018* finds younger generations in particular are to interact with this technology, with 48 per cent of millennials saying they would use an automated pensions advice app, rising to 60 per cent of Generation Z workers.

And yet. "One of the most prominent issues members have is confidence and trust in the industry," Wake says. "If it's a routine, basic issue then people are happy to interact with automated or AI systems. As those transactions become more sophisticated, user confidence tends to diminish."

The FCA was recently told by the Work and Pensions Committee to undertake a review on the outcomes of automated advice, with a view of reassuring customer that it can be a useful service.

The biggest barrier *[to the pensions industry's adoption of AI]* is likely to be the inertia of the customer population, Charles believes. "People will stick with what they know until something is shown to be much better. It will likely take a number of generations of AI solutions and initiatives before it starts to become a de-facto means of digital providing solutions," he says.

However, according to Connelly, member interest – or lack thereof – in this technology is missing the point.

"Instead of worrying about whether a member is concerned that a robot is giving them financial guidance/advice, we should be asking them what they want to achieve," he says.

"If we give the members what they want, when they want it, at a cost they believe to be good value, then they are not going to worry too much about what tool we used."

Turo the robo-adviser

Wealth Wizards, working with LV=, has created a white-labelled robo-adviser called Turo, which can generate advice for the financial adviser to use, or can verify cases the human adviser has generated.

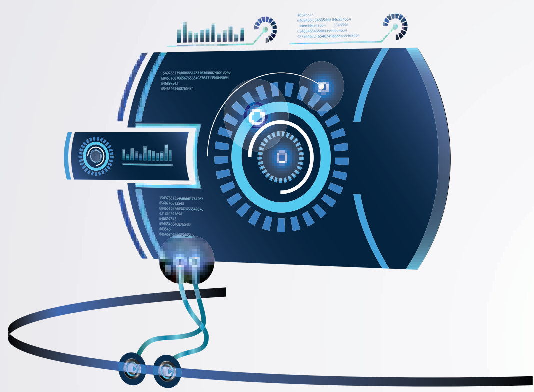
Turo is able to make an annuity or drawdown decision, or decide whether to take a DB transfer, by balancing a number of factors, including hard facts and softer goals from the client. It learns from past cases and provides an explanation as to why it came to its decision. It also provides a confidence level and highlights when human checks are recommended.

"Alexa, tell me about my pension..."

For those saving into a pension through Smart Pension, Mercer or Aviva, and who have one of Amazon's Echo family of home hub smart speaker devices, finding out more about their pension has never been easier. They can simply ask Alexa questions such as how much their pension is worth and how much they are paying into it.

Smart Pension members can use Alexa to make contribution changes, as it immediately emails the account holder and employer about this change. Smart Pension is also developing a conversational avatar that will be able to deliver advice in accumulation and retirement, its co-founder and MD, Will Wynne says.

According to Aviva MD of UK and international digital, Blair Turnbull, it decided to embrace Alexa as there are now over 100 million smart speakers in the world, and the company's research showed people would engage more if they had easier ways to access their pension balance. "Work on Alexa is in the early stages at the moment as we want to understand if consumer behaviour matches our expectations," he adds.



Written by Laura Blows

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Emerging-market debt focus:

New opportunities

Bradford Godfrey, institutional portfolio manager, Global Income Group, Eaton Vance

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Beyond the benchmark

The advantages of an unconstrained approach to emerging market debt investing

Introduction
In recent years, the growth in emerging-market debt (EMD) benchmarks has made this asset class more accessible to investors and has increased awareness of a larger and more diverse opportunity set offering new risk factors in currency exposure, local rates and corporate credit. Conversely, it has also added to the complexity of decision making in terms of investment strategy, governance, execution, operational issues and cost.

In our view, although benchmarks can be useful from a fiduciary perspective (eg to monitor manager performance), indices should not be used as a sole reference point for determining an investment approach to this asset class.

There are a number of reasons why. For starters, indices do not represent the true opportunity set, which is much larger than what they include. As such, index-based approaches tend to diminish the diversification benefits of investing in EMD. And these approaches are likely to exclude the best risk-adjusted opportunities as they typically include exposure to parts of the index that are relatively less attractive.

There are also considerable disparities in investment opportunities within the EMD universe at any given point in time; disparities that argue in favour of a surgical approach to this asset class. If one looks at EM bonds in terms of their component risk factors – currency, interest rates, sovereign credit spreads and corporate credit spreads – they will see substantial differences across countries.

Limiting the investment scope of a portfolio manager to a benchmark index, or a small deviation from its constituents, could hamper portfolio returns over time. The portfolio will be unable, or less able, to capture attractive off-benchmark opportunities and may also be at risk of having to hold meaningful positions in markets and securities whose fundamentals or relative valuations are deteriorating.

Allocating to EM debt: The status quo
Currently, what we see is that institutional investors that allocate to EMD typically do so with reference to the composition of one or more indices. The key indices are the J.P. Morgan EMBI Global Diversified Index (EMBI) for sovereign hard currency bonds, the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) for local currency bonds and the J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI) for hard currency corporate bonds.

Mandates are usually either passive, or a variant on passive (eg rebalancing index exposures according to an a priori allocation decision) or 'constrained active', where an active manager's ability to deviate from a benchmark is limited (eg by narrow tracking error limits and limited flexibility to allocate to off-benchmark issues).

The growing appeal of blended allocations
As awareness of EMD's wide opportunity set continues to grow, so, too, does the appeal of a blended approach to the asset class. A blended approach can incorporate hard currency sovereign exposures with positions in local currency, corporate and frontier-market debt. In principle, such an approach could deliver attractive diversification benefits and risk-adjusted returns over time, which are relatively better.

Notwithstanding the above-mentioned variations, the common feature of most blended approaches today is their embodiment of a big-picture, top-down allocation approach. In our view, a top-down blended approach is well suited to investors who want to capture a much broader opportunity set.

From a fiduciary standpoint, a top-down, index-based blend can be seen as conservative. However, from an investment standpoint it also has several drawbacks:

- Allocation reviews usually occur only once a year by a pension board. In reality, decisions made annually at a board level do not match the speed at which investment conditions and relative valuations change within this asset class.

- Blending key EMD asset classes via a top-down approach typically entails a focus on key indices with the result that, even allowing for tactical overweights or underweights, underlying allocations share these indices' inherent limitations.

Allocating across index-like investments also raises other issues. Consider the following:

- Country risk factors are major drivers of EMD asset performance. Unfortunately, country representation across the popular indices varies greatly. For example, India is in the CEMBI, but not in the local index. Allocation across asset types affects country positioning.

- Switching index-like exposures entails meaningful shifts in duration. GBI–EM has a duration of around five years, while EMBI has around seven years. Switches between external sovereigns and external corporates (assuming index-like exposures) will result in a change in US duration. Few investors are fully aware of the extent of developed-market risk within EM indices; a bottom-up risk factor approach, however, would be mindful of this.

- When a country (eg, Russia) is prominent in all three indices, the absolute risk concentration may not be optimal when weightings are combined. Institutional investors also run the risk that submanagers may all overweight the same country. Further, there are often important relative value distinctions between EMD sub asset classes, which fall outside the scope of purely top-down asset allocation.

The advantages of an unconstrained approach for EMD investing

Unconstrained investing offers access to a much broader range of investment opportunities. At Eaton Vance, we prefer an index-unconstrained approach that focuses on country-level macroeconomic and political research across the entire investment opportunity set along with bottom-up analysis of specific risk factors. Bonds can be broken down into their component risk factors: currency, interest rates, sovereign credit spreads and corporate credit spreads. Disaggregating and evaluating such idiosyncratic risk factors at the country level is, we believe, an approach that can be a consistent source of alpha.

Investment management of an unconstrained, blended mandate is a demanding undertaking. It requires extensive investment research resources, a robust operational infrastructure, a dedicated EMD trading capability and strong risk management.

Admittedly, successful management in this asset class requires rather unique skills. Investors considering internal management of their EMD allocation should be aware of these, as well as the fact that internally run strategies can potentially raise governance challenges around transparency and investment performance.

There are also considerations to bear in mind for local currency debt investing. Matching or surpassing the performance of the local currency indices has proved difficult for many investors, particularly in up markets. The J.P. Morgan GBI-EM Global Diversified Index is a gross index – it doesn't reflect the drag on returns of taxes paid by real-world investors who want to track its performance. These taxes will be different for different investors depending on factors such as how the strategy is structured, which instruments are used to execute a trade and where the strategy is domiciled. Investors might want to re-evaluate the cost benefit of how they have traditionally approached local currency debt versus an 'optimised' unconstrained approach.

Clearly, institutional investors will need to do their own due diligence on whether they believe an unconstrained approach can add value. That said, we believe Eaton Vance's track record in unconstrained mandates points to the viability of such an approach. Our Emerging Market Debt Opportunities Strategy, which has been running for more than three years, has been able to generate alpha and excess return with lower-than-benchmark volatility. Counter intuitive as it may seem, a more flexible approach has the potential to offer both better returns and lower volatility.

Written by Bradford Godfrey, institutional portfolio manager, Global Income Group, Eaton Vance

In association with Eaton Vance

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Summary
- Local currency EMD declined sharply in 2018.
- There is a wide dispersion within the asset class and no evidence of contagion.
- Currency risk is a major component.
- EMD benchmarks do not capture the opportunity set.

Emerging opportunities

EMD endured a sharp correction in 2018, despite no evidence of economic contagion, finds Alastair O'Dell

Emerging-market debt (EMD) has had a torrid time since April, with sharp declines in value and broad-based outflows. While EM assets are expected to be volatile, local currency EMD has been one of the worst performing fixed income asset classes year-to-date.

"There has been a lot of talk about a 'crisis' – but I would label it a sell-off," says Insight Investment portfolio manager Oliver Williams. The main factor has been the rising US dollar, compounded by an escalating trade war, disappointing EU and Chinese growth and country-specific issues.

The rising dollar must be considered in context. "In 2017 the euro rallied 14 per cent against the dollar – more than EM currencies fell against the dollar this year," notes Ashmore, head of research, Jan Dehn. "EM local currency bonds made about a 25 per cent return in dollars in 2016 and 2017. They were very strong years – so bit of pullback was reasonable."

In 2018 US Fed embarked on a steeper than expected rate-raising path, in tandem with the effects of a large late-cycle fiscal stimulus, strengthening the dollar. The impact on other economies depends on two factors: its fiscal deficit and its current account deficit.

Charles Stanley investment strategist, Kamil Amin, says: "When you see dollar liquidity dry up, economies that have exposure to external debt or negative current account imbalances tend to be impacted first. We should not be surprised, although the magnitude may have been extended by political issues."

Diversification

EMD is one of the least homogeneous asset classes, with huge country-level dispersal. Turkey and Argentina, with twin-deficits, have found themselves in the crosshairs while Mexico and Colombia were unaffected.

"Turkey is the poster child," says SEI investment management unit, portfolio manager, James Mashiter. "It has a structural current account deficit, low FX reserves, high levels of private sector debt and the authorities did not respond with orthodox policies (until mid-September)."

Even orthodox policy measures and heavy IMF involvement were not enough to save Argentina from yet another economic crisis (inflation is 34.4 per cent) and political chaos.

"There have been a handful of fundamental issues in some of the big EM countries," says Eaton Vance global income team, institutional portfolio manager, Brad Godfrey, also noting the sanctions on Russia, Brazil's election and South Africa's recession. "But it has been in some of the bigger ones, big benchmark constituents, which has fuelled the flames."

Dehn adds: "With 70 readily-investible countries we have two or three countries that screw up every year. That's perfectly normal. When there is a positive sentiment, events – such as Venezuela's default in 2017 – are viewed as idiosyncratic. When there is negative overall sentiment people worry about contagion. As an investor you have to look through that."

Contagion

Economic contagion is serious and potentially possible – transmitted via the financial system – while indiscriminate selling on sentiment just provides easy pickings for active managers.

"There is 0 per cent chance that the issues in Argentina and Turkey are going to emerge in a broad based fashion across EM," says Dehn. "They really stand out – they have been running bad macroeconomic policy for the last 10 years and, without domestic pension funds, cannot fund themselves."

Mashiter says it can be considered "sentiment contagion". "As EM funds do not just contain Turkey and Argentina other countries get hit by outflows. And, EM currencies have been the escape valve for imbalances."

Since the global financial crisis, ultra-loose monetary policy pushed investors towards risk in search of yield. "There has probably been a clearing out of positions as investors normalise to their mandates," Amin says. "Having had a decade of good returns, investors have been very quick to sell."

Williams adds: "In early August extreme volatility in the Turkish lira spooked investors into indiscriminate selling. We try to take advantage of those sell-offs, where things have gone too far."

Turning point

Investors may already be returning to EMD but the evidence is not definitive. The asset class saw the biggest inflows in six months during the week of 19-26 September, according to Bank of America Merrill Lynch.

Godfrey says he has seen slight inflows and interest from European institutional investors. "We are not there yet and we are never going to get that call right – so we don't spend a lot of time on it," he says. Dehn has more confidence: "We have certainly seen rising interest and the markets have begun to turn."

The overriding concern is an acceleration of US rate tightening, making hard currency debts unaffordable. A hard currency debt spiral caused the Asian Financial Crisis in 1997 but, as Godfrey says: "We're certainly not there yet, and I don't think we'll get there," noting that the prevalence of heavy currency pegs at the time is now absent.

The escalating trade war between the US and China will undoubtedly hit the latter's export-focused economy. Punitive tariffs were implemented on 1 October, taxing half its exports to the US, and further escalation is certainly possible with mid-term elections on the horizon.

"Tariffs are unambiguously dollar-positive – they are a tax on a section of imported goods so fewer dollars will flow to China," says Dehn. "But unless there is a further escalation, it has been fully priced. Once we are past the mid-terms, the reality of the 2020 presidential election and the absolute necessity of avoiding a recession becomes paramount, so Trump will find it very difficult to push through draconian protectionist measures."

China unleashed a huge fiscal stimulus after the global financial crisis – but in 2007 it enjoyed a 10 per cent current account surplus. In the first quarter of 2018 it posted a rare deficit. "Although the authorities have a grip on deleveraging, one of the reactions to the trade war has been a devaluation of the yuan – and that tends to have a big impact on EM sentiment and flow," says Amin.

Benchmark

EMD is dominated by actively-managed funds. Charles Stanley, which invests passively in its developed market (DM) fixed income and equities, uses active managers. Amin says: "Our starting point is the lowest cost solution. We only consider active when liquidity is challenged and/or the benchmark does not make sense. For EMD our preference is for active as any active manager's positioning would be extremely different from the benchmark, for very good reasons."

Passive funds are most commonly based on the suite of J.P. Morgan GBI-EM Indices, which are concentrated to support the liquidity required by passive funds. The widest index, GBI-EM Broad, contains just 17 countries of the more than 100 investable EMD markets. "Diversification well beyond the benchmark is the right thing to do," Godfrey says. "There is no sense in ignoring a huge part of the opportunity set."

Passively investing in market cap weighted bond indicies means concentration in highly indebted countries and companies. "You end up with exposures to economies that are rapidly deteriorating," says Williams. The active manager notes that a passive fund would have increased exposure to Venezuela as its economy crashed and to Lebanon before its bonds were routed in September.

Passive funds are likely to have a cap on country exposure, perhaps 10 per cent, limiting the problem, and smart beta funds have a more sophisticated approach.

"It's extraordinarily nuanced and there are tremendous inefficiencies from which to take advantage. The benchmarks are extraordinarily poor representations," says Godfrey. "We are looking for inefficiencies between the direction of policy and the way the markets are valuing the distinct risk factors."

The downside of active management is, of course, fees. Amin says his firm's defined benefit (DB) fiduciary solutions do not currently contain EMD. "You pay close to 1 per cent for an active manager, which is quite significant. We would have to think about the risk-reward skew before allocating to it. We are positive on emerging markets – but today we have preference to equity over debt."

Technical pressure

While local currencies and rates are attractive on an absolute basis – 95th percentile cheap relative to the past 12 years, according to Godfrey – it does not mean there isn't further to fall.

"We are not bullish on any area of EM markets right now," he says. "The reason we are not more constructive is that we are concerned about the potential for more technical pressure from investor outflows, which has essentially been driving assets lower since April."

The structural arguments for EMs are all still there and the economies are expected to grow around 2 per cent faster than DMs. Yield dispersion, relative to DM, is at its widest point for two years, notes Williams. "There has definitely been dislocations where the yield exceeds the risk premium investors should be looking for. But we are slightly cautious for the next six months."

Amin, adds: "There comes an inflection point when valuations become so cheap on a relative and absolute basis that it makes outright sense to own the asset class."

Written by Alastair O'Dell, a freelance journalist

Summary
• Master trusts now have until 31 March 2019 to apply to be authorised by The Pensions Regulator.
• Schemes have had six months to voluntarily pre-apply in order to receive regulator feedback, but TPR is still delivering clarification around certain points.
• In defined benefit land, master trusts are increasingly being used as a consolidation vehicle for schemes.
• Popularity and innovation of the DB master trust vehicle is increasing. However, a lack of regulatory framework means that some providers could face issues down the line.

Brought to heel

With defined contribution master trust providers now invited to apply for authorisation, Theo Andrew explores how they have been brought to heel, how The Pensions Regulator has been chasing its tail and what it could mean for defined benefit master trusts

You wouldn't think about owning a puppy without giving it some degree of training. However innocent and well intentioned they may seem, in allowing them create their own boundaries they will inevitably stretch yours and bad habits will set in.

It is precisely these bad habits that The Pensions Regulator (TPR) is attempting to train out of master trusts through its incoming authorisation regime, which as of 1 October 2018, has been open to all those looking to obey the new master trust marketplace.

From the consultation period, which started in March of this year, through to the regulator's readiness review aimed at giving detailed feedback for applying providers, it has been a learning process for both the regulator and industry, as it attempts to keep providers on a leash.

For the most part, it has had the desired effect. According to TPR's latest figures, around 30 master trusts are exiting or are expected to exit the market, meaning that there are 58 schemes that will apply for authorisation over the coming months, not a far cry from the 56 predicted by the Department for Work and Pensions back in March.

On the flip side we have the different breed of defined benefit master trusts. With consolidation the next best thing to hit the pensions industry, be it super or collective, the DB master trust vehicle is quietly whirring away in the background, ready to be utilised. However, currently without a master to whip it into shape, the future regulatory regime for this consolidation vehicle has yet to be constructed.

Path to authorisation

As the path to authorisation reaches its final phases, it is clear that it has been just as much a learning curve for The Pensions Regulator as it has for the industry. Having never delivered anything of this nature and with high standards to set, it was never going to be a walk in the park.

For Salvus Master Trust founder, Steve Goddard, one of the main issues has been resourcing for both them and the regulator, but he also has concerns around the master trusts exiting the market, and asks the question, 'what happens if they can't find a home?'.

"It may be that we see a blackout on consolidation as people look to minimise the impact on authorisation. This would certainly be an unexpected consequence," he says.

This has followed calls from within the industry to name those master trusts who have been forced to wind up and exit the market, and explaining their reasoning for doing so.

Hymans Robertson senior consultant, Sharon Bellingham, explains: "Whilst it is undeniably important to understand which providers will indeed be exiting the market, it is also just as important that this information is shared at the right time.

"That right time is likely to vary from provider to provider once a clear solution and plan of action has been put in place. It is vital that the consumer feels protected and informed throughout this process without causing any undue or unnecessary fears."

As well as those who are exiting the market, issues have also been raised about those who are set to be authorised.

Timing here is also crucial.

This is probably a point where the regulator can't win. Under current plans, TPR is set to announce authorised trusts in batches, "based broadly on when they are filed to us", according to a TPR spokesperson.

ITS client director, Dianne Day, says there will be a competitive advantage to those who are authorised first, describing a "tension in the air, like you are at the beginning of a competitive race".

Despite this, Willis Towers Watson DC master trust Lifesight, head of proposition development, David Bird, believes that this is in part convenient for the regulator, as although the window for authorisation is now open, he questions readiness to handle submissions from the get go.

"The window is open and we are still getting stuff from them, which makes life quite hard really. I'm sure they don't want people to apply at the beginning anyway so I'm sure they're quite happy with that," Bird says.

If there was any evidence needed that TPR is still learning throughout the process, its very own non-executive chair said he is still unsure on how confident he can be when it comes to the process succeeding.

"How confident can I be? I don't know, I don't have a crystal ball, I don't know how many schemes will eventually apply, I certainly don't know how many of those who apply will be rejected, and therefore forced into consolidation – that is to second guess the authorisation process."

There is however an underlying confidence to the regulator's work, and much of the industry has been impressed by its knowledge, given the huge task that they were faced with.

Another area of concern for schemes has been the feedback given to them after going through the readiness review.

While Boyle states that a "vast majority of master trusts" have very constructively engaged with them throughout the process, for some providers, the goalposts have been moved too often, to the point of becoming blurred.

Bird argues: "We went through the readiness review, which was a good exercise, and then they reissued all the application forms in quite a different format with some very different requests for information and clarification around what they want.

"I would say that the forms and clarity is much improved and will mean that we can be more certain about what they are asking for, but it's a little bit late to cover some of these things. Some of what they are asking for make us scratch our heads."

Overall however, Bird says that he has been pleased with the timing of their feedback and that Lifesight fully expects to apply during October. As for the rest, it's a case of watch this space over the next six months.

DB master trusts

In the on-trend world of consolidation, the idea of defined benefit master trusts aren't quite hitting the headlines like CDC or superfunds, but more, quietly getting on with it in the background.

Proponents of defined benefit master

to make it work.

He says: "The master trust pension scheme can offer an employer all the benefits of shared services and asset pooling, including economies of scale and investment outperformance. In addition, the scheme will be run by a single professional trustee board."

Perhaps one of the reasons the DB master trusts aren't getting the coverage that of superfunds are receiving is that they still have unanswered questions around member security and cost certainty.

As well as this, schemes should be wary of the current regulatory framework in which schemes are currently operating. If popularity increases, they could catch the eye of the regulator.

Keith Webster says: "As we have seen in the DC market, providers will have their schemes set up and a few years later the regulatory environment changes and they need authorisation. All of a sudden everything else is more expensive. It's quite difficult for a DB provider to see what the compliance is going to be a few years down the line as they take off.

"The more you set up the new providers appropriately the less regulatory concern there will be and therefore less risk of regulatory intervention."

As the regulator's new regime comes into practice for defined contribution master trusts, and the more that consolidation vehicles such as defined benefit master trusts start to grow, it could be those providers are left chasing TPR's tail.

It does however appear that the incoming authorisation regime is having the desired effect of consolidation in the DC space. To what degree this will be a smooth process remains to be seen.

Written by Theo Andrew

trust would argue that its most attractive feature is that schemes are able to access this consolidation vehicle now, while the rest of the industry squabbles in the background about how to consolidate the legacy DB schemes.

The argument for consolidation certainly seems to be winning the day, with The Pension Superfund chief executive Luke Webster stating that he believes liabilities suitable for consolidation could amount to around £500 billion by 2023.

Despite this, there are positive signs within the industry that DB master trusts might be picking up some traction and CMS partner Keith Webster believes that innovation is the key.

"The newcomers to the market are trying something more innovative and it is an area of the market that I think is ripe for innovation. Not least because there is an awful lot of liabilities that are going to have to be run on for some time," he says.

TPT, which has been in the DB consolidation market for a while, knows how well the DB master trust model can work. Originally focused on the third sector, it is now setting its sights across all areas as it eyes opportunity for growth.

"The drivers towards consolidation are difficult to argue against, I was trying to get from the regulator a tally on how many trustees there are, my assumption is that it is going down year-on-year … I speak to many schemes who are struggling to retain trustees because they are retiring and where do you recruit from?"

Under a master trust model, the scheme would be governed by a single master trust board, responsible for "stewardship of all the assets and management and oversight of a common administration platform and set of advisers", an important pull in an time where it is becoming increasingly difficult to find new member-nominated trustees.

JLT Employee Benefits head of technical, John Wilson, believes that employers moving to master trusts is a matter of time, and says that this consolidation vehicle has a distinct advantage in requiring no new legislation

Back from the dead

Jack Gray explores how new life has been breathed into the pensions dashboard

Summary
• The pensions dashboard is now expected to be going ahead.
• The industry will take the leading role in developing and managing the dashboard.
• There is uncertainty surrounding the extent and nature of government involvement.
• It is still unclear when the feasibility study and dashboard will be released.

After months of speculation, it seems as if the pensions dashboard has come back from the dead.

As reported by *The Times* in July 2018, Work and Pensions Secretary Esther McVey wanted to kill off the dashboard as it would distract from the rollout of universal credit. When government silence on the planned dashboard followed, it fuelled rumours that it was in line to be scrapped and the industry cried out for the Department for Work and Pensions (DWP) to keep the project alive. During the silence, nearly 200,000 people signed a petition urging the government not to give up on the planned dashboard. Their prayers were answered recently, with McVey confirming the plan is still alive and kicking.

She reiterated her commitment at the Conservative's party conference on 1 October, saying that "we will be giving people the opportunity to access their pension information through an industry-led pension dashboard, building on the government's 'check your state pension' online service".

However, McVey may not be as keen on the project as her speech suggests. She backs the industry to take the lead on the project in order to "harness their knowledge", while the government would support the initiative but take a back seat approach. Although the government has now backed the scheme and the technology is ready to go, if what *The Times* reported is accurate, it was quite happy to let the plan fizzle out and be swept under the carpet. The government still needs to publish its dashboard feasibility study, which has been delayed from the original March 2018 deadline. Promises have been made by the DWP that the study will be released "shortly", although it still has not given an exact date.

The story so far

The dashboard was first announced in September 2016 by then-Chancellor George Osborne, when he set the pension industry a deadline of 2019 for designing, funding and launching it. Initially, things seemed to be going to plan. The project's timeline goals were met: the discovery phase, which included securing the resources required and forming a coalition of 17 pension firms, the development phase, which included conducting basic consumer research and getting the DWP to agree to test the data set, and the demonstration phase, where the project was demonstrated to the government.

However, since the missed deadline for the feasibility study, the dashboard appears to have been put on the back burner by the government. Because of the missed deadline, along with McVey's mixed messages regarding her enthusiasm for the project and her encouragement that the industry lead the dashboard's development, some believe that without government backing there is no way the dashboard will be successful. AJ Bell personal finance analyst Laura Suter says: "A dashboard with full government backing will have more chance of success, so it will be intriguing to see the findings from its feasibility study when they are published soon. An incomplete pension dashboard is not going to be of use to anyone so it is important the government commits to ensuring the state pension is included and uses its powers to ensure a critical mass of pension schemes sign up to the initiative so that it delivers meaningful benefits to pension savers."

There are multiple examples of pension dashboards or equivalents around the world, including in the Netherlands and Australia, and they are all state-run. Therefore, government legislation is likely needed to ensure that all private pension schemes provide comprehensive data, as a dashboard with incomplete data may make its implementation a waste of time and effort. A survey by the credit reference agency Experian finds that around half of individuals would not use the dashboard if it did not include all of their pensions data.

Fintech company Origo was involved in developing a prototype dashboard as part of the HMT Pensions Dashboard Project, managed by the Association of British Insurers (ABI). Origo managing director Anthony Rafferty highlights how important governmental involvement would be: "Compelling providers to participate is an essential input from government. It is vital for the feasibility study to be clear on where industry and government meet on their responsibilities and roles within the delivery and then ongoing management of the dashboard."

Necessity is the mother of invention

The pensions industry has come under fire in recent years for a lack of transparency, especially at a time when people are used to easily checking their other financial products online. In contrast, there is no system for individuals to monitor all of their pension schemes. A dashboard would enable members to be aware of how much they have saved and should be able to make better financial decisions as a result. In an era where individuals are working for more companies than ever – in 2017, life insurance firm LV= found that a UK worker will change employer every five years on average – it has never been more important for workers to have a system to keep track of their increasing number of pension schemes.

The ABI collaborated with a range of fintech developmental partners and the government to develop a prototype dashboard. It believes the dashboard is key to helping consumers gain a better grasp on their pension schemes, as general director Huw Evans made clear.

"The government will help out millions of savers by keeping its promise to help deliver the pensions dashboard. This vital tool will allow everyone to find their pensions and see them together online, enabling people to keep track of their funds and work out if they are saving enough for retirement. The ABI, leading a cross-industry group of pension providers and schemes, has already delivered a great deal of the work needed to turn the dashboard into a reality, including a working prototype, and we look forward to continuing this collaboration," he says.

Furthermore, it is estimated that there is around £400 million worth of lost or forgotten pensions still sitting in the pension industry vaults. If the government is willing to facilitate a system where all pensions data must be made available, then it would help members track down their forgotten funds. Although it would be a mammoth task to collate all of the UK's pensions data, it seems essential to the success of the project.

Prototype progress

Despite the issues, the dashboard may be closer to completion than it seems. Origo has successfully tested a prototype that could facilitate 15 million individual users, as Rafferty explains.

"Origo specifically developed the Pensions Finder Service (PFS) aspect of this prototype. This service makes up

the 'essential plumbing' for any one or all potential front-end dashboards. This service works by connecting to Digital ID suppliers. It then coordinates find requests to all pension providers and then coordinates the secure return of where to access the pension data, including values, to the dashboard screen," he says.

The successful testing of the prototype showed that is it possible to build the 'plumbing' that connects multiple pension schemes and providers to dashboards, while allowing people to view all of their pensions in one place. It also proves to the government and industry that an infrastructure can be delivered and that fintech providers can be collaborated with in order to complete the project.

However, there is still a lot of work to be done before the dashboard will be ready for its scheduled release in 2019. Data for state, defined contribution and defined benefit pension schemes needs to be collated for both the private and public sector. Additionally, the regulatory framework for the infrastructure needs to be developed to find a balance that suits the industry and consumers, as well as protecting members from scams. A governance body may need to be created to establish data standards, data security and digital sharing agreements. Industry personnel are concerned that the amount of work that needs to be done will result in the dashboard missing its 2019 deadline.

Obstacles

Rafferty highlights what Origo believes to be the four key ongoing issues that need to be addressed. These include compulsion: "Origo believes compulsion will enable delivery of a dashboard with access to all providers' data, making it more useful and so much more valuable to the UK consumer. Compelling all providers to open up access to consumers' data will also enable providers to prioritise any development and/or resources internally to ensure their systems are dashboard ready. Compulsion will require government legislation," he says. Origo also thinks that Digital ID should be introduced as it will be "core to the dashboard" and "enable consumers to trust that their data is secure, which will encourage use of the dashboard". Additionally, ensuring that the registration, sign-in method and process is "secure yet simple" will also encourage savers to use the dashboard. Another issue that it thinks needs to be addressed is the inclusion of state pension data. Royal London director of policy, Steve Webb, agrees: "It is vital that the proposed pension dashboard includes state pension information from the outset. The new state pension system is designed to be simpler, and most younger workers will simply get the new flat rate. But the transition to the new system will take some years and it is important that older workers in particular use the online service to make sure that they know exactly what they are going to get."

Finally, Origo believes that governance is an essential tool for a successful dashboard: "There are potentially two elements to the governance: delivery to launch and set up, and ongoing governance. For example, in the launch phase key decisions will need to be agreed, including specific technology suppliers and routes, whereas post-build, governance may include maintenance of data standards and onboarding ecosystem participants."

The future

Although there is still much to be done before the project can be implemented and the DWP seems to be dragging its feet over the plan, the vast majority of the industry and consumers appear to support the dashboard. Many believe that it would solve a multitude of issues that currently plague the industry. The lack of transparency would be addressed, as well as helping members engage further with their pensions and have a better understanding of their schemes at a time when pensions have never been so complex and varied.

The dashboard could also improve pensions advisory services, as it could provide people with the ability to delegate access to a financial adviser and act as a money-saving feature for users. Research from national advice firm LEBC in January 2018 finds that opening up access to financial advisers through the dashboard will cut the cost of advice by between £300 and £400 per person.

Furthermore, it would lessen administration fees through free-flowing and secure data, while potentially reducing the need for schemes to provide members with so much information, as it would be readily available through the dashboard.

It is difficult to find opposition to the project. However, there is concern in the industry that, if the government does take a backseat, the cost of implementing and maintaining the dashboard will be a burden on the industry. Some members of the industry have already contributed a significant amount of money through the prototype project, as they provided data, personnel and cash to support and develop the project. McVey and the DWP seemed to be willing to let the plan die over the summer when they went quiet on the issue, but public outcry and petitioning meant that it could not be killed off for good. Despite their best efforts to make everyone forget about the project, it seems as if the pensions dashboard has come back to life.

Written by Jack Gray

Auto-enrolment's Hokey Cokey

With auto-enrolment now fully rolled out across the country, and six months since the first increase to the minimum contribution rate, Natalie Tuck looks at opt-out rates and the policy's safety net

Everyone will be familiar with the children's party song, the Hokey Cokey, and the idea of being in, out, in, out; much like this childhood classic, for those who don't want to save into a pension, that's what it's all about.

The number of people involved in a Hokey Cokey jig with the pension system is relatively low however, compared to those that are happy to put their whole selves in and remain in.

Despite an increase to the minimum contribution rate in April this year, from an employee contribution rate of 1 per cent to 3 per cent, Altus Consulting head of retirement strategy Jon Dean notes that opt-out rates appear to be "holding at a steady pace" around 8 and 9 per cent.

Recent research by the Office for National Statistics, however, points to inertia for the continued high success rate of auto-enrolment. It found that over a third (37 per cent) of eligible employees are unaware that they have been enrolled into a pension by their employer.

Quilter head of retirement policy Jon Greer says there can be "little doubt" over the power of inertia when it comes to auto-enrolment. He warned, however, that the "stark statistic" shows that inertia can be dangerous. "It needs to be paired with education so the public actively engage in their retirement savings," he adds.

The Pensions Regulator has also warned about the number of employers encouraging employees to opt out of their workplace pension since 2015, as it has received over 100 reports of cases where this has happened. A freedom of information request revealed that over the three years it found 99 cases, which "primarily" related to inducement and 15 that related to inducement.

Between the period 1 April 2015 to 31 March 2016 the regulator said there were 12 inducements, compared to 38 between 1 April 2016 and 31 March 2017 and 64 between April 2017 and 31 March 2018.

For those that do choose to opt out, the government's policy has a net to bring people back into a pension scheme. Every three years companies must re-enrol employees who previously opted out of the scheme.

Royal London pension specialist Helen Morrissey believes that re-enrolment has "an important part to play" within auto-enrolment. She highlights the most recent figures from the regulator, which reveal a total of 572,000 employees have been re-enrolled up to August 2018.

"Participation rates are already high among the eligible population but re-enrolment will be vital in catching those people who have opted out in the past and engaging them with their pensions," she says.

With opt-out rates so low, and a safety net that will sweep up those who opt-out every three years and enrol them back in the scheme, is there a need for compulsion? It is the case in Australia, a country the UK looks up to when it comes to saving for retirement.

LCP partner, Bob Scott, certainly believes that following Australia's lead is an option for the UK. "From modest beginnings in the early 1990s, Australian employees now enjoy regular retirement savings at circa 12 per cent of earnings."

However, Dean believes that compulsion is not necessary, given the low opt-out rates, adding that "we should respect that many people will have rational reasons for opting out". But with no immediate plans for the UK to make auto-enrolment compulsory, it looks like the Hokey Cokey pensions jig is here to stay.

Written by Natalie Tuck

AE contributions: Keep on climbing

The minimum auto-enrolment contribution rate may have increased to a combined 5 per cent in April, but the experts say there's still a long way to go before savers can guarantee an adequate income in retirement

Ever the since the introduction of auto-enrolment there have been calls from within the industry for contributions to increase, and warnings of people 'sleepwalking' into a retirement that will leave them with an inadequate income due to insufficient contributions.

There are debates on the 'magic number' for contributions, whether that is half your age or 12 per cent, or if there needs to be clearer savings targets based on people's expectations in retirement, to help them tailor their contributions to meet their demands.

There are also a growing number of voices calling for matched employer contributions. Currently, employees contribute 3 per cent, whilst the employer adds 2 per cent. This gap is set to widen further in April 2019, when employees will contribute 5 per cent, with employers paying in 3 per cent.

It is an argument backed by the Pensions and Lifetime Savings Association. Its director of policy and research, Nigel Peaple, says the association believes contributions need to rise to 12 per cent, with an equal split between employers and employees.

Research by the PLSA found that 21 per cent of those with a workplace pension contribute more than their employer; 36 per cent of employees said their employer matches their contribution, and 26 per cent said their employer pays in more than them. Just over half (55 per cent) of those working believe their employer should be paying more into their pension than at the moment.

Altus Consulting head of retirement strategy Jon Dean also supports the idea: "I'd like to see minimum default contributions increasing to 12 per cent gradually over the next few years and in equal proportions between workers and employers. An option to opt down should be incorporated into the member journey, as well as opting out. Contributions should also be deducted from full basic pay, not just band earnings, to generate more meaningful pot sizes."

There is also the case of the self-employed, who are grossly under saving for retirement. Recent research from Prudential found that 31 per cent of the self-employed plan to rely solely on the state pension during retirement. With self-employed workers making up around 15 per cent of the UK workface, it paints a worrying picture.

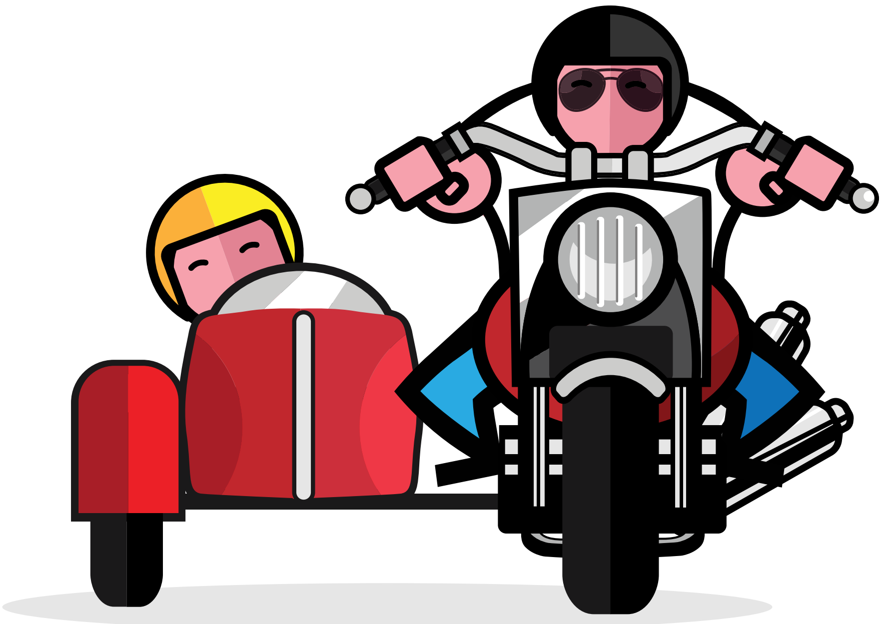
In the party's last manifesto, the Conservatives promised to make auto-enrolment available to the self-employed, but are yet to do so. The government's review of the policy, published in December 2017, said it will adopt a 'test and learn' approach to find the most effective way to encourage the self-employed to save for a pension.

Since then, Pensions Minister Guy Opperman has called on the industry to find a self-employed savings solution. "We can't do this on our own, government can't formulate policy without your help. I want you to try and feel your power. What you are doing today is formulating policy, without any shadow of a doubt."

But what is the answer? LCP partner Bob Scott highlights a report by the Resolution Foundation, published in May, which called for a policy to require firms contracting for self-employed labour to make pension contributions. "Those measures would undoubtedly help but more thinking is needed about savings as a whole in order to embrace the whole working population," Scott notes.

With the government tied up in Brexit negotiations, as Opperman said, the industry is needed more than ever to solve the self-employed savings crisis before it's too late.

Written by Natalie Tuck



Summary

- A pensions sidecar is a separate savings vehicle alongside a retirement saving product, which can be accessed for short-term financial needs without affecting the pension pot.
- Sidecars could be used to tackle the population's lack of short-term savings, as well as helping self-employed people save for retirement.
- There are barriers for the creation of sidecars to overcome, such as its integration with auto-enrolment and its tax structure.

A smoother ride

Laura Blows considers whether pensions sidecars may just be the new vehicle needed to balance savers' long-term and short-term financial needs

Motorcycles can be tricky machines. While they may be a fun and enjoyable ride, capable of going far at fast speed, they are not always the best option for tackling treacherous conditions or coping with bumps in the road.

Pension products are much the same (although they rarely bring about the same exhilaration as riding a motorbike). They may be good for the heading off into the horizon of retirement, but they do not provide much support for the financial hazards faced along the way.

What can assist both is a sidecar, providing balance and making travelling over short-term obstacles a more bearable experience during the long journey ahead.

A pensions sidecar is a separate savings vehicle alongside a retirement saving product, which can be accessed for short-term financial needs without affecting the the pension pot.

There are various potential models for the creation of a sidecar, such as the 'waterfall' model, whereby all contributions go into the sidecar account until a threshold is reached; all subsequent contributions then 'fall' into the pensions account. If the savings account falls below the threshold due to a change in the threshold or a withdrawal from the savings account, future contributions go into the savings account until the threshold is reached once again.

Another option is where contributions are split between the sidecar and the pension fund. This could involve the minimum auto-enrolment contributions going into the pension, and any excess amounts being placed into the separate short-term savings account.

While not a sidecar model, the concept of early access to pension savings, under set criteria, was first mooted in the UK in 2010, but fell by the wayside. The concept has had success abroad though, such as with New Zealand's Kiwisaver pension scheme and in the USA, where there is already some conditional early access to retirement savings.

The USA's approach was the driver for Nest to explore the sidecar concept. Together with the Money Advice Service, it decided to explore whether the success of the auto-enrolment model in pensions could be applied to help address this lack of short-term, emergency savings. A trial, using the split contribution model, is taking place this year, involving selected employers offering the pensions sidecar account to their employees.

"The trial will gather data on take-up and use as the best approach to understand real demand for something like this," Nest Insight manager Michelle Cremin says.

Tackling problems

Whether there is demand is one thing, but there is clearly a need to help people build short-term savings.

The Money Advice Service's *Closing the Savings Gap* report from September 2016 finds that 26 per cent of working-age adults have no savings to fall back on and a further 29 per cent have less than £1,000 saved. Nearly 17 million people in the UK have savings of less than £100.

As worrying as these stats maybe, what do they have to do with the pensions industry – whose very existence is based upon saving for the long term, not dealing with short-term financial difficulties?

A lot, it seems.

"A lack of short-term savings is a problem for the pensions industry. When the boiler breaks down, and someone has no personal savings, they will turn to expensive credit lines and reduce pension contributions to meet the additional expense. Good financial health must involve a mix of short and long-term assets pools – you cannot consistently and securely achieve long-term financial aims without insulating against short-term shocks," Trafalgar House client director Daniel Taylor says.

It could also address problems facing the pensions industry.

Mercer UK DC and Individual Wealth innovation leader Shri Rengasamy points out that sidecars allow accessibility of contributions in a way that conventional pension schemes do not, which is "a common criticism amongst pension sceptics".

"Although the introduction of pensions automatic enrolment has been a brilliant first step into kickstarting people's pension savings, some in the industry are concerned that as contributions ramp up, the opt-out rate will increase too as people worry about locking up their savings and not being able to access it," Nucleus product technical manager Rachel Vahey says. "Sidecar savings may help with that concern in a neat way."

The implementation of sidecars also fits in well with the pensions structure, as contributions can be taken through payroll in a similar manner to auto-enrolment. This allows it to easily go alongside a traditional DC scheme or master trust. However, for a DB or CDC scheme, it might fit better with whatever 'AVC' structure may be in place for members of that scheme, Cremin warns. "But there's nothing fundamental stopping sidecars from working in workplaces with DB or CDC schemes."

Self-employed

But what about those people without a workplace pension to save into? Increasing focus has been placed on the significant proportion of the population left out of auto-enrolment: the self-employed. Could the sidecar model work for them?

In June, the Association of Independent Professionals and the Self-Employed urged the government to dismiss the idea of auto-enrolling self-employed workers and instead called for the creation of a sidecar pension scheme.

A potential sidecar model for the self-employed could have all their contributions initially directed to the sidecar, then prior to the end of the tax year, the amount remaining in the sidecar in excess of a pre-set 'buffer level' is rolled into their pension savings, Rengasamy suggests.

"The self-employed, particularly those with moderate to low incomes, often do not have security or certainty over their income. Such uncertainty breeds a desire to favour other types of investments for retirement such as ISAs. These products are easier to access in the event of an unexpected expense or during a period of lower earnings but don't offer many of the benefits of pension products. What this consequently means is that the self-employed have substantially less pension wealth than their employed peers. Essentially, a pension sidecar would be a way for the self-employed to have more access to their retirement savings while also getting them into the mechanism of saving into a pension to help cope in old age," Quilter head of retirement policy Jon Greer explains.

Bravura Solutions retirement specialist Jonathan Wileman highlights that, like the self-employed, lower-paid workers also cite a similar need for accessibility. "When minimum AE rates increase again next year, this could potentially minimise the number of employees opting out," he explains.

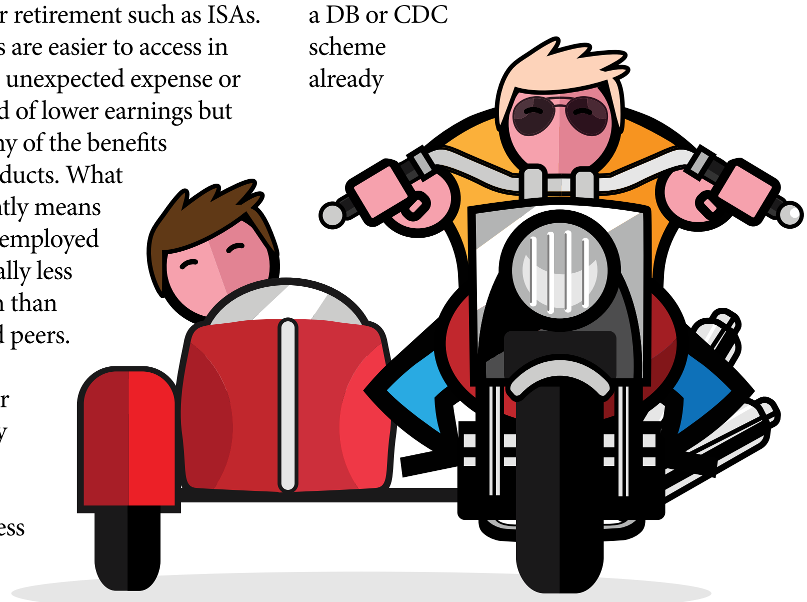
Barriers

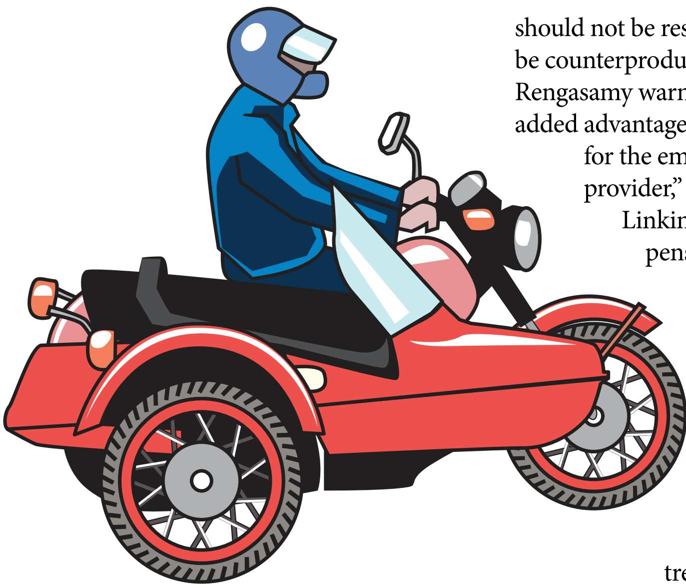
But for Barnett Waddingham partner Damian Stancombe, targeting sidecars at the lower paid is the wrong focus.

"Sidecar saving 'products' appear to be a concept vehicle, created by the ivory towers of academia, latched onto by the pensions industry as a way to boost contributions from those who can least afford them or indeed need to pay them," he states.

Instead, he recommends focusing on supporting employees, "rather than thinking up new products".

Wileman agrees that "while serving a slightly different purpose, workplace ISAs have already introduced the concept of members paying into a savings product alongside a pension". It could be argued that DC AVCs made alongside a DB or CDC scheme already





demonstrate that hybrid models can work well, he adds.

However, according to Cremin, workplace ISAs has generally been targeted at higher-income groups, while the sidecar model is aimed at increasing short-term financial resilience for lower to mid earners.

PLSA director of policy and research Nigel Peaple adds that the Local Government Pension Scheme already deals with the tension between short and long-term saving needs through an 'opt-down' mechanism, "which allows people to reduce their contributions for a short period of time, helping financially stretched savers stay in the scheme instead of opting out".

So the need for the sidecar is up for debate. Especially as its actual use may not necessarily match with its intentions.

"The biggest problem that could arise is that it is viewed as a source for discretionary expenditure (the 'wants' as opposed to the emergency 'needs')," Rengasamy says. "This could lead to persistent abuse of sidecar saving and in turn potentially negating any of the benefits from the arrangement."

The sidecar savings may be repeatedly withdrawn just before the level where it 'tips' into a pension, Vahey adds. However, access to the sidecar should not be restricted as that would be counterproductive to the concept, Rengasamy warns. "This also has the added advantage of administrative ease for the employer and/or sidecar provider," he adds.

Linking the structure of pensions with short-term saving products could also be tricky.

Pension savings are deducted from gross pay and are therefore not taxed. "If contributions to a sidecar account were to be similarly treated there would have to be strict limits to prevent tax avoidance," Aries Insight director Ian Neale states.

Solutions to this could be to freeze the personal allowance and create a tax-free sidecar savings allowance, similar to the 'saver credit' applied to interest on savings accounts at the moment. Alternatively a sidecar ISA (or SISA) could be created, to which contributions are paid automatically but after tax, while growth and withdrawals are tax-free, he adds.

The sidecar's structure may either cause affordability concerns, by getting people to pay over and above the AE minimums, or require a change to AE legislation to allow contributions to go outside of a pension, Redington director, DC and financial well-being consulting, Jonathan Parker, warns.

This inability to automatically enrol employees into savings vehicles is a barrier, Rengasamy states, as an opt-in arrangement is more challenging than an opt-out one. This also results in the additional barrier of encouraging member engagement.

"With the general understanding of financial products at current levels, a sidecar may end up joining the ever-growing list of underused, complicated financial products with noble intentions," he warns.

Support

With these barriers to overcome, there is going to have to be strong support for sidecars to be created.

However, the administration of a large number of small savings pots coupled with the ongoing cost of monitoring and rebalancing is unlikely to be attractive for many pension providers, Parker warns, adding that it would also need the support of employers who may be reluctant to take on the additional administration required to make it work.

Neale agrees that there is little evidence yet of appetite for the sidecar concept in the industry. "As usual, a lot will depend on the government and what incentives might be offered," he says.

These issues cannot be addressed without more research into the structure of sidecars. But some consider this a pointless endeavour. "Will there be any success in sidecar saving? I do hope not," Stancombe states.

However, others expect him to be disappointed. Rengasamy believes that "in the future, it is highly likely that sidecar savings will be the norm within pension products".

Wileman agrees that it is likely that sidecar saving products will arrive sooner rather than later.

"With the gig and self-employed economy continuing to grow, and both the government and industry recognising that the issue of these workers missing out on auto-enrolment must be addressed, a solution needs to be found to allow this cohort to feel that they can safely contribute to a pension without jeopardising their short-term needs," he explains.

Whether sidecars are the driverless cars of pensions, adding excitement and interest into the future of saving, or whether it ends up a niche product like its vehicular namesake, helping people tailor their financial saving to suit the route they want to take is surely a road worth travelling down.

Written by Laura Blows

Summary

- The UK's workforce is grossly undersaving for retirement, contributing on average 3.3 per cent to their pensions, when 12 to 15 per cent is required.
- Experts say that many will be disappointed when they realise they won't be able to retire when they want to due to lack of funds.
- Further increases to the automatic enrolment contribution rate and improving member communications are needed to help boost savers' pension pots..

A widening chasm

As the amount between how much people should save for retirement and how much they are actually saving widens, Sara Benwell considers why this is occurring and what can be done to mend the gap

It's no secret that the UK's workforce is not saving enough for retirement. Conservative estimates suggest that most people will need to save between 12 and 15 per cent of their salary to have enough to live on, but the Office for National Statistics has calculated that on average people are contributing just 3.3 per cent into DC pots.

Thus far the impacts of such low savings levels have been cushioned as many people who have retired in the past 10 years have still had some defined benefit retirement income.

But soon, as the first tranche of people who only have auto-enrolment pots begin to retire, we will start to see the scale of the savings shortfall laid bare.

The scale of the problem

It is hard to pinpoint exactly how big the problem is, particularly given that most people have several smaller pots, meaning it's tricky to understand an individual's pensions position.

But if we examine someone who enters the workforce now, with a salary of £25,000, we can start to see how big the gap could be.

Let's assume that they start saving the 5 per cent auto-enrolment minimum and stay opted in, with contributions rising to 8 per cent in 2019 as planned.

Assuming a generous return of 4 per cent per annum over inflation and a fee of 0.50 per cent p.a., they will see their pot growing to approximately £155,000 in today's terms, according to JLT calculations.

Someone who is 22 can reasonably expect to live for at least 20 more years after they retire. This means that a £155,000 pot would yield around £8,000 per annum, or £153 a week. Even assuming someone has the full state pension, this takes the average weekly income to less than £320 a week.

And this assumes someone saves consistently through their working life with no breaks, enjoys good investment returns and low costs and qualifies for the full state pension.

Of course, for many older people the situation is far graver. JLT estimates that someone who did not start saving until 32 would need to put away 18.8 per cent of their salary to make up the shortfall. Yet as we know, there are plenty of people in their 30s who are saving for the very first time at auto-enrolment minimums.

Experts may squabble about the precise amounts that need to be saved, but what is clear is that even with rising auto-enrolment contributions, we are still falling worryingly short of the mark.

Cardano head of defined contribution Ralph Frank says: "A pot of £100,000, which is well above what most DC retirees have currently been able to save by the time they retire, would buy a lifetime inflation-linked income of around £80 per week (in today's money) for an individual retiring today at age 70. This income falls to around £65 per week if the retiree is 65."

Expectations versus reality

The problem is exacerbated by two behavioural issues. The first is that many people assume that because auto-enrolment levels are government mandated they are therefore sufficient. The second is that few people believe they can live on significantly less than their working life salary.

On the latter assumption, most people are probably right. But unless people start saving more and quickly, many retirees are in for a nasty shock.

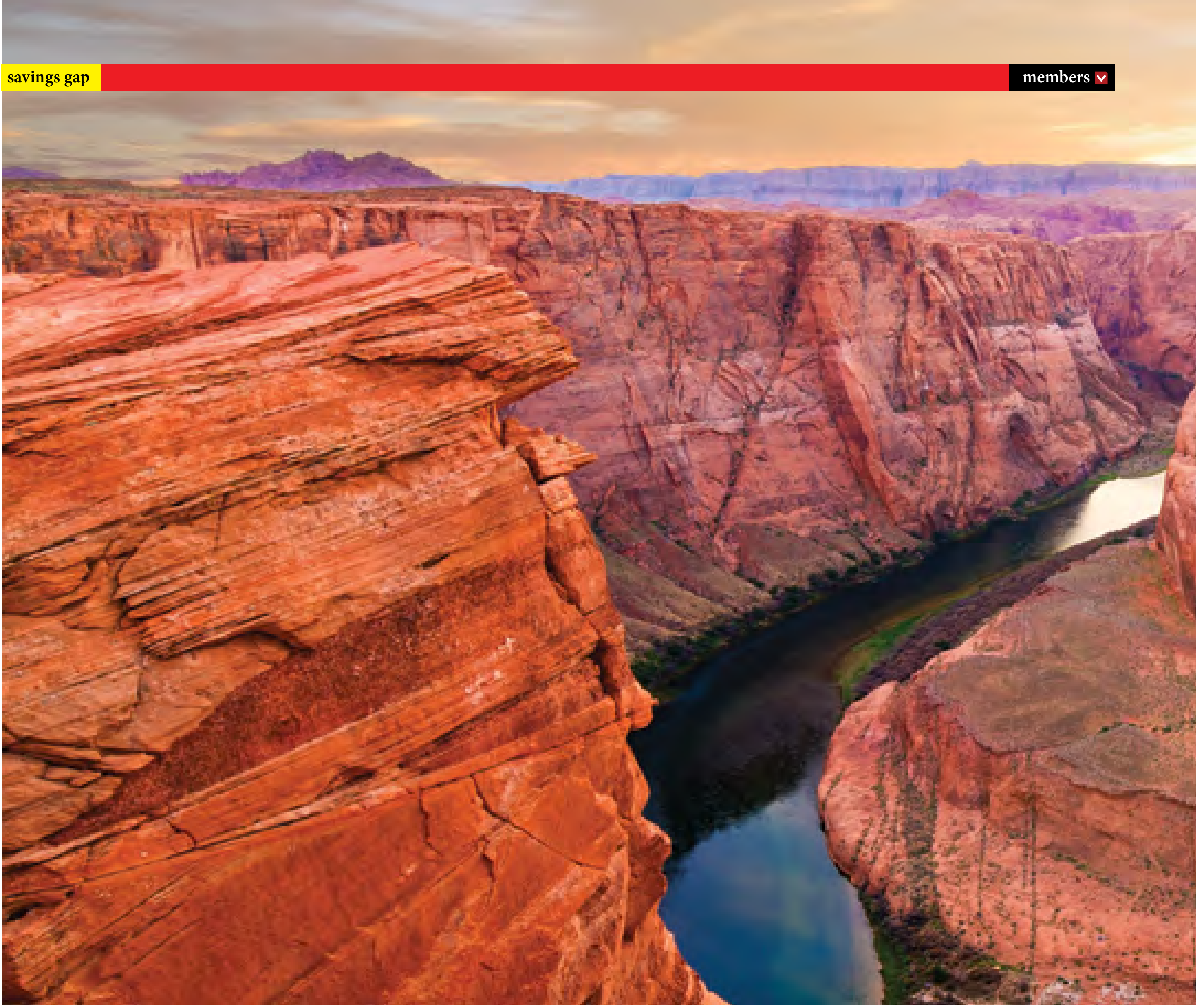
JLT Employee Benefits head of technical John Wilson says: "Six in 10 expect to require an annual income of 50 to 100 per cent, or above, of their current income. Yet the current pension replacement rate in the UK is just 29 per cent.

"Low earners (earning £10,000-£15,000) can't envisage living on much less than they do now, so more of them are targeting 100 per cent of their current income levels than people in other income brackets; of course, it is this group that is least able to afford to contribute to a pension."

A culture of mistrust

Disappointment is just the tip of the iceberg when it comes to the consequences of inadequate saving for retirees, society, the pensions industry and the government.

One natural result is that people are likely to have to retire later than they



had expected. Many thinking that they can stop working when they reach state pension age will be sorely disappointed.

Frank explains: "Many savers are likely to find themselves facing a bleak existence in retirement.

"Those who are not able to continue working will need to settle for a lower standard of living in retirement and/or place more demands on family and the state/other taxpayers for support."

These changes in working patterns are likely to have consequences for younger workers too. For starters, with slower career progression as bottlenecks develop among senior management.

There is also likely to be a set of people who retire assuming they can afford to do so, only to find they cannot. These people may struggle to re-enter the workforce. At this point we can only assume they will either be left unable to make ends meet or searching for new kinds of employment.

There may also be people who simply cannot continue in their existing jobs. It is hard to imagine a painter and decorator still going strong at 80. Indeed, many manual workers may struggle to continue into very old age.

This is likely to place an ever-bigger burden on the state. Particularly if increasing house prices lead to more people entering retirement without owning their own homes outright.

In 2017, pensions cost the government £111 billion, a whopping 42 per cent of the welfare bill. And it is hard to imagine any UK government finding an extra £100 billion down the back of the sofa.

Inevitably, public perceptions and trust in the pensions industry will worsen and the government is likely to face a backlash as people realise they face poverty in retirement.

What can be done?

For younger savers at the beginning of their savings journeys, we are not a million miles away from a savings rate that could ensure an adequate retirement.

JLT estimates that if auto-enrolment rules are changed to apply to every penny of earnings, not just those over the qualifying threshold, we will have gone a long way to bridging the gap.

Wilson says: "If AE contributions were increased to 10 per cent, with the employer paying 5 per cent matched by an employee contribution of 5 per cent and contributions were based on earnings from £1, as opposed to being based on the AE qualifying earnings band, then a two-thirds replacement rate for a median earner could be achieved."

That said, the government needs a clear strategy on how to increase minimum contributions something that was clearly lacking from the last auto-enrolment review.

Royal London pensions specialist Helen Morrissey says: "While auto-enrolment minimum contributions are due to increase to 8 per cent next year, this is still nowhere near enough and we need government to look at how minimum contribution rates can be increased to more sustainable levels."

Frank added: "Ultimately, government is best placed to allay the consequences by further increasing the minimum contribution rate."

It is also critical that we spell out the business consequences for employers who do not play their role in ensuring staff are saving enough. Good matching strategies can help increasingly squeezed employees put away what they need to.

Member communications have a role to play here too. Some experts, such as Selectapension director Peter Bradshaw think that savers need a wake-up call to the harsh realities that face them if they don't start saving.

He says: "*[We need to]* show people what a miserable life in retirement could be if they only had the state pension to live on, and encourage them to be more self-sufficient.

Others believe that a more aspirational approach leads to better engagement. Either way, communications need to be simplified and relevant, and look beyond just pension savings.

Eliminating debts and looking at employees' finances holistically can help ensure that people can actually afford to make the pensions contributions they sorely need.

Written by Sara Benwell, a freelance journalist

One wish

If you could change one thing about the UK pensions industry to improve it for the future, what would it be? *Pensions Age* finds out

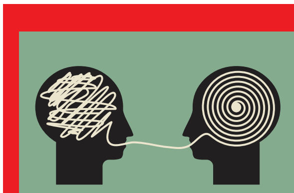
"As an industry we should improve our willingness to embrace novel approaches – especially if they have been successful in other markets – and be braver implementing such opportunities in a timely manner, without citing regulations or long track records as a reason to delay. Clear prioritisation and strong leadership are needed."
Lombard Odier Investment Managers head of UK and Ireland institutional clients and solutions Ritesh Bamania

"The following need to become core elements of company disclosures:

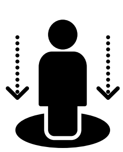
1. The TP funding position, details of the associated recovery plan duration and contributions agreed. This shows the actual cash funding commitments to the scheme and will point towards those who need longer to pay.
2. A standard basis for the disclosure of pension scheme funding volatility. While Value at Risk (VaR) has many detractors, we believe it can be useful if modelled correctly and understood appropriately by its users.
3. A more prudent and comparable funding target (eg self-sufficiency, risk free or solvency) to enable true comparisons between companies. This will also provide a clearer sense of longer term funding targets as well as revealing the full reliance being placed upon the employer covenant."

Lincoln Pensions' managing director Richard Farr

"The one thing to change is to make it a minimum requirement for trustees to have to meet a certain standard of competency on sustainability and how this relates directly to all things economic and financial. No competency, no role. The quality of the environment that beneficiaries will retire into cannot be treated as an irrelevance or merely a function of an asset's price."
First State Investments global head of responsible investment Will Oulton



"I would like to see less jargon and clearer language everyone can understand because ultimately our clients may not always have the greatest confidence in what they have seen of our industry. The pension fund industry needs to express itself in a universally-accessible language as this improves transparency and trust from those who have entrusted their financial plans for retirement in our hands. It is our responsibility to ensure we communicate with pension fund trustees in a clear way so that they can feel more confident in the communication they receive and have greater ownership of the investment decision making."
M&G director of fixed income Annabel Gillard



"The DC industry needs to provide modern, flexible, non-advised retirement solutions. Since pension freedoms, there has been a seismic shift in the way people saving into a pension can access their money; while there is plenty of product choice, our research shows that members are no clearer on how to plan for old age in the way that's best for them. I believe we need to revolutionise the way members engage with their pensions, by offering a tailored approach that takes into account an individual's circumstances and desires, rather than 'one size fits all'."
LGIM head of DC Emma Douglas

"I would want a much smaller number of larger, better managed funds – both DB and DC. Too many DC funds have been set up to serve the interests of the corporate entity that set them up rather than the interests of the members. Too many funds support a small army of providers and pension managers who have a strong vested interest in maintaining the fragmented market. Larger, better governed and properly resourced funds are more likely to deliver safer pensions and better outcomes for members."
CEM Benchmarking principal John Simmonds

"I would like to see more apps and mobile-friendly sites developed to access and explain a member's benefits and options. Having a clean, streamlined way to track finances on a mobile is something I've come to expect, but the pensions industry is dawdling."
Trafalgar House business analyst Aidan McGlennon

"If we could change only one thing, I would opt for simplification (i.e. standardisation) of benefits for DB schemes. This one step could be achieved fairly simply with absolutely no detriment to member benefits, but would lower the costs of administration and management, increase the level of understanding, reduce the number of errors and improve trust in the system."
PASA chair Margaret Snowdon

"The change I would most like to see is a culture shift, away from 'customer and provider' to a collective ethos. Mutuality has been disdained in recent decades, steamrollered by selfish interests antipathetic to the enduring trust required to secure a long-term future. There is abundant evidence that mutual collaboration is more likely than 'everyone for themselves' to secure a stable future society."
Aries Insight director Ian Neale

"The one thing I would change in the pensions industry would be generating greater engagement amongst scheme members by taking full advantage of the available technology tools and solutions. While there's no technology silver bullet that will solve all the industry's challenges, if the industry adopted the technology sector's mindset it would prove invaluable. Adopting behaviours that embrace the ability to respond rapidly and recognises the power of partnerships will all help."
Simplitum head of pensions product development Stewart Bevan

"I would introduce financial education to the National Curriculum, covering pensions as part of education on all aspects of personal finance. My purpose would be to give teenagers a good grounding in financial planning for the future and the understanding of the nature of financial risks. So, school leavers would not only have an appreciation of their life expectancy and saving for the long term, but also, for example, the cost of credit card debt and mobile phone contracts."
Aon head of UK retirement policy Matthew Arends

"The introduction and adoption of more common standards would help drive efficiency, simplicity and give members an all-around better experience of the pensions industry. Even with technology doing more of the heavy lifting we're still bogged down with huge amounts of duplicated effort and single-use development. If more common standards were adopted for data exchanges, reporting, asset and record movements then the orchestra could produce a symphony rather than a cacophony of confusion, costs and complication."
Trafalgar House client director Daniel Taylor

"New disclosure standards by asset managers providing pension arrangements will significantly improve the information available to actual pension providers and members, including disclosing the cost breakdown between investment and other costs. Transparency is key to delivering the outcome members expect and building trust with the growing number of DC savers."
AllianceBernstein head of multi asset EMEA David Hutchins

"I think as an industry we collectively have a significant amount of knowledge but we could be a lot better at sharing that knowledge. There is a huge amount of intel collected by administrators carrying out thorough due dilligence. If there was a way that could be disseminated there could be a significant reduction in transfers to scammers."
@EveK1979

"One area where we are still flagging is the approach to data and reporting. In the pensions industry we need to make it easier for trustees to manage their institutional affairs. While I'm not suggesting a mobile approach, trustees should be able to access all of their data and reports on one platform, in a consistent, accurate and easy-to-understand format. This will build trust, strengthen trustee engagement and, crucially, ensure our industry is ready for the next generation."
AMX chief technology officer Bill Jooste

"One of the main things I'd want to improve about the pensions industry is how we think about default design within defined contribution pensions. No default will provide the perfect strategy for every individual, but poorly considered defaults can increase the potential for employees to undershoot their desired outcomes. Schemes may

differ but a good starting point for effective default design is understanding how the British public earn, save and spend throughout their lives – and how portfolios can help build and then provide retirement income.”
BlackRock head of UK DC Claire Felgate


Editorial credit: pcruciatti / Shutterstock.com

“Take politics out of the ticking timebomb we have in the UK, with an increasingly ageing work force and fewer workers coupled with increased life expectancy. Government on all sides has a very poor track record here, with almost 20 ministers in as many years. The retirement health of the nation should be independent of government. The overall strategy that exists today in the UK favours middle age, high-earning men.”
Salvus Master Trust MD Graham Peacock

“The one thing we would change is UX testing on every piece of communication from a pension product provider or scheme (excepting individual correspondence). So for example, on a scheme application, the scheme application form/process should be tested by a sample of the type of person most likely to be in receipt of it to see what they understand by it. Until 90 per cent of the group correctly understand what is meant by the communication it should be sent back and worked on until it hits this benchmark.”
@MyMoneyAlive

“The one thing I would change about the pensions industry would be for the government to step in and take responsibility of ensuring everyone has a suitable living wage in retirement – the employed and self-employed. The retirement crisis edges closer for millions so government ownership would not only benefit retirees, but the country as a whole. With the use of proper collectivisation through the state (a sovereign fund), investment in infrastructure could make the UK a better place. It would also support corporate longevity. By divorcing the company from the responsibility of pensions, they can focus on business strategy and supporting the economy.”
Barnett Waddingham partner and head of workplace health and wealth Damian Stancombe

“We believe that national retirement income targets, like the system already used in Australia, would be a major help to savers. Three-quarters say retirement planning would be much easier if the UK had retirement income targets and, if targets were integrated with the pensions dashboard, we believe they would give people a much better understanding of their future financial position.”
PLSA policy lead, engagement, EU and regulation, James Walsh

“Research from The Pensions Regulator reveals that a large number of pension schemes have poor standards of governance. The regulator says that these are often smaller schemes. Many of them are said not to realise that they are deficient. What is needed now is some proactive outreach work to correct this situation. It is probably not sufficient just to issue codes of guidance or levy fines on defaulters. It would help to supplement these approaches by some positive actions to ensure that competent board members are put in place. Pension scheme members should be entitled to the same level of protection whether they are in small schemes or big schemes.”
AMNT co-chair David Weeks

“Change UK law to facilitate AI systems providing financial advice to the public, companies and pension scheme trustees, to improve savers’/members’ benefit outcomes. Much of the work could at least be guided by well-written AI systems, and in some cases could ultimately be taken over completely by AI algorithms.”
Lane Clark & Peacock partner Alex Waite

“Five things I would like the industry to do but know they never will.
1. Tell people how much they are being charged in total. At the moment it’s all broken down into platform fees, fund fees etc.
2. Never ever use one word of jargon.
3. Be simple about investments. Use the same language as you would about runners in the grand national because at the end of the day investments are a gamble.
4. Don’t patronise people and don’t shout regulation at them. Of course they need to be made aware that investments can go up as well as down. But it doesn’t need to be so scary. Even lethal medicines don’t have the very stark warnings that institutions adopt.
5. Give people a rough idea how much money their pension will pay out in retirement. Eg, work out how long you think you will live, then divide that final sum by the number of years you think you will go on for.”
Flagship Consulting chairman Diana Stephenson

“Australian style system, with compulsion, higher employer contribution rates and decent adequacy.” **@sarabenwell**

Summary
• The pensions industry suffers from a stuffy and old-fashioned image, which carries forward into much of its external communication.
• There is a dearth of young talent and ideas coming into the sector – the industry needs to be made more appealing to the younger generation.
• Communication needs to better utilise new technology and have an awareness of consumer behaviour to deliver clear messages about pensions.
• Auto-enrolment has improved the sector's standing, but has it been communicated well enough?

Changing minds

Many fear that the pensions industry's image has a negative impact on pension saving rates and its attractiveness as a career option for young people. Andy Knaggs looks at what the industry is doing to change perceptions

Five years ago, Jonathan Bland was working as an animator, and his soon-to-be business partner Rachel Parkinson was in marketing. In September 2018, when he spoke to *Pensions Age* for this article, Bland was six days into a month-long bus tour of the UK, visiting employers and discussing pensions with their staff.

"In the next three weeks we will be taking our Pensions Awareness Day bus to 30 companies and talking to 250 people a day about pensions," he enthused. "We believe that what we are doing with face-to-face communication, combined with our use of technology, is the way forward."

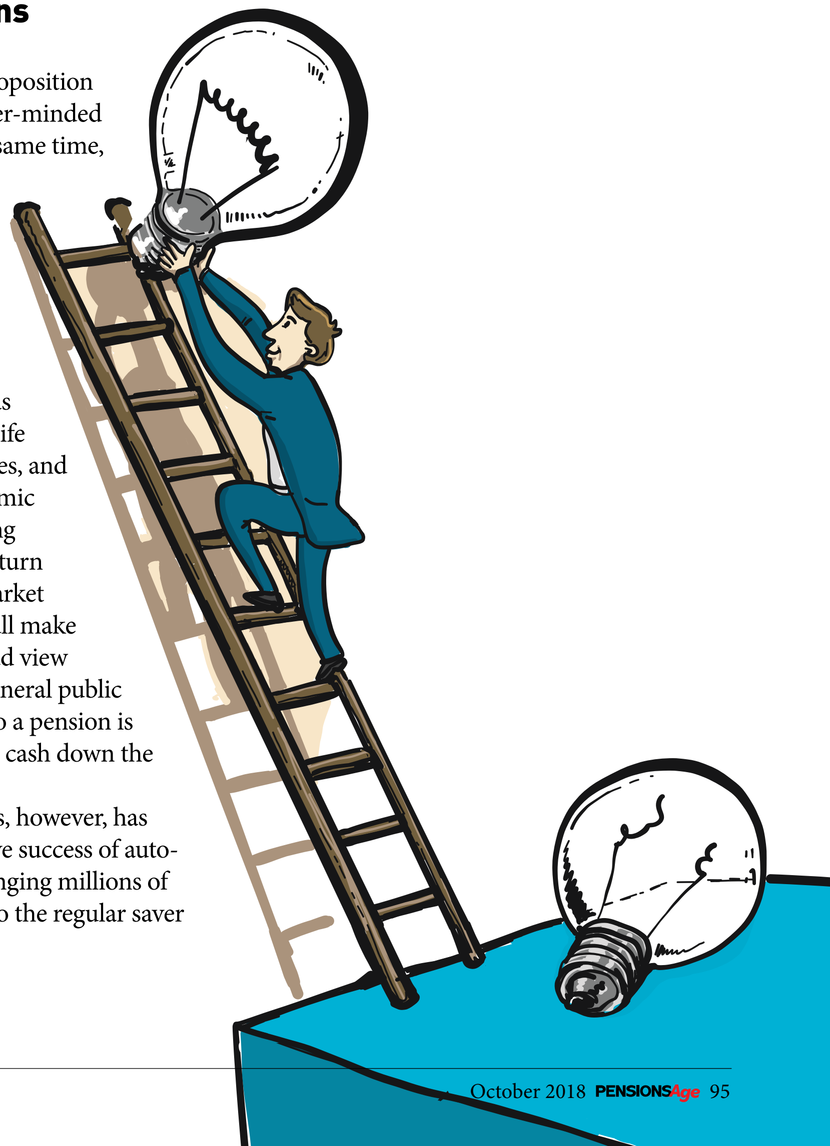
Bland and Parkinson's enterprise – Pension Geeks – has a mission to change the way people think about pensions, and specifically to get young people excited and engaged in saving for their financial futures. How did it begin? "Both Rachel and I thought pensions were very complex and hard to understand. A lot of our friends felt disengaged too. We started from the kitchen table, creating games and apps to engage people with pensions. Then we went out to companies to engage their staff. We've had massive success, and now we are working with some really big employers."

It is a laudable initiative – an innovative idea brought to the pensions sector by talented people from outside of the industry. It is exactly what the pensions industry needs more of, according to Broadstone head of sales Andrew Mobberley, who says he has never seen such a shortage of new talent in his 25 years in the industry. He said: "We need to attract a new breed of person – young people with a passion for delivering messages to audiences of their age."

Old-fashioned

Many believe that the reason for the dearth of fresh talent working in pensions is that the sector has a stuffy, old-fashioned image, making it an unattractive proposition for young career-minded people. At the same time, the perceived complexity of pensions, alongside negative publicity from high-profile scandals such as the Equitable Life and BHS failures, and sluggish economic activity resulting from the downturn and current market uncertainties, all make for a widespread view amongst the general public that paying into a pension is akin to stuffing cash down the plughole.

Against this, however, has been the relative success of auto-enrolment, bringing millions of new people into the regular saver fraternity.



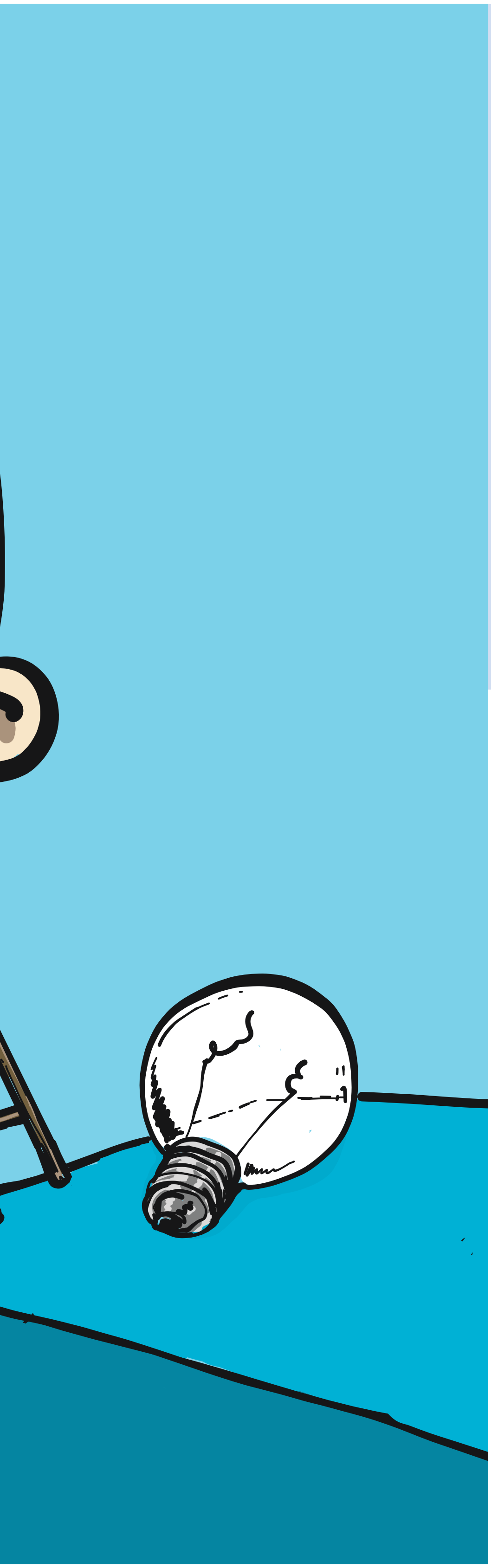
So, does the pensions industry have an image problem? Yes, says creative communications agency specialising in the lifetime savings, benefits and rewards sector, Ferrier Pearce chairman, Nigel Ferrier, although he adds that this problem is not through any lack of interest in pensions. Quite the opposite in fact.

"The industry is very stuffy, and it's stuck in a bit of a time warp," he said. "There's this thought that people are not interested in pensions, and in fact they're very interested. I ran a report on our social media tool on this to see what chat there is. There's lots of it, all over the country – most of the country is discussing pensions on social media, so I think there is an interest. The worrying thing is that when you run a sentiment report on the conversations, 70 per cent of the people discussing it are either sad, in fear or angry. So only 30 per cent are speaking positively about it. If any consumer-facing organisation had that, it would be doing things urgently to change it. The pensions industry does not know how people feel about it."

Part of the problem is that the industry has not recognised that it is talking to consumers, he believes, and has therefore neither listened properly nor shaped and delivered its communications accordingly.

Engagement

"When you consider that Generation X, Y and Z are 70 per cent of the workforce now and they are incredibly tech-savvy, and then you look at a typical pensions website, it has not really embraced the use of digital data, and it has got nowhere near AI. It's like having the Uber app for taxis but then when you actually want a taxi, it forces you to ring a number to ask for one. It's time now to think about what's going on with the people we are trying to communicate with. They are big technology users. Smartphones now completely rule our lives and the biggest growth in smartphone use is in the over 55s. Those types of statistics are not



Industry view: The PLSA

The Pensions and Lifetime Savings Association's director of policy and research Nigel Peaple says it is crucial that the industry adapts to the modern world and the way people receive and take in important information.

"The sector has already seen a dramatic shift in recent years with the introduction of automatic enrolment and this has been a huge success in getting millions more saving for retirement. However, there is still more work to do if we are to achieve our goal of ensuring everyone has enough saved to enjoy a comfortable retirement and our recent *Hitting the Target* report proposed that the UK adopt a set of retirement income targets similar to that seen in Australia. These should be integrated into the pensions dashboard.

"Another major issue is ensuring savers can understand the information provided to them. To achieve that, we have been working with *[former PLSA chair]* Ruston Smith's team on a simpler annual statement that provides clear, concise information to savers, so they can understand how their pensions are growing, the income they might get at retirement and how putting more in could help them get more out when they retire.

"The DB system is highly fragmented, with two-thirds of schemes having fewer than 1,000 members. A range of consolidation models are available, but we believe a further option should be made available to schemes through superfunds, which, with the right regulatory framework, will provide the means for schemes to improve the long-term likelihood of members benefits being paid in full."

resonating in the industry."

Bland believes that the industry is changing and getting better at communicating and engaging with the public about pensions, but there is a long way to go because the sector has "been in a bad place for a long time". The image is not the problem, it is the communication, he maintains.

"Young people were not engaged by it because the industry was not engaging with them," he continues. "Through things like social media you can find ways to relate to them and engage with them. It annoys me when people say that millennials are turned off. I think the blame can be put back on us: it's the way people are communicating with them. With things like the Pension Awareness Day bus, and with apps and animation, we are proving that we can change that. But you have to communicate with people through the channels that they already get their information from."

Mobberley agrees, citing the need for simplified messages in bite-sized chunks that more readily fit into people's daily whirl – a 30-second video, for example. The education should also begin at school age, he adds, while the process of attracting new recruits to the pensions sector could start during A-Level and university stages, as the legal sector, for example, already does through initiatives such as work fairs.

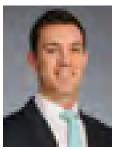
Auto-enrolment has definitely been a positive factor in influencing the public's perception of pensions, at the very least making it obvious that there was a need to engage with it at some point. However, the communication around this needs to be better too, says Ferrier, or we may just be storing up future troubles for ourselves: "Auto-enrolment is a great concept and most people are now saving, but they're not saving enough because they don't understand it. It's almost like a timebomb that will go off in 20 years' time – the next PPI: you, the employer, told me that I had a pension and that I would be okay."

That would be good for neither the image nor the reputation of the pensions industry.

Written by Andy Knaggs, a freelance journalist

Catching up

Following claims that DC investment strategies are a decade behind that of DB, what needs to be done to modernise DC investment approaches?



You don't have to look far to find a DC scheme pushing the investment boundaries – Nest. The recent tender for private credit is an example of the level of investment sophistication Nest looks to employ. Unlike the majority of DC schemes, however, Nest benefits from having an in-house platform, the buying power of its current and future scale and the expertise of a dedicated in-house investment team.

Nest's exploits are helping to bring new investment strategies closer to meeting the requirements of DC platforms. To further aid this process we require regulators and platforms to work together to build new guidelines that help support new fund structures and the operating frameworks required to deliver less liquid and alternative funds to DC schemes.

Cost is often cited as a barrier to the inclusion of modern investment strategies. One potential way to navigate this is to take advantage of platforms' ability to build bespoke blended funds that allow for lower cost funds to sit alongside higher cost 'alternatives' in a single fund.

Franklin Templeton Investments head of UK DC David Whitehair

The challenge for DC is to find the best, cost-effective investment solutions that support pension freedoms and help members achieve their retirement income goals. The next challenge? It's the same as the past 10 years – member engagement. The more members understand their benefits, the stronger the demand for new and innovative investment options. A disengaged membership doesn't appreciate even the most sophisticated of investment strategies. It is not all bad though, arguably DC schemes are way ahead of DB in terms of transparency of fees and consideration of ESG issues.

Quantum Advisory principal investment consultant Amanda Burdge

As DC schemes increase their scale and sophistication – and the industry is in the process of a lengthy consolidation process – there will be an increasing need to integrate asset classes that are less than perfectly correlated. If the current fund structures and delivery mechanisms used in DC are not able to support this broader spectrum of asset classes, their relevance will be called into question.

Newton Investment Management head of DC pensions Catherine Doyle

I am not sure that I agree that DC investment strategies are behind that of DB. But I would also say that this is like comparing apples and pears. They each have fundamentally different objectives. With DC the member carries the risk 100 per cent and can only control the contribution rate. With some DC schemes/providers they can exercise investment choice but most do not. They therefore depend on the default strategy. With DB however (assuming continued solvency of the employer) the employer carries the risk and sets the investment objectives to mitigate their risk and shortfall (deficit).

DB in the main has more scale but we see those DC providers/schemes with scale adding ever more sophistication. Sophistication might manage certain market risks but this does not necessarily create a better return. The charge cap of no more that 0.75 per cent AMC applies in DC but not to DB. Should it? And if DB had the same charge cap restrictions would that constrain the ability to consider direct investment, infrastructure etc.

DB and DC investment strategies are fundamentally different. And don't forget new contributions to any open scheme (outside of the public sector) are invested in DC. It's right that we should focus on this. Given the significant DC consolidation predicted in the next five years I suspect that scale in DC will become the norm giving rise to more investment options for trustees going forward.

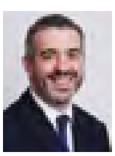
Salvus Master Trust MD Graham Peacock

DC investment strategies are behind DB investment strategies in a number of ways.
 Firstly, the tools available in DC are less sophisticated than in DB. This will fix in time as the volume of DC assets increase – making it financially attractive to managers to spend time developing more sophisticated DC funds. Secondly, the risks in DB are well understood and so it's possible to model solutions to manage them. The risks in DC are not well understood (because less intellectual power has been put into them to date and because the DC landscape was changed so dramatically by freedom and choice – meaning we have no reliable evidence to base design on) and so it's less possible to model solutions to manage them.

Thirdly, employers (the sponsors of DB) have focused on the risks their DB schemes present to the corporate balance sheet and pushed fiduciaries and their service providers to be more sophisticated in the way they manage them. This same pressure hasn't been brought to bear in DC (because employers have no direct financial risk and members have too little influence).

Finally, the fiduciaries in DC have been fairly slow to react to what innovation there has been and also, even now, to the impact of freedom and choice.

PTL managing director Richard Butcher



There are a number of aspects of DC investment approaches that would benefit from modernisation. First, an acceptance that off the shelf glidepaths for DC cannot meet the needs of the highly diverse range of employers and workforces that exist in the UK. No DB scheme would accept that a single generic glidepath or journey plan would meet its needs, so nor should this be satisfactory in DC. One size does not fit all.

Secondly, we would like to see more weight given to the 'investment budget' against the 'administration budget' in terms of the charge cap on DC defaults. At the moment DC schemes don't have access to the same realm of opportunities that exists in DB. Reassessing where the charge cap budget is spent and placing the same amount of scrutiny on non-investment elements as on investment costs could result in better economies. This in turn could then be used to bring the same level of diversification to DC that exists in DB.

SEI Institutional DC managing director EMEA & Asia Steve Charlton

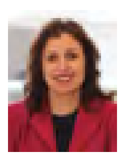
While it is right to consider ways to improve DC investment strategies, we sometimes run the risk of equating expense with sophistication. Ten years on from the collapse of Lehman Brothers we should remember that investments that are considered to be 'sophisticated' weren't always seen in such a positive light. That said, we agree that there are a number of areas that we can improve in DC for the benefit of members, with investment strategy being a key component.

Aon investment principal Chris Inman

DC has come to be seen as a capital accumulation product. However, pensions were originally created to provide an income to meet the costs of living after full-time employment, and related wages, cease. This link was clear to see in DB. Should DC not share the original income objective rather than focus on capital accumulation?

A clear objective and related risk limits creates a firm foundation for the design of the investment approach. If these parameters are not defined, how is the investment approach managed and assessed? Asset-only approaches might be interesting intellectual and/or marketing exercises but are of little value if members are unable to plan their finances effectively for life after full-time work.

Cardano head of defined contribution Ralph Frank



The UK DC market continues to face high levels of regulatory scrutiny. One key focus has rightly been 'value for money', with this leading to lower costs, a less demanding governance model and more conventional investment design. Value for money should be applauded but we must be wary of encouraging a race to the bottom. Put yourself in the shoes of the DC fiduciary who wants to do something better with the aim of delivering improved long-term outcomes for their employees.

Given that the majority of the DC schemes are using fairly standard products, more research is therefore required into what alternative strategies are available. Assuming an appropriate product or solution is found, additional communication is then needed to explain this to members.

This all adds to costs, potentially dissuading advisers from exploring new solutions from the outset. There is no argument that value for money should not remain a crucial focus for DC schemes, but it should not be at the expense of investment solutions that may result in better outcomes for members.

Schroders senior strategist, global DC, Sangita Chawla

Pensions history

Europe and pensions

"Continental Europeans do not always take kindly to special pleading on behalf of the UK because of its unique problems," wrote Howard Gracey, chairman of the Association of Consulting Actuaries in his annual report in the summer of 1992. Twenty-six years later as the government focuses on Brexit that view is still as relevant today as it was then.

He went onto explain that in many of those areas where actuaries exercise their profession, the UK has developed a sophisticated financial environment that often does not have a parallel elsewhere in the community. As a result, short-term financing methods employed in many of the continental countries, particularly in the development of pensions and savings plans, do not fit comfortably alongside the long-term funding approach adopted here.

He continued: "Naturally, legislation from the former does not readily carry over to the latter, and it is sometimes extremely difficult to explain the complexity of our system to the uninitiated, without appearing to be indulging in special pleading. The process of change and harmonisation, therefore, in areas of pensions and insurance in both state and private sectors will take many years to settle down.

"The removal of barriers to cross-border investment is gradually opening up financial markets, particularly giving wider scope to continental Europeans to take up opportunities hitherto not available to them. How far and how quickly they will spread their risks will be interesting to see.

"Certainly the concept of matching assets to liabilities to minimise risks is one in which the association's members have skills based upon years of experience. This market can but develop in the next few years."

For further details of Howard Gracey's report The Association of Consulting Actuaries' archive collection can be viewed on line at, http://www.pensionsarchive.org.uk/ click "Our Collections".

Written by Alan Herbert, chairman, The Pensions Archive Trust

Fun and games

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I know that face...

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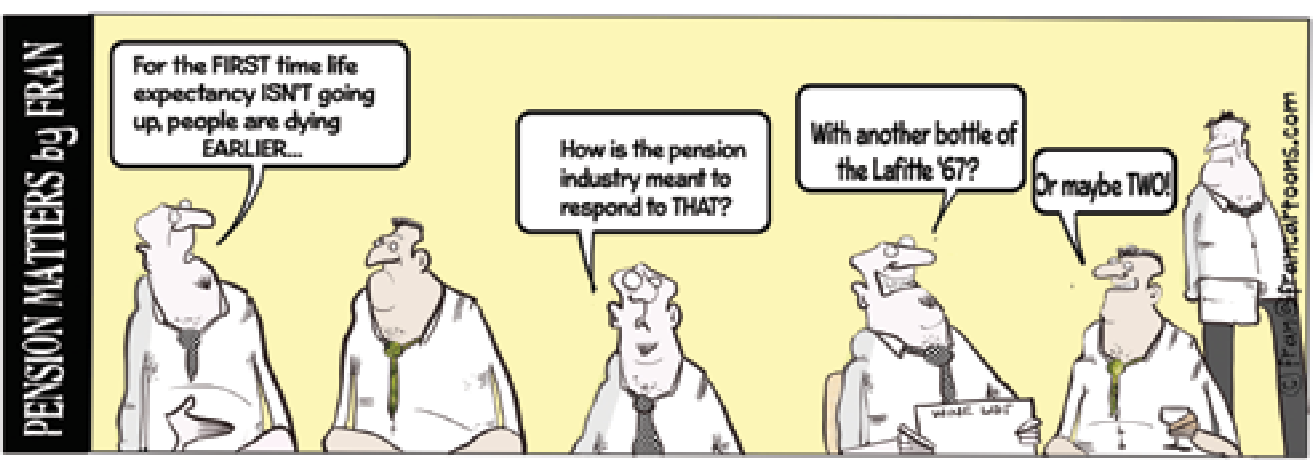

I know that face... Answer: Transparency Taskforce chairman John Howard

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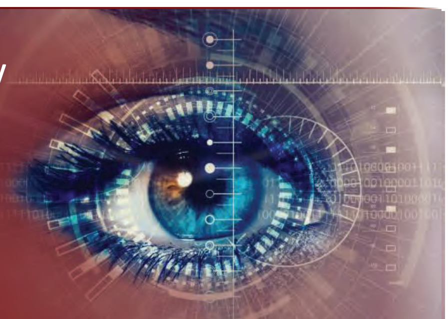

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