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May 2019

PENSIONS Age

The leading pensions magazine

Lay trustees: *Are lay trustees' days numbered?*

Diversity: *The efforts being taken to diversify the industry's workforce*

When push comes to shove...

...is there a problem with bullying on pension trustee boards?

Interview: Pensions Age Personality of the Year, ABI's Yvonne Braun

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Editorial Comment

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

'Bullying' is a strong, highly emotive word. And rightly so, with its use conjuring up images of devastation for victims and even potentially for perpetrators wrongly accused.

So it is not a word to be used lightly. But fear of the word and the impact of its use, even when it is the most appropriate one to use, only grants more power to those conducting the bullying.

Which is why I was surprised to find, while researching this month's cover feature *[page 36]* on trustee board bullying, a strong reluctance by many to use the term 'bullying', even when the examples provided clearly matched the parameters of abuse.

It turns out this is not unusual though, with the Advisory, Conciliation and Arbitration Service's research noting that, despite people going so far as to call its helpline, many were usually loathe to use the term 'bullying' to describe their problem.

Being fearful to even say the word adds a new level of complexity when resolving matters of potential bullying.

There is already the difficulty of there being no clear definition of bullying, not in law or in society generally. What one person may consider 'harmless banter' or 'voicing strong opinions' may be another person's 'harassment' or 'intimidation'.

Those too intimidated to question senior members of the trustee board (for example the trustee chair or a fellow trustee who is a workplace senior) may be surprised to find that their speaking out may be welcomed. Challenge and debate is a sign of effective trustee board governance – as long as it is conducted respectfully between individuals.

Many 'bullies' may genuinely not realise they are offending or upsetting someone. For some, the matter could be settled reasonably easily with a quick conversation – if only those involved could bring themselves to broach the subject.

If the behaviour clearly goes beyond that of misunderstanding to intentional bullying, it can only begin to be resolved by speaking out to someone to get help. Those feeling bullied, harassed or intimidated need to be aware of the power they hold in speaking up against unsatisfactory behaviour.

More self-awareness generally may also reduce instances of bullying. For example, by reflecting on whether something you said in jest may be offensive, or whether you tend to dominate the conversation when passionate about a subject. Or, to be brutally honest with yourself, whether you are sometimes too enamoured with your own self-importance or too set in your ways to be open to new ideas.

Monitoring and aiming to improve processes is an accepted part of reviewing businesses and boards; there's nothing wrong with taking that same approach to self-improvement.

The industry itself has been looking in the mirror and not liking all that it sees. As our feature on page 53 shows, great efforts are being made to broaden the composition of people in the sector beyond 'male, pale and stale'.

As a more diverse range of people enter the industry, with their breadth of experiences, so hopefully should instances of bullying, harassment and intimidation decline.

While there is likely to be more bullying occurring than is widely seen, as is the case with any sector, it's important to stress that the pensions industry does not appear to have any particular problem with bullying or harassment. But when the impact of bullying includes mental or even physical health issues for the person affected, along with the potential to negatively affect their career, one case of bullying is one case too many.

Taking the effort to put procedures in place – be it in the workplace, trustee board or internally – to minimise the risk of bullying can help attract the broad range of talented people we wish to have working in this vital, dynamic and caring industry. And that's something we can shout about.

Laura Blows, Editor

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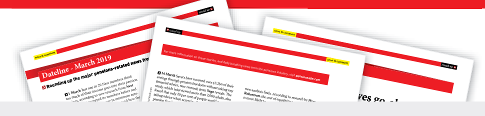

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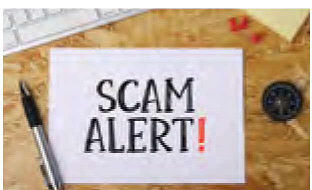
Dateline - April 2019

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



1 April One in 10 people over the age of 50 with a pension plan believe they have been approached by scammers attempting to access their savings, new research from **Succession Wealth** reveals. The survey also finds that, of those approached by scammers, one in 20 say that they lost money through pension scams.

2 April Workers saving into a pension through auto-enrolment (AE) could be £40,000 worse off in retirement due to the way minimum contributions are calculated, according to **Now Pensions**. Analysis by the firm finds that no saver paying the minimum contribution will be saving the full 8 per cent on their earnings, following this month's contribution rise. This is due to the lower qualifying earnings threshold increasing by £104, which means that the average employee will not receive AE minimum contributions on the first £6,136 of their earnings each year.

4 April The **government** has given the go ahead for the pensions dashboard, with the expectation that pension schemes can complete delivery within a three to four year window, it reveals. In its consultation response, Secretary of State for Work and Pensions, Amber Rudd, says the government will facilitate the delivery of the dashboard as a "key priority" and hopes to see an industry dashboard developed and tested this year. As a result, the government adds that it will be legislating "at the earliest opportunity" to compel providers to provide consumers' data. However, this legislation could potentially be held up by Brexit.

5 April The **Co-operative Group**'s overall pension scheme surplus increased by £306m year-on-year to £1,859m, as of 5 January 2019, according to its annual financial results report. It highlights the increase of the interest rate used to discount and value the pension scheme liabilities, from 2.6 per cent to 3 per cent, as the main reason for the greater surplus.

8 April Average income from workplace pension schemes has fallen since the introduction of pensions freedoms in April 2015, research from **Just Group** reveals. Just found that the average retirement income from occupational schemes in 2017/18 was £148 per week, the lowest figure for four years. This represents a £12 per week decline in comparison to the previous year, when the average weekly workplace pension income was £160.

9 April British Airways (BA) agrees an out-of-court settlement with the trustee directors of the Airways Pension Scheme (APS), which will now see its members' pensions increase match the annual increase in the retail price index (RPI). The agreement could mark the end of a six-year legal battle, which was due to be heard in the Supreme Court this year. As a result, members will receive a 'one-off lump sum' of 4.6 per cent this year for the period between 2013 to April 2019 where no discretionary increases were paid.

Chris Parypa Photography / Shutterstock.com

10 April Stagecoach is disqualified from bidding for three current UK rail franchise competitions over concerns it has failed to safeguard the risk of sections of the Railways Pension Scheme (RPS). The Department for Transport (DfT) informs the group that it has been formally excluded from the process, after submitting 'non-compliant bids' in relation to the pension schemes, which are thought to have a deficit of £5-6bn.

11 April The total deficit of **Tesco**'s pension schemes fell by £400m to £2,300m over the past year, as of 23 February 2019, according to its final financial results report. Its deficit reduction was primarily driven by "continued deficit contributions in addition to strong asset performance". Tesco's pension scheme deficit contributions increased from £245m to £266m during this period, while its assets rose from £13,235m to £15,054m.

12 April Over three-quarters (76 per cent) of workers in the UK were enrolled in occupational

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pension schemes in 2018, research from the **Office for National Statistics** (ONS) reveals. This represents a 3 percentage point increase from 2017, when 73 per cent of employees were in workplace schemes.

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15 April The **National Health Service** (NHS) is helping doctors avoid large tax bills by paying their contributions in cash, instead of directly into their retirement funds. According to a *Financial Times* report, around 10 NHS trusts have offered to pay cash contributions, an offer with is not normally possible under current NHS policy.

16 April Over 75 per cent of trustees would not ever consider moving to a commercial consolidator, according to a report by **Hymans Robertson**. However its report, *DB Consolidation: A year on*, notes that commercial consolidation is "quickly gaining momentum", with both the Pension SuperFund and Clara-Pensions already reporting prospective pipelines over the next year, representing a combined total around £20bn.

17 April The **Financial Conduct Authority** will be responsible for collecting £117.6m in levies for the new Money and Pensions Service (Maps), it reveals. The Department for Work and Pensions has requested that the regulator collects the money on behalf of Maps, which will be split between the body's key functions, including £25.9m for guidance, £55.8m for debt advice and £35.9m for pension guidance. As part of the £35.9m for pension guidance, Maps will allocate £4.7m for leading the provision of an industry-funded pensions dashboard.

18 April The **Department for Work and Pensions** delivers trustee guidance on how to equalise guaranteed minimum pensions, despite still considering changes to the conversion legislation.

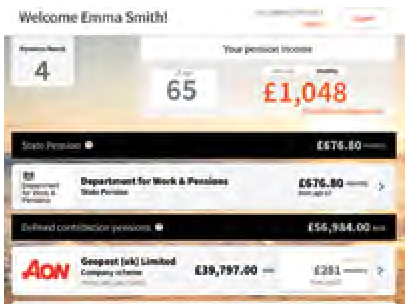
23 April The **firefighters union** in Jersey wins the latest legal battle with the States Employment Board (SEB), after the board failed to uphold an agreement designed to prevent emergency services from striking. Earlier in the month, the Royal Court ruled that the SEB must uphold the original decision of the Employment Tribunal in 2018, which ruled in favour of The Fire and Rescue Services Association (FRSA). The case will now proceed to arbitration.

24 April The **government** has not assessed the impact that pension credit changes for mixed-aged couples will have on poverty rates, despite claims that some couples could lose up to £7,000 a year. In a letter sent to Work and Pensions Committee chair Frank Field, Pensions Minister Guy Opperman admits that the government makes no forecast for poverty rates, meaning "the impact of the mixed age couples changes on poverty has therefore not been made".

25 April The **British Medical Association** (BMA) criticises the government for not listening to, or advancing, proposals it has suggested to address the 'perfect pensions storm' facing the National Health Service. Commenting on the latest in a series of letters addressed to Chancellor Philip Hammond, BMA chair, consultant committee, Dr Rob Harwood says: "Having written to the Chancellor several times on this matter, we are disappointed the government has neither listened to us or advanced any proposals of its own to address the urgent issues we highlight, or even to acknowledge the solutions we recommend."

29 April Almost all of the active members in the **Oxfordshire County Council Pension Fund** have received their 2017-18 annual benefit statement after The Pensions Regulator (TPR) intervened. TPR responded to a breach of law report it received in 2016 after no annual statements had been issued to scheme members in 2014-15. After action from the regulator, 50 per cent of statements were sent out in 2015-16 and 77 per cent in 2016-17. This figure finally increased to 99 per cent in 2017-18 after TPR made it clear that it was not satisfied with the rate of improvement.

News focus



Dashboard given green light but Queen's Speech delay could slow progress

Pensions Minister Guy Opperman has given the go ahead on the dashboard and said it will be legislating at the "earliest opportunity" for compulsion of data provision from providers

The government has given the go ahead for the pensions dashboard, with the expectation that pension schemes can complete delivery within three to four years.

In its consultation response, Secretary of State for Work and Pensions, Amber Rudd, said the government will facilitate the delivery of the dashboard as a "key priority" and hopes to see an industry dashboard developed and tested this year.

As a result, the government added that it will be legislating "at the earliest opportunity" to compel providers to provide consumers' data; a move that could potentially be held up by Brexit and a delayed Queen's Speech.

In a written statement, Rudd said: "Government remains committed to ensuring the individual is in control of their data and is conscious of the need for pace in order to deliver dashboards. Our priority is to ensure that information is presented securely, in a clear and simple format to support consumers with their retirement planning."

The government has also confirmed that state pension data will be included "as soon as possible", at a cost to the Department for Work and Pensions (DWP). Despite this, in an effort to limit costs, the DWP said schemes will only be required to give "basic information" at the outset, but did not confirm whether consumers will face costs for using the platform.

It stated: "Several respondents suggested that dashboard providers may wish to charge for premium or additional services. We are clear that consumers should not have to pay to access their own basic information; however, we are not against business models which charge for services beyond this."

Schemes will be compelled by a staged timeline to ensure strong member coverage, with the anticipation that large defined contribution schemes will be the first to onboard their members. From that outset, the DWP intends for users to find and view their pension pots, before reviewing initial functionality to take further steps on more complex developments.

It aims to set up a delivery group, made up of key industry stakeholders and accountable to the Single Financial Guidance Body (SFGB) – also known as the Money and Pensions Service (Maps) – by the end of the summer, which will help facilitate its improvements. The industry has been urged to deliver data on a voluntary basis to help inform delivery.

The government also reiterated its intention to enable multiple dashboards, supported by the same digital architecture, with the "same basic information from the same number of schemes".

"The priorities for the delivery group in 2019 are to create a clear strategy for delivering the digital architecture, design a robust governance and security framework and to work with industry on their readiness to provide data via dashboards," Rudd added. "Pensions dashboards can be an enabler for a real step-change across the sector to modernise the way it communicates with its members. They also provide an opportunity to build trust with consumers, ensuring they can access their pensions information in a convenient way."

The dashboard has been allocated £4.7m by Maps to lead the provision of

an industry-funded dashboard. It is part of Maps' £117.6m of funding collected by the Financial Conduct Authority by way of levies in the industry. The DWP has requested that the regulator collects the money on behalf of Maps, which will be split between the body's key functions, including £25.9m for guidance, £55.8m for debt advice and £35.9m for pension guidance – from which the £4.7m pension dashboard budget will be taken.

Pensions Minister Guy Opperman has said that the pensions dashboard would be one of three key parts of the upcoming pensions bill, alongside collective defined contribution schemes and legislation recommended in the defined benefit white paper.

However, Prime Minister Theresa May has announced that the Queen's Speech, which sets out the government's legislative programme, will be postponed until an EU withdrawal agreement has been made, potentially delaying the pensions bill.

Speaking to the Work and Pensions Select Committee in April, Opperman said that the pensions bill would "absolutely and 110 per cent" be included in the Queen's Speech.

Although this could result in a postponed pensions bill, Opperman also said that the DWP was in a "great state of readiness" and that "most things have been consulted on".

In response to the delay, a DWP spokesperson said: "We plan to bring forward a pensions bill at the earliest opportunity."

However, it is currently unclear what the delay will mean for the pensions bill. Royal London director of policy, Steve Webb, commented: "If the Queen's Speech is only delayed by a few weeks then this will probably have little consequence. But if there is a delay of many months, perhaps pending the outcome of the Brexit negotiations, this would start to have a real impact."

Despite the potential delay, the industry has welcomed the government's commitment to the dashboard, but has warned that if the dashboard is not comprehensive and widely publicised it could falter.

Sanlam UK head of commercial Elliott Silk stated: "As an industry, and so as not to lose the faith of the British public, we need to ensure that the information displayed is complete and correct. This will be an almighty task and it's important that all stakeholders pull together to ensure that this project is a success."

Selectapension director Peter Bradshaw highlighted the need for the government to extensively publicise the dashboard.

He said: "A pension dashboard is a great way of engaging people with their pension planning. To make it work, the government would need a huge public awareness campaign."

Despite the warnings, the general response was a positive one, with many expressing their excitement that this long-awaited project is becoming a reality.

The Association of British Insurers director of long-term savings and protection policy, Yvonne Braun, commented: "The digital retirement revolution is here at last. All the pieces are being put in place to deliver the easy access to retirement information everybody needs and that the pensions industry is so keen to deliver."

Written by Theo Andrew and Jack Gray

NEWS IN BRIEF

Legal and General Assurance Society has completed a c.£95m buy-in with the trustees of the 3i Group Pension Plan. The buy-in covers around 20 per cent of the plan's liabilities for pensions already in payment. Together with the buy-in policy purchased with Pension Insurance Corporation (PIC) in 2017, approximately 60 per cent of the plan's liabilities for pensions already in payment are now insured.

The **Pensions Management Institute** has announced Insight Investment as its 'insight partner' for de-risking investment strategies. The partnership will focus on the key considerations facing schemes around whether to buy-in or not to buy-in, which the PMI and Insight believe will be a crucial decision for many in 2019.

The **Action for Children Pension Fund** has appointed Trafalgar House to provide pensions administration services to the scheme. The scheme has more than 7,000 members and over £600m of assets. As part of the appointment, which took effect from 1 December 2018, Trafalgar House also transferred two members of the in-house pensions team, to ensure continuity of service to pension scheme members.

Pensions Infrastructure Platform (PiP) has acquired a portfolio of onshore wind farms from Scottish equity Partners (SEP) for £50m. The portfolio comprises of 64 turbines in locations across the UK and Ireland, it includes all five of the wind farms owned by SEP. The deal will boost PiP's current wind farm portfolio including Aura, the largest standalone feed in tariff wind portfolios in the UK and a 24-site wind portfolio, operated by and majority owned by EDF.

VIEW FROM TPR

Employer-related investments might not seem like the most important of topics for a pensions professional to be aware of.

But being ignorant of the rules on when a pension scheme can invest in its sponsoring employer or a linked business could lead to a large fine or even imprisonment for a trustee.

That is the situation Roger Bessent found himself in. The accountant from Lancashire, who ran a professional trustee firm, transferred more than £280,000 from the pension scheme he oversaw into businesses and bank accounts linked to him, presenting the transfers as loans in the scheme accounts.

Employer-related loans like this are completely forbidden under Section 40 of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, regardless of the amount involved. A pension scheme can never loan money or assets to its sponsoring employer.

Bessent is now in prison after he admitted in court that he had made the loans.

The employer-related investment rules are there to stop bosses using their pension schemes to prop up their businesses.

They aren't new, and advisers must be aware of them – we will take action where we suspect offences are being committed.

There is a statement about employer-related investments on our website. If you need any incentive to read it, breaking the rules can lead to a two-year jail sentence or a fine of up to £50,000.

TPR litigation lawyer Simon Broadhurst

The Pensions Regulator

Pension freedoms withdrawals top £25bn

The figures released by HMRC revealed that around £433m has been reclaimed back from the department as a result of over-taxation on pension freedom withdrawals

The total amount of pensions that has been flexibly withdrawn since the inception of pension freedoms has topped £25bn, HMRC has revealed.

In its latest quarterly statistics release, HMRC found that £2.06bn was withdrawn over Q1 2019, bringing the total amount drawn to £25.6bn since freedoms were introduced in Q2 2015. According to AJ Bell, average withdrawals per person were £7,254 in Q1 2019, down on the £7,644 on the previous year and significantly down on from £11,081 in Q1 2016.

The number of individuals withdrawing hit a record 284,000 over the first quarter, an increase of 20,000 on Q4 2018, the second highest quarter, but the amount withdrawn continued to fall.

Aegon pensions director, Steve Cameron, believes the new figures are encouraging. "This is encouraging as with greater flexibility comes greater responsibility and the freedoms have also introduced an increased risk," he said.

"Historically, retirees would receive a fixed income which would last them for the rest of their life, but now many are responsible for investing appropriately and ensuring they do not overspend, risking their pension pot running dry part-way through retirement."

Analysis by Hargreaves Lansdown also found that the average amount per payment was around £3,000, a 6 per cent decrease on the same quarter a year ago.

However, the figures also revealed that over-taxation of pension freedoms has led to a total of £433m being reclaimed from HMRC over the past four years. Around £31m was reclaimed in the first quarter of

2019, averaging around £2,500 per claim.

Those experiencing over-taxed pension freedom withdrawals will have to wait at least 12 months to get their money back or contact HMRC to reclaim their cash, which can affect anyone who takes a taxable pension freedoms payment from the age of 55, either via a drawdown or uncrystallised funds pension lump sum withdrawal.

Commenting, AJ Bell senior analyst, Tom Selby, said: "It is now over four years since the pension freedoms were introduced and HMRC's highly dubious tactic of hitting savers with an emergency tax charge on their first withdrawal still hasn't been formally consulted on or reviewed. Regardless of whether you think this is the right approach or not, this failure to properly consider a policy which impacts hundreds of thousands of savers is nothing short of a disgrace."

According to the figures, 12,600 official reclaim forms were completed in Q1 2019, however, the Financial Conduct Authority has previously suggested that around 150,000 of pensions are accessed for the first time each quarter, and are all at risk of being overtaxed. An individual making a £10,000 withdrawal with no other taxable income could be hit with an unexpected bill of £2,958.

Written by Theo Andrew

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VIEW FROM THE PLSA

April may be the end of the financial year, but it also ushered in the welcome news that the Work and Pensions Secretary had given the green light to the much anticipated pensions dashboard project.

What's clear is the project is well thought out and a scheme that the PLSA can offer its support to. It builds on the collaborative approach that was a hallmark of the 2016 prototype project, in which organisations from across the industry came together to prove the dashboards concept.

In the first instance, there should be a single non-commercial dashboard hosted by the Money and Pensions Service (Maps) and the state pension should be included as soon as possible.

We also recognise that there is likely to be demand for private sector dashboards that complement the publicly-provided service. However, they should not be available until a firm and rigorous consumer protection framework is in place.

It's a huge project to carry out and preparing the sector for connection to the pensions dashboard will be a major undertaking. To that end, the government is right to acknowledge that connecting the majority of schemes may take three or four years.

However, the government is also right to urge the pensions industry to act quickly – as in during 2019 – to enhance the quality of its data, and to support Maps in developing appropriate data standards. There is clearly a lot of fine-tuning to do, but that is what this period now is about. We look forward to working with Maps, the pensions industry and consumer groups to deliver this important project.

PLSA director of policy and research Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

'Not cost effective' to fix pensions tax relief anomaly - Hammond

It is estimated that around 1.75 million workers could be missing out on tax relief

The government has reiterated its position on the net pay anomaly, after it said that it is "not cost effective" to reform pensions tax relief, which could see workers miss out on up to £60m a year.

Responding to questions from the Treasury Committee, Chancellor Philip Hammond said that he is "not sighted to small detail", but that it would be a "challenge" to intervene in a cost-effective manner where it cannot be done automatically.

The anomaly stems from the difference between the income tax threshold, which recently rose to £12,500 a year, and the auto-enrolment threshold, which remained at £10,000. Savers earning less than the personal allowance will not be credited with tax relief.

Hammond told the committee: "I have to tell you that I am not sighted on the detail. The Economic Secretary *[John Glen]* is right that the challenge for us in anything around auto-enrolment or small-scale savings is to make an intervention cost effective where it cannot be done automatically, and you have already explained why it cannot be."

Royal London has estimated that roughly 1.75 million workers could be missing out on the tax relief, which can range from £35 to £720 a year.

According to the mutual insurer, around three-quarters of the workers are women in low-paid or part-time work.

The issue stems from workers whose employers have chosen a Group Personal Pension arrangement, which benefits from a relief at source method, while workers in most trust-based occupational schemes get no tax relief.

Last October, the government rejected calls from the Treasury Committee to fundamentally reform pensions tax relief after it said there was "no clear consensus" to do so.

Royal London director of policy, Steve Webb, said: "It is a scandal that so many low-paid and part-time workers are missing out on tax relief on their pension contributions. This is the group that most needs a boost to their pension savings.

"These new figures suggest that the scale of the problem is much bigger than previously thought. It is simply not good enough for ministers to say that it is not cost-effective to deal with this problem."

Written by Theo Andrew

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VIEW FROM THE ABI

When pension freedoms were announced, one of the key concerns raised was that in a nation that largely cannot afford professional advice, many consumers would struggle to make decisions about their new-found freedoms. By either withdrawing too much or investing inappropriately for their needs, it was feared that consumers could easily lose out.

Following the FCA's Retirement Outcomes Review, the picture has become clearer. Consumers frequently choose investments that don't match their behaviour, or don't make a decision at all, with a worrying proportion ending up in cash but investing for the long term. This led the regulator to mandate the creation of ready-made investment pathways to help match consumers with investments that suit their objectives.

By giving consumers a simple choice architecture to follow and mandating cost disclosures, the FCA is laying the groundwork for a more competitive market, which protects consumers who would otherwise struggle to make a decision. Consumers should be able to compare like with like on digital tools provided by the Money and Pensions Service or the wider market. We expect these new duties will be applied to the occupational sector in due course.

Alongside initiatives like the mid-life MOT and the pensions dashboard, investment pathways can help create a retirement market that is suitable for the modern world.

ABI policy adviser, long-term savings policy, Matt Burrell

Govt calls in 'big three' providers for 'urgent talks' over transfer times

There are currently a number of industry initiatives to help shorten the time it takes to transfer occupational pension schemes

The government is calling in the 'big three' pension providers for "urgent talks" after accusations that they have not done enough to improve pension transfer times.

The Department for Work and Pensions (DWP) said that it wanted the third-party providers to "better explain what was going on" and that it would not rule out future legislation aimed at reducing transfer times, currently allowing for six months, if the industry appears to be dragging its feet.

It comes after the Pensions Minster Guy Opperman wrote to the third-party providers, Aon, Mercer and Willis Towers Watson at the end of last year, asking them to address the issue. The firms have been accused of being "flippant in their response".

A DWP spokesperson said: "The Pensions Minister wrote to firms urging action on slow transfer times. We're stepping up our calls for progress and bringing those providers in for urgent talks so they can better explain what is going on. We're clear that we aren't ruling out future legislation to force a reduction in transfer times."

The industry is undertaking a number of initiatives to help shorten the time to complete an occupational pension transfer. One of which is Star, the government-backed initiative that aims to bring pension transfer times to just three weeks.

However, none of the 'big three' providers are currently signed up. Aon said they are "considering" whether or not to join the initiative when approached for comment.

In April, pensions technology firm Origo published for the first time the average pension cash transfer performance of the providers that use its digital transfer service. PensionBee chief executive officer, Romi Savova, hopes this will encourage the large providers to sign up to the electronic transfer platform.

"If you look at the landscape of who has joined Origo, you'll find it is the vast majority of Financial Conduct Authority regulated providers are already on the system, as well as providers who have undergone or undergoing master trust authorisation," she said.

"It is really the third-party administrators like WTW or Aon and Mercer, where the administration isn't regulated by anyone, that seems to have fallen through the cracks. We see no reason that if Nest and The People's Pension have adopted these standards, why these other large companies shouldn't do the same."

Sovova has previously said that Star was "dangerously deluding" legislators and regulators over the industry's ability to improve transfer times across the industry and called on the DWP to "step up to the plate".

When asked what it was doing to improve transfer times, a Mercer spokesperson said: "Following Marsh and McLennan Companies' recent acquisition of JLT, Mercer has gained a number of exciting technologies, including Origo connectivity to add to our suite of client offerings.

"As to be expected this soon after closure of the transaction, we are still in the assessment phase of the integration. Mercer remains committed to providing great customer service and accelerating transfers wherever possible."

Willis Towers Watson did not respond to *Pensions Age*'s request for comment.

Written by Theo Andrew

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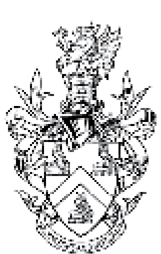
VIEW FROM THE PMI



The government proposes that the pensions dashboard will be ready in three to four years' time – and that's the unsophisticated version.

The non-commercial pension dashboard will be under the control of the newly appointed Money and Pension Service (Maps), with the service being responsible for the delivery group.

In 2019, schemes will aim to prepare their data, the industry will work alongside the delivery group to agree open standards for data transfer, it will offer data voluntarily to inform the delivery group and FCA authorised firms may begin to create and test their own dashboards.

"Why will it take so long to make the dashboards available? Is dirty data the only reason?"

There are many good aspects to the DWP's consultation response, such as not waiting for state pension data before going ahead. But, why will it take so long to make the dashboards available? Is dirty data the only reason?

Data is being cleaned for many reasons such as GMP reconciliations, scheme transitions, preparing for buyout, and data standards regulations. We know providers have been working on what the pensions dashboard would look like, so surely, we have a good idea of what data is required – particularly for an early simplistic version of the dashboard.

Let's hope the industry gets on with it sooner rather than later, as the dashboard has been a long time coming.

PMI president Lesley Carline

Hammond seeks to make NHS pensions 'more flexible'

In other pension fund news, Debenhams' pension schemes have entered into a PPF assessment after the retailer's company voluntary arrangement and Tesco has reduced its DB deficit

Chancellor Philip Hammond is in talks to make public service pension arrangements "more flexible", in order to find a possible solution to the NHS pension crisis, he has said.

Responding to the Treasury Committee on 26 April, Hammond said that it would be difficult to solve the problem through more tax relief, but a solution could be found by offering more flexibility around the overall remuneration package.

The problem stems from the introduction of the tapered annual allowance in April 2016, and the lowering of the tax relief threshold from £1.25m to £1m, which has meant that some GPs are penalised for continuing to pay into their pension fund. The British Medical Association (BMA) has criticised the government for not listening to, or advancing, proposals it has suggested to address the "perfect pensions storm" facing the NHS.

Hammond told the committee: "Clearly, we cannot say that we will treat NHS staff differently from everybody else, just because we are the employer in that case. Where there is a case that can legitimately be made is that, in the private sector, there is often more flexibility around the overall remuneration package.

"Someone who finds that pension contributions are highly taxed, because they are facing a tapered annual allowance, with a private sector employer will often be able to arrange to change to their remuneration package, so they get more pay and less pension contribution."

He said that he "was engaged in a discussion on these issues with the Health Secretary *[Matt Hancock]*", adding that he hoped to find a solution to introduce "additional flexibility" to NHS pension schemes.

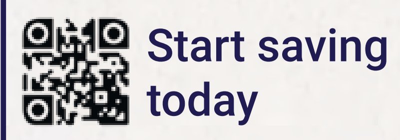
In other news, Debenhams' pension schemes will "automatically" enter into a Pension Protection Fund (PPF) assessment period, following the proposed company voluntary agreements (CVA). Scheme members will receive the usual payments while they enter the assessment period, according to the PPF.

The firm has published the details to two CVAs after administrators were appointed to Debenhams on 9 April after they failed to reach an agreement with lenders beyond the £200m agreed at the end of March.

A spokesperson for the Debenhams' pension schemes said: "The trustees are aware that a CVA has now been proposed. The CVA does not seek to compromise or reduce the employer's obligations to the schemes. As a result of the proposal of the CVA, the schemes will automatically enter into a PPF assessment period, until such a point that the CVA is approved by the company's creditors."

And finally, the total deficit of Tesco's pension schemes fell by £400m to £2,300m over the past year, as of 23 February 2019, according to its final financial results report. Its deficit reduction was primarily driven by "continued deficit contributions in addition to strong asset performance".

Written by Theo Andrew and Jack Gray



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Appointments, mandates and moves

Sylvia Pozezanac

Mercer UK has appointed Sylvia Pozezanac as its new chief executive officer, a role she will begin in May 2019 replacing the incumbent CEO Fiona Dunsire.

Pozezanac, whose appointment is subject to UK regulatory approval, will report to David Anderson, president of Mercer's international region. As UK CEO, she will partner with the UK leadership team to advance Mercer's position across its heath, wealth and career businesses.

She joins from Prudential Financial, where she spent six years in its New York office, most recently as senior managing director for Prudential Client Management. Previously, Pozezanac spent 26 years at Willis Towers Watson in several leadership roles within its retirement and insurance businesses. Commenting on her appointment, Pozezanac said: "I am delighted to be joining Mercer at such an exciting time for clients and colleagues. I look forward to working with teams across the UK, including the leadership team, to grow the business."

The **Action for Children Pension Fund** has appointed Trafalgar House to provide its pensions administration services.

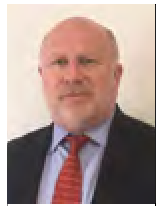
As part of the appointment, which took effect from 1 December 2018, Trafalgar House also transferred two members of the in-house pensions team to ensure continuity of service to pension scheme members.

Action for Childen pensions manager, Nick Wood, said: "We found the transition process an efficient and well-managed exercise that has got the relationship off to a great start."

Dawn Harris

Independent trustee services provider **PTL** has named Dawn Harris as its COO.

In this newly-created role, Harris brings in over 20 years' experience in finance and has an extensive track record of working with CEOs across a variety of businesses. She has experience in operations and strategic planning and hopes she can bring a "new perspective to the team". The group has "grown exponentially" over the past year", PTL said.


Andrew Cole

BESTrustees has announced the appointment of Andrew Cole as a trustee executive.

Cole joined BESTrustees in early April 2019 and has experience as pension scheme trustee and investment sub-committee chair. Prior to joining BESTrustees, Cole worked at Credit Agricole Corporate & Investment Bank. He has experience overseeing a large investment portfolio.

Adrian Taylor

Local Pensions Partnership (LPP) has announced the appointment of Adrian Taylor as chief financial officer (CFO).

Taylor has been interim CFO at LPP since November 2018 and now takes on the role permanently. Prior to joining LPP, he was interim finance director UK at Edmond de Rothschild after being partner and finance director at Killik & Co. He also held the role of CFO at Sarasin & Partners.

XPS Pensions Group has appointed Snehal Shah as its chief financial officer (CFO) and executive director of its board, effective 27 June 2019.

Shah brings over 20 years of experience in finance, investor relations, M&A execution and post-deal integration to his new role. Early in his career, he spent 10 years with PwC, before joining Ladbrokes, where he held a number of roles, including finance director and head of investor relations. Since leaving Ladbrokes, Shah has held senior interim finance roles at Parkdean Resorts Ltd and Countrywide plc.

Rodney Cook

Just Group has announced that its group CEO and board member, Rodney Cook, is to step down from his roles.

He steps down with immediate effect, although has agreed to continue in Just Group's employment until 30 June. The company will now look for a new CEO, with group deputy CEO and interim group CFO, David Richardson, assuming the role of interim group CEO until a successor has been appointed.

Commenting, Cook said: "It has been an honour to lead this group over the past nine years and I am exceptionally proud of providing our many customers with security and peace of mind in later life. Having delivered Just Group's response to the prudential regulatory changes, I feel it's now the right time for me to retire from the role as CEO."

Just Group chairman, Chris Gibson-Smith, added: "I would like to thank Rodney personally and on behalf of the board for his leadership of the group over the past nine years."

Market commentary: Global equities

Global equities appears to be continuing an upward march as we enter May, recovering after a drop at the end of 2018. Kingswood head of research, Rupert Thompson, notes that equity markets have recovered further, with global equities rising 1.8 per cent in sterling terms, which he says is helped in part by the pound falling back below $1.30.

The gains leave global equities down just 1 per cent below last year's high – in the case of the US they have been testing their previous high. However, he notes that the UK and Europe are still 5-6 per cent off last year's peak, with emerging markets down 7 per cent and Japan 11 per cent.

Still, despite the market's rally, risky assets seem to be a no-go for institutional investors, according to State Street Associates, managing director and head of investor behaviour research, Rajeev Bhargava. "While equity markets demonstrated strong performance in Q1, institutional investors continue to show limited change in their risk appetite and have remained largely reluctant to jump back into risky assets," he explains.

"In April, US markets have continued to rise as concerns about the economic and earnings outlook started to diminish. It appears, however, that neither the rebound in equity prices nor the Federal Reserve's dovish shift are sufficient drivers to bring investors' confidence into the risk-seeking territory," Investor Confidence Index developer Kenneth Froot says.

So can global equities continue their uptick? "Short term, we are sceptical that equities can continue their upward march for much longer," Thompson says, "given the size of the bounce already seen. The recent strengthening of the dollar and bounce in oil prices are also potential headwinds. We are more comfortable on the longer term outlook for equities than before. Consequently, we are increasing our equity exposure a little, although our positioning overall will remain on the cautious side."

A challenge, says HSBC Global Asset Management deputy CIO, equities, Vis Nayar, is that with many focused on de-risking, pension funds face concentration risk when it comes to equity allocations. "Some UK pension funds are over-reliant on passive investments to provide their exposure to markets rather than having a diversified range of approaches," he says.

"In light of the market turbulence in 2018, investors should be mindful of the increased concentration risk of traditional passive benchmarks given current market dynamics, and consider whether multi-factor strategies can provide a better outcome when investing in equities. By providing diversified exposure to multiple equity factors, each of which can potentially improve risk-adjusted returns, multi-factor strategies offer the potential for higher returns within a core equity allocation."

Written by Natalie Tuck

VIEW FROM THE AMNT

'Price is what you pay; value is what you get', Warren Buffett

In 2017 Lionel Messi, world footballer of the year, had a salary of $53 million; with experience an NHS nurse team leader could earn annually a maximum of £34,876.

Should the excitement of a game at Barcelona's Nou Camp bring on a heart attack, who would you want to help, Messi or a trained nurse? In our society there is a disconnection between what we value and the price we are prepared to pay.

In the corporate world the concept of value is being challenged, particularly in finance following the report by the European Banking Authority that showed 3,500 bankers in the UK are paid more than €1 million annually.

Chief executives of companies are also coming under fire in terms of both their annual pay and at the level of pension contributions being provided. FTSE 100 chief executives receive pension contributions amounting to 25-51 per cent of their salary. In comparison, their workers average around 10 per cent contribution. In certain companies pensioners suffer from clawback, termed by those specific companies as 'State Abatement,' believing the use of the term somehow ameliorates a discredited practice.

"Chief executives of companies are also coming under fire"

As trustees of pension funds we need to be conscious of the value we are obtaining, and the value we are creating and whether the price worth paying!

AMNT member Stephen Fallowell

VIEW FROM THE PPI

The FCA consultation on investment pathways in non-advised drawdown has recently come to an end, potentially signalling the next stage in the development of solutions for the millions of people who will in future face complex decisions when choosing how to access their defined contribution pensions.

This is a very important issue. Auto-enrolment in workplace pensions has vastly increased the numbers of people saving for retirement. But the inertia that is so powerful in getting people into pension saving today is less helpful when it comes to using those savings to support retirement.

Overall, engagement with pensions remains low, and people may not be in a position to make informed decisions about how to use their pension pots by the time that they reach retirement. Pre-designed investment pathways represent an opportunity to solve this. But in designing pathways, it is essential to keep in mind the aim of the pathway – a pre-determined pathway is not aiming to get the best possible outcome for each individual, but rather avoid the worst outcomes. As such, investment pathways should work alongside other systems that can help people engage with their pensions, such as pensions dashboards.

For example, automatic enrolment will see growing numbers of people with multiple pension pots on retirement. Investment pathways – especially those that use carefully designed choice architecture – need be based on a holistic view of all of the retirement assets that individuals and households have available. Savers may well be best served using different pathways for different pots, but they need to know this is an option!

PPI director Chris Curry

Soapbox: Industry must unite over transfers

We need to talk about transfers.

Over the past month there has been a flurry of activity regarding how the industry can best improve the time it takes to transfer from one pension provider to another.

Current legislation stipulates that you have six months to complete a transfer between occupational pension schemes, while actual average times range from around 50 to 55 days. This is obviously too long.

There is clear industry consensus that transfer times must be shortened to provide consumers with the best experience. After all, consumers can already transfer funds between bank accounts at the click of a button. However, the industry is pulling in different directions over a possible solution.

On the one side, you have the government-backed initiative Star, tasked with developing a framework specifying three weeks for an occupational pension transfer through legislative change that opponents say is simply too long.

The task force has been accused of being another 'pay-to-play industry body' that will take years to implement legislation without any assurances that the 'big players' will sign up.

Taken face value this looks to be true, but in reality, Star is only as strong as the members that sign up to it, so why not pull together to make it work? And besides, legislation will take a long time to be put in place anyway.

In a brazen attempt to nudge the industry towards improving times, Origo published the transfer times of 27 out of the 100 firms that use its digital transfer service, hoping that by taking the first step towards transparency, others will follow.

What the results did show is that there is another way the industry can go. The overall average ceding transfer time was 9.3 days, ranging from five days for Canada Life and NFU Mutual to 29 days for Hargreaves Lansdown – surprisingly quick in my eyes and a great demonstration of the power technology can have – but which route do we now take?

One commentator described the current situation to me as like going to church, those inside the chapel all want to go in the same direction, it is those outside who really need to see the light.

This refers to the 'big three' of Mercer, Willis Towers Watson and Aon.

It is clear they are singing from a different hymn sheet to the rest of the industry when it comes to being held accountable for the improvement of pension transfer times.

The Department for Work and Pensions has rightly been on the case of these big players, who have repeatedly shrugged off invitations to improve and have failed to offer any reasonable explanation on why this is the case.

Having asked the large third-party administrators myself, I understand just how tricky it is to get a straight answer. 'We are thinking about joining Star', they say, with no explanation as to what it is exactly that is stopping them.

Having heard first-hand accounts where it is simply too lengthy a time for members, who could then be at risk of a substantial financial loss as a result, it is something we must work together to improve.

If the Star initiative really is the best possible chance the industry has of changing legislation, forcing firms to do something about the time it takes to transfer between schemes, then the industry had a responsibility to back it. There is strength in numbers.

Written by Theo Andrew

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VIEW FROM THE SPP

Earlier this year saw news of a £100 billion increase in pension deficits. Not because of Brexit, but as a result of the new funding code from The Pensions Regulator.

KPMG estimates that the average pension scheme could see its deficit rise by 50 per cent (giving the increase of £100 billion). In addition, deficit contributions could double, reflecting the intention for higher deficits to be met more quickly than today.

The government and The Pensions Regulator have talked about a 'comply or explain' regime for the new code, designed to strengthen DB funding. Either your actuarial valuation meets a published minimum standard or the trustees need to explain why.

The regulator's not just focused on technical provisions. The 'comply' framework will include a long-term target, contributions and investment risk. The regulator is realistic though, expecting a significant minority of schemes to go down the 'explain' route.

In early March this year, the regulator issued its annual funding statement. The statement, trailed the regulator's expectations around prudence in DB funding, paying off deficits quickly, and fair treatment for pension schemes.

In particular, the regulator is unhappy with situations where pension deficits are paid off slowly while shareholders receive significant dividends. Strong employers are told to have higher funding targets and short deficit payment plans – with the average of seven years described as "too long".

What's clear is 'comply' or 'explain', we can expect a significant shift towards less risk, higher company contributions and more formal downside protections, and contingent funding arrangements for schemes.

SPP council member James Riley

In my opinion

On pensioners paying extra tax

"It turns out that pensioners are paying more than £4bn extra in tax on their pensions than the government previously admitted. It is clear that pensioners who have worked hard and saved hard are putting billions extra back into the economy through the tax on their pensions."

Royal London director of policy, Steve Webb

On the over-taxation of pension freedoms

"It is now over four years since the pension freedoms were introduced and HMRC's highly dubious tactic of hitting savers with an emergency tax charge on their first withdrawal still hasn't been formally consulted on or reviewed. Regardless of whether you think this is the right approach or not, this failure to properly consider a policy, which impacts hundreds of thousands of savers, is nothing short of a disgrace."

AJ Bell senior analyst, Tom Selby

On the DWP calling in the 'big three' for talks on transfer times

"The Pensions Minister wrote to firms urging action on slow transfer times. We're stepping up our calls for progress and bringing those providers in for urgent talks so they can better explain what is going on. We're clear that we aren't ruling out future legislation to force a reduction in transfer times."

A DWP spokesperson

On making NHS pensions more flexible

"There is a case that can legitimately be made is that, in the private sector, there is often more flexibility around the overall remuneration package. Someone who finds that pension contributions are highly taxed, because they are facing a tapered annual allowance, with a private sector employer will often be able to arrange to change to their remuneration package, so they get more pay and less pension contribution."

Chancellor of the Exchequer, Philip Hammond

On the government delivering guidance on GMP equalisation

"The DWP guidance provides some reassurance about what the legislation permits and lists the main steps that schemes need to take. However, schemes will be reluctant to commit to conversion until they know the potential tax consequences for members."

Willis Towers Watson senior director, Richard Akroyd

On two schemes being fined for non-compliance over chair's statements

"Annual chair's statements are an essential way to show pension savers that their scheme is being properly governed and will deliver the retirement benefits they are promised. That's why it is the law for trustees to produce chair's statements and make sure they contain all of the necessary information. We are pleased that the judges in these cases agreed that under legislation, a mandatory penalty applies."

The Pensions Regulator executive director of frontline regulation, Nicola Parish

Financial wellness at-retirement

Jonathan Watts-Lay explains how creating financial wellness at-retirement is an essential element in the workplace

The concept of financial wellbeing in the workplace is firmly on the agenda, with one of the most fundamental elements being retirement preparation. Helping employees to achieve financial security in retirement is no longer just a 'nice-to-have' offering but is an essential element in the workplace.

This is because we are seeing increasing evidence that leaving employees to their own devices at-retirement can lead to them making costly mistakes.

A big part of this is inefficient tax planning. Our poll revealed that 91 per cent of employers believed that employees do not understand the tax rules when withdrawing pension funds, and research by an insurance provider found that over a quarter (27 per cent) of individuals over the age of 55 didn't realise that they have to pay tax on at least some of their pension income. This lack of awareness perhaps suggests why the Office for Budget Responsibility reported that the revenues raised from the pension freedoms last year will be 50 per cent more than forecast and indicates that individuals are often paying tax when it could have been avoided.

Another major risk employees face is the devastating effects of being scammed out of their retirement savings, with the FCA revealing last year that victims of pension fraud lost £91,000 on average each.

An important part of supporting employees with their financial wellbeing at-retirement is making sure that they understand their options, as well as any associated risks. Many employers are now realising that providing support around this is vital but aren't quite sure where to start. We have therefore listed five tips on what can be done to help.

Tips to help employers support their employees at-retirement

1) Educate employees on their retirement income options – Employees who have a defined contribution (DC) pension will need to decide how to access their income, whether that is through income drawdown, buying an annuity or taking it as a cash lump sum, or indeed a combination of these. Yet our survey found that only 22 per cent of employers believe their employees understand all of the retirement income options available at-retirement. Financial education can help employees understand these options.

2) Help employees to understand the tax rules – Our latest poll results show that 91 per cent of employers believe that employees do not understand the tax rules when withdrawing money from their pension. This means that employees could find themselves paying more tax than they need to if they don't plan carefully. Providing support around this is crucial.

3) Encourage employees to shop around – The FCA found that those who go into income drawdown could increase their annual income by 13 per cent by switching from a higher cost provider to a lower cost provider. It is of paramount importance that employees shop around and do as much research as possible to ensure they select a retirement option that best suits their needs. This means finding a solution that enables them to access the right amount of cash as and when they want it, and for as long as they need it.

4) Switch employees on to the dangers of pension scams – The Pensions Administration Standards Association estimated last year that pension savers have lost more than £1 billion to scams. So, whatever employees are planning to do with their retirement savings, it's really important that they understand the risk of scams and how to protect themselves. They're best checking whether any company that they're planning to use is registered with the Financial Conduct Authority (FCA) *[https://register.fca.org.uk/]* first and also that they don't appear on the FCA's ScamSmart website, which includes a warning list of companies operating without authorisation or running scams *[www.fca.org.uk/scamsmart]*. Regulated financial advice can also provide additional protection measures.

5) Empower employees to take action – Many workplaces now offer support to their employees in terms of financial education, guidance and regulated financial advice, so that employees are informed and empowered at-retirement. This can help ensure that they are able to make better choices, which will lead to better outcomes for all.

Written by Jonathan Watts-Lay, director, WEALTH at work

In association with

VIEW FROM THE ACA

We welcomed DWP's GMP conversion guidance as a first step in the journey to achieving not only GMP equalisation but the ultimate goal of genuine simplification of the DB pensions landscape. Such simplification would bring significant benefits for members, employers and trustees. We note that there is a need for significantly more detail before work can begin in earnest.

We agree that there is much sense in progressing GMP conversion and simplification in tandem with GMP rectification. However, we are concerned that the 'final' GMP reconciliation process itself has been running since 2014, with many schemes still awaiting final confirmation of member records from HMRC. It is imperative that HMRC devotes adequate resources to this project – at the same time as addressing the tax implications of GMP equalisation – so that the pensions industry can build on the welcome conversion guidance.

DWP's guidance provides useful clarification that conversion can apply to all those in a scheme where there is a GMP element, and to all benefits accrued between 1978 and 1997. We believe that the adoption of a model scheme structure to which benefits could be converted will offer many schemes the opportunity to achieve radical efficiencies. The resulting cost reductions in the ongoing administration, actuarial calculations and necessary legal advice will, we expect, be material. Risk management options will also improve, with better accuracy in hedging and potentially accelerated access to affordable buyouts.

ACA chair Jenny Condron

Diary: May 2019 and beyond

Long-term savings conference: Mapping the customer journey

3 June 2019
ABI, One America Square, 17 Crosswall, London, EC3N 2LB

Gather insight from different perspectives on how industry practice and regulatory settings can evolve to help customers to make more informed decisions about their retirement needs. Take away a deeper understanding of the future of the pension dashboard, including the implementation model, access to information and presentation of pensions information.
https://www.abi.org.uk/events/long-term-savings-conference-mapping-the-customer-journey2/

PMI Trustee Workbench

6 June 2019
Leonardo Royal Hotel London City, 8-14 Cooper's Row, London, EC3N 2BQ

Topics of discussion include; deficit reduction, DB to DC transfers, moving forward in uncertain times, buy-in and buyout, how not to fall foul of The Pensions Ombudsman, AI, ESG investment (TBC) and greater powers for TPR. The event is open to pension scheme managers, trustees, policy advisers, consultants, lawyers and many more.
For more information, visit:
https://www.pensions-pmi.org.uk/events/trustee-seminar/

Pensions Age Northern Conference

13 June 2019
Leeds Marriot Hotel

The Pensions Age Northern Conference offers pension funds and those working in the UK pensions space the tools and information that they need to get it right at a time when managing pension schemes is more challenging than it has ever been. Now in its fourth successful year, this one-day conference is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals.
For more information, visit:
http://www.pensionsage.com/northernconference/

European Pensions Conference 2019

20 June 2019
London Marriott Hotel Grosvenor Square

The inaugural European Pensions Conference, which comes from the team behind *European Pensions* magazine and the European Pensions Awards, aims to tackle some of the key challenges facing Europe's pension schemes today, while highlighting many of the successes in this dynamic sector. At this one-day event, meet key players in the European pensions arena, including pension funds, associations, advisers and providers.
For more information, visit:
http://www.europeanpensions.net/conference/index.php

Visit www.pensionsage.com for more diary listings

Month in numbers

£25.6bn

The total amount of pensions that has been flexibly withdrawn since the inception of pension freedoms has topped £25bn, HMRC has revealed. In its latest quarterly statistics release, HMRC found that £2.06bn was withdrawn over Q1 2019, bringing the total amount drawn to £25.6bn since freedoms were introduced in Q2 2015.
The number of individuals withdrawing hit a record 284,000 over the first quarter of the year, an increase of 20,000 on Q4 2018, the second highest quarter, but the amount withdrawn has continued to fall.

60%

Over 60 per cent of people chose to increase their monthly pension payments when their employer agreed to match the increases, analysis from Hargreaves Lansdown has found.

12,000

Around 12,000 pension savers have breached their lifetime allowance protections since 2006 when the modern system of pension tax allowances was introduced, a freedom of information (FOI) request by AJ Bell has discovered.

Master trust governance in a consolidating world

Gregg McClymont considers how the master trust authorisation process is improving governance

The overall level of master trust governance is improving – but we think advisers should still expect to see big differences in standards between schemes.

The regulatory environment has become much more stringent. It started with the 2013 report by the Office of Fair Trading into the quality of UK workplace pension schemes – and as it continues it is prompting change in the single employer scheme sector, with the number of pension schemes with 12 to 5,000 members contracting sharply since 2010.

We expect tighter regulation to continue. Lesley Titcomb, former chief executive of The Pensions Regulator (TPR), recently argued that the organisation should become a rule maker, like the Financial Conduct Authority (FCA). And the new authorisation regime for master trusts has set a new bar for regulation in occupational pensions.

This is prompting pension providers and advisers to think further about the relationship between scale, governance and consolidation. The evidence suggests members benefit from scale and governance: work on the latter by Keith Ambachtsheer, a leading expert in this field, suggests a "governance premium" of 100-300 basis points. Additionally, larger schemes tend to achieve better investment returns and they also seem to do so at lower cost with no observable scale diseconomies.

We've long focused on strong governance at The People's Pension. And that, coupled with our scale, enables us to return profits to members. Our current annual management charge of 0.5 per cent is already competitive and makes it simple for members to see the costs involved. But that's not enough for us. So, from summer 2019, we'll be switching to a banded pricing structure which sees member charges fall as pots grow, with any savings over £50,000 attracting just a 0.2 per cent annual management charge.

More broadly, DC governance remains a mixed bag. Some very large master trusts and single employer schemes are well governed but there are many schemes with less effective governance – and this seems partly related to scale.

Evidence gathered for TPR's 21st Century Trustee programme shows that key governance requirements are more likely to be present in large schemes than in small schemes and are particularly likely to be present in master trusts. Whereas 100 per cent of master trust trustees met requirements for knowledge and understanding in 2018, just 31 per cent of small single employer scheme trustees did so. The pattern repeats across the other governance requirements: default fund design, value for members assessment and processing of core financial transactions.

The sector needs to consider whether there are enough trustees out there to adequately govern the 2,180 remaining schemes with over 12 members. And whether it's possible to adequately resource the governance of smaller schemes, especially where most schemes are subject to the 75 basis point charge cap.

While scale enables good governance, being big doesn't mean a scheme will automatically be well run. We suggest that schemes and policymakers consider both issues simultaneously.

But that's where master trust authorisation comes in. It's making master trusts think about and document the way they're run. It's also establishing a model for how occupational schemes could be regulated. We don't think TPR will just cut and paste its approach on master trust regulation into other sectors but the experience of master trust authorisation is likely to shape TPR's thinking in these areas.

Master trust authorisation is intended to mark schemes out as fit to carry on business. It will establish a standard that will be increasingly seen as 'entry level' and, once they've caught their breath, trustees will start demonstrating that their scheme governance exceeds this level. That will create useful points of differentiation that advisers can assess.

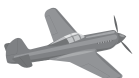
It's likely that DWP and TPR will continue encouraging consolidation into larger schemes. The challenge for policy makers though, is ensuring that those choosing to consolidate can identify well run schemes in which to consolidate. Master trust authorisation will make this easier but it's not the be all and end all in the governance debate.

If you would like to discuss master trust governance or any other aspect of The People's Pension, please contact us on 01293 586666 option 1.

Written by B&CE director of policy and external affairs, Gregg McClymont

In association with

Officer Carline



Pensions Management Institute president Lesley Carline sits down with Theo Andrew to discuss her proudest achievements, stripping a gun blindfolded and why you should 'get a grip of your knickers'

What is your pensions career CV?

I fell into pensions, like a lot of people. I wanted to move from sales into marketing but the bank I worked for wouldn't allow it. The only job I could find in Chester with sales and marketing in the title was at HS Administration. I did my marketing qualifications before joining pensions software company Lynx Heywood, where I studied and passed my pensions exams, becoming APMI.

Feeling brave I moved south to work in sales and client relationship management at Profound, before taking sometime out to do a round the world trip (slightly more fun than pensions!).

On my return, I joined Investment Solutions concentrating on DC. There I became involved with the PMI, helping write the first DC module for the Advanced Diploma in Retirement Provision (ADRP) and joining the Eastern Regime's council.

Next, onto Paymaster, looking at strategy for the public sector services division. Not being keen on the public sector I went back to DC with Threadneedle – another stint working on DC trust and contract-based schemes. I also became a fellow on the PMI council, where I became increasingly involved with the qualifications team.

But my heart was in admin, and I moved back up north to head up the sales and marketing for RPMI.

In 2012, I took the opportunity to work with Kim Gubler who has been a long-standing friend. Joining Kim and Hayley at KGC has been immense fun, hard work and satisfying. It helps that we have the same values and vision, and that they also like cake!

So, after 27 years in the industry, I'm PMI president, which amazes me, let alone everyone else, and I'm a business owner. How did that happen….

What other areas have you worked in and what roles have you held prior to joining the pensions industry?

Being from an RAF family, I followed in my dad's footsteps and joined up. I did the officer training, running around in combats, learnt how to handle a rifle and order people about. I could strip a gun blindfolded and put it back together. I then worked for a chemical company and a bank.

What is your greatest work achievement so far?

Being elected PMI president.

What do you still wish to achieve?

I have another year as PMI president. I'd like to think I can help it achieve its aims. We are halfway through a five-year plan and I'd like to see it achieve its aim and if I can be a part of that, fabulous!

What is your biggest regret within your career?

I'd like to say nothing as there is no point but I think I regret not being braver – not believing in myself, which probably hampered me along the way.

Excluding your current role, what would be your dream job (in or out of pensions)?

I would love to be a weather presenter like Carol Kirkwood on *BBC Breakfast*. When I lived in the United States, I used to watch the weather channels and was fascinated by the diversity. But I would have to study meteorology to understand it all.

As a child, what did you wish to be when you grew up?

I had some weird desire to be a maths teacher. I was the first in my class to be able to recite my timestable. Unfortunately, as I progressed through school, maths became some dark art at which I no longer excelled.

What do you like to do in your spare time?

I like to walk the dogs, preferably on a beach but we live miles from one, so fields and woods or by the river is good. I also have a love/hate relationship with exercise. I do classes such as body combat, fat burner and metafit – going to which ever one I can fit into my work schedule.

Any particular skills or party tricks?

I'm quite good at baking and at KGC I always turn up at our board meetings with cake. We take turns in choosing a recipe. I've also been known to take cake into the PMI for treats. I also have a boring but hidden skill – I can crochet.

Who would be your ideal dinner party guests?

John Simpson or Jeremy Bowen – what lives they've led and stories to tell.

Do you have a particular phrase or quote that inspires you?

One from my mother: "Get a grip of your knickers." Translated from Northern speak – woman up and get on with it.

Written by Theo Andrew

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Pensions Age Spring Conference 2019

Delegates attending this year's Pensions Age Spring Conference were treated to some topical and in-depth discussions from industry-wide commentators. With presentations from the regulator, research bodies, consultants and asset managers, there was certainly a lot to take away from the day

This year's annual spring conference was held on the eve of what should have been the UK's official Brexit day. Luckily for Brexit, the delay meant that it was the *Pensions Age* conference that dominated the news agenda, meaning delegates wouldn't have to miss out on the latest updates from Brussels.

Held in the chic surroundings of Hilton Tower Bridge hotel, guests from across the industry were able to enjoy a range of engaging speakers, with their fingers on the pulse of the latest industry developments.

From policymakers to economic analysts, attendees heard of the leaps that have been made in the industry over the past few years, but also how much further they needed to go.

Riding the regs

Kicking off the action was The Pensions Regulator (TPR) head of policy, Fiona Frobisher, who delivered a comprehensive update on the regulator's latest work in the defined benefit landscape.

She conveyed a stark warning to the "significant minority" of small scheme trustees who are failing to engage with the regulator's 21st Century Trusteeship initiative, adding that while engagement has been positive on the whole, there are still some smaller schemes that just "completely disengage" when it comes to education on governance.

The regulator launched its 21st Century Trusteeship programme last year, giving trustees clearer guidance on managing issues their schemes could be facing.

"We have had good engagement, lots of people have read the information and people who have read it found it useful, but that's the people who have engaged with it," Frobisher said.

"We have done a lot of follow up and … we can also show that there is a significant minority of schemes that just don't engage at all, who have looked at it and said 'that's not for me, that can't possibly be for me' and just completely disengage."

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She added that there is only so far it can go when it comes to an educative approach, and would consider the possibility of making it mandatory for all trustee boards to have one professional trustee in place.

For trustees whose schemes may be facing trouble, Pension Protection Fund (PPF) panel manager, Helen Beckinsale, spoke to delegates about what contingency planning they can do, emphasising that it's not all doom and gloom for schemes whose sponsor is on the brink of insolvency.

Beckinsale said that there is "still work to do for trustees" to increase their skills in good governance, highlighting the work of the trustees of the Kodak Pension Plan No.2, which had been working with the lifeboat for eight months, adding that "there are benefits, not only to us, but also for the trustees to make sure the member experience is as seamless as it could possibly be".

She added: "When I am working with DB trustees, I am not always expecting schemes to enter the PPF, it's not always doom and gloom when we enter the door; what we are just trying to do is make that transition smoother and sell our story of good governance.

"We have had some large high street brands who have done some effective contingency planning with us, they have taken time and spent a little bit of money to prepare their scheme for the PPF, but at the moment they just don't need it."

Following on from the need for pension scheme trustees to take contingency planning seriously, Barnett Waddingham partner, Oliver McCulloch, said schemes must start considering their long-term goals, particularly as it will become a legal requirement.

McCulloch added that projected assets for the DB universe is close to its peak, with the tipping point projected to be in six or seven years, and from that point on "we are on the long road to the end".

With this in mind, he suggested that schemes must decide what they want to achieve, whether its full buyout or self-sufficiency, as well as how to get there, through setting a time horizon, investment strategy, levels of employer support and assessing different member options.

Following on the theme from a defined contribution perspective, Atlas Master Trust head of clients proposition and strategy, Anish Rav, asked delegates to consider what their core drivers were to get optimum member outcomes.

Rav discussed the "great strides" that had been made by TPR in ensuring good governance of pension schemes, and talked of a pension dividend of up to 1-2 per cent per annum through the proper implementation of good governance.

"How many of you have thought about the governance revolution? If you can get it right and move the focus from protection to enhancement, then that can drive better member outcomes," he said.

"Missing out on the 1-2 per cent dividend can have quite a big impact on your funding levels or member outcomes."

On the issue of member outcomes, Institute for Fiscal Studies (IFS) deputy director, Carl Emmerson, shared the lessons that the pensions industry has so far learnt from the introduction of automatic enrolment.

Members who have been auto-enrolled have seen a 36 per cent rise in their saving levels, an increase seen across pretty much all demographics, according to Emmerson.

Interestingly, the IFS found that re-enrolment, the process that sees staff re-enrolled back into a pension scheme every three years having opted outed originally, has no 'uptick' in enrolled members, "they will choose to opt out again" he said.

Emmerson added that the government needs to speed up and go further with planned changes to auto-enrolment, currently expected in the mid-2020s.

Delegates were then treated to a DC panel session, where they heard Department for Work and Pensions senior policy manager, David Farrar, deliver an update on the numerous consultations in the pipeline, including some of the intricacies around defined contribution investment into illiquid assets.

CCTL client director, Andy Cheseldine, told attendees of the importance of trustees defining their governance objectives. "You have to decide what it is you're going to measure" to achieve good value for members, he said.

Willis Towers Watson
sponsors

Adding to Cheseldine's points, PTL director, Colin Richardson, discussed the challenges of keeping business as usual while also undertaking master trust authorisation, and that employers should be focusing on assessing the governance of master trusts as a priority.

Tech driving engagement

When it comes to technology as a driver for engagement and communication, Ferrier Pearce executive chairman Nigel Ferrier gave an eye-opening demonstration of its prototype savings app for the 'Uber Generation'.

Ferrier 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, Ferrier concluded.

Also advocating the role technology has to play in pensions, Willis Towers Watson director, Gareth Strange, added that the industry is a "long way behind the curve". The group have published research on how technology can be better harnessed across the industry.

"Technology plays a key role in everything we do, but if you're sat at a trustee board meeting, very rarely do you see technology being a key part of that discussion," Strange said.

Investing responsibly

After some detailed discussion around the regulation and governance of pension schemes, attention turned to what investments pension schemes should be considering.

This year there was a particular focus on sustainable investing, with M&G fund manager, Maria Municchi, explaining its ethos towards ethical investing, using the UN's Sustainable Development Goals as a measure.

Municchi talked about the $2.5 billion funding needed through private investment in order to meet the UN's goals, and how using M&G's multi-asset approach to environmental, social and governance (ESG) investing will help meet these goals.

Also hot on the sustainability theme was Natixis Investment Managers (Mirova) portfolio manager, Manuel Coeslier, bringing attention to the two degree investing initiative.

Through its philosophy of combining fund performance and ESG financial performance the asset manager hopes it can go a long way to contributing towards a zero emissions world by 2050. Coeslier added that their strategy was affordable for DC schemes as well as DB.

Elsewhere in the investment landscape, Credit Suisse Asset Management senior portfolio manager, Lukas Haas, discussed the opportunities associated with the supply chain finance market, and how it has generated interest from pension schemes over the past few months.

Haas added how, using Credit Suisse's strategy, schemes can unlock capital in the market tied up in unpaid invoices, mainly in small- and medium-sized enterprises.

Also helping schemes make the tricky decision of which investment strategy to take was Just chief investment officer, Gareth Collard and head of DB development, Rob Mechem.

Kicking off proceedings, Collard explained the group's liability investment driven (LDI) strategy, matching schemes' cashflow considerations by using fixed interest, inflation and currency hedging diversifying risk, as well as looking into ESG considerations.

Following this, Mechem then discussed a DB scheme's journey to de-risking. He urged trustees to consider what risks are facing the scheme, and how they are going to deal with them. He added that schemes looking to achieve a buyout or buy-in should commit to the transaction, clean their data and "engage with insurers early on in the process".

CQS head of long only multi-asset credit, Craig Scordellis, told delegates of the challenges facing funds in the credit markets, and how in an era of geopolitical uncertainty, funds must evolve to tackle these issues.

Not to be totally downbeat, Scordellis told schemes that "strong returns in the credit markets are available", but to avoid defaults in order to achieve the best yields.

For schemes unsure on how to select their investment manager, SEI Investments global head of equity portfolio management, Jason Collins, discussed what schemes should be assessing.

Collins said that past performance was not necessarily a guarantee, and that schemes should not be sold on this. He suggested taking a forward-looking view, as it is "important to embrace short-term variability for long-term success".

Written by Theo Andrew

Stepping into the spotlight

Laura Blows speaks to Laird R. Landmann, group managing director and co-director of fixed income at US-based TCW, about the opportunities TCW can provide for UK pension funds

TCW is a name that isn't yet that well-known within the UK institutional investment space. Please could you provide me with an overview of the company?
We are an active manager; we try to let our returns speak for themselves, but sometimes in this day and age that's not always enough to enable you to be well known.

We have great Unconstrained Fixed Income and Income products – which you're used to thinking of as Absolute Return Bond or Multi-Asset Credit products. We have a long and established track record in securitised products where there have been very, very strong returns in that space, as well as in Emerging Markets Debt (EMD).

We have an EMD team that goes back around 30 years and were pioneers in using corporate credit for enhanced returns in the emerging market space. Everyone talks about that today, but really it has only been the past five or six years that we've had many peers actually join us in that space.

To clarify, are all those solutions available to the UK pension fund market?
Those are all available to the UK pension fund market. We manage close to $2 billion for UK clients. We've been in the market here quietly for probably about six or seven years, working with these different products. We'll probably bring other solutions like long duration and more total return-oriented bond strategies as well.

TCW also has an equity side. We're managing largely US-centric value and growth portfolios, but we also have speciality portfolios like Artificial Intelligence, ESG, Healthcare and REIT portfolios, which can be of interest to the pension schemes.

How are these funds actually run? Tell me about the team behind them and their investment styles?
The first point to make is we're not everything to everybody. That's become, I think, very in vogue in the institutional market, to have supermarkets and one-stop shops. We don't believe active management works that way. Active

management needs true expertise and true competitive advantages to deliver returns above the benchmark. So, we focus on the markets that we're good at, that we're known for. We don't try to provide a universal solution. We use a team approach across all these areas, and it's all active management.

None of our assets are indexing or enhanced indexing, it's all oriented towards providing a better risk return profile for our clients. In fixed income, which is the majority of assets at TCW, we use an approach where we have portfolio managers who have worked together for about 25-30 years in some cases and we use that experience to set risk budgets for different areas of the market where we think there's good value. We have about 60 people working on the team, and their job is to find inefficiencies in that market.

When you have millions and millions of securities, there's a better probability that there's going to be inefficiencies in those marketplaces. That's where the active value can really come from.

Our process is to use these experts to find good value and basically open risk budgets up when valuations are cheap and close them down when valuations are expensive to protect the investors.

I'd be interested to know what your experienced team are seeing at the moment, as best as they can predict the future, within the fixed income investment market?

We can't predict the future but the one thing about fixed income is it has this wonderful mean-reverting quality to it that equity markets don't have. Their wonderful quality is, they just tend to go up over time. In fixed income, the mean reversion term tends to dominate. So, we look at where valuations have come from since 2008, how far we've come, how much stimulus has been put into the economies. We're 10 years into the cycle. And one certainty is that cycles don't go on forever.

So, I think it's a good time for people to be conservative in terms of their risk allocations in fixed income. Even if you think the world is going to be a very fine place for the next five years – we disagree with that, but if you do, by all means buy equities but don't buy a fixed income security that is near the peak of its valuation, just to have it mean revert on you and go back towards the low end. Buy an equity where the drift term moving higher over time tends to dominate the return pattern.

But from our perspective in fixed income, both valuation and where we are in the cycle argue for a conservative posture. Liquidity seems good on the surface in our markets, but a change that's occurred over the past 12-15 years is that we've gone from having broker-dealers having about 10 per cent of the overall balance on their balance sheets, and that's money that's used to move risk from one player to another, to about half a per cent. So, there's very little risk capital that's poised to provide a transfer of risk in fixed income, and when that comes to pass, you'll see big price swings in fixed income. And not the good type of price swings.

So, we're very conservative. We think there are places in the market that have value today, particularly securitised products in the US. The old non-agency mortgage backed securities that were such a problem 10-12 years ago are all moving to par. You're likely to get 6-7 per cent returns from that market. That's going to be very attractive for our return profile going forward.

The next cycle's going to bring about opportunities in traditional corporate credit as that market begins to trade down. There are also bright spots in EMD right now.

Has your market predictions influenced your desire to no longer fly under the radar within the UK institutional investment space?

We are very well-known by consultants because they know our numbers and consultants are very numbers-driven at the end of the day, but I think that you have to be known generally now. So, we're just trying to raise our profile a little bit within the UK market so that people understand that there is a specific active management expertise that TCW can provide.

We're not going to do your asset allocation for you and provide you with indexing and active management together. No, we focus on what we're good at and we just want to get the word out there that if you're looking for absolute return bond, multi-asset credit, EMD, or securitised products, we've done a good job with that for our clients.

Finally, to summarise, could you let me know why you feel UK pension funds should be looking at TCW?

Well, I certainly don't think all UK pension funds need to look at TCW, but just the ones that want to diversify their asset mix and get active management expertise. We are focused on delivering a good risk return profile, which we can do for pension schemes in the absolute return bond space, in the multi-asset credit space and in securitised products where we have a long, proven track record which differentiates us from many of our peers on the market place, as well as emerging market debt.

I think that all those different areas provide a good product mix. We're not going to provide a one-stop shop for those pension schemes looking for that, but for those who realise you have to specialise to find the right level of alpha and the right risk return, we think they will be attracted when they lift up the cover and look closely at TCW.

To view this video interview in full, please visit pensionsage.com

Written by Laura Blows

In association with TCW

European Pensions

CONFERENCES

EUROPEAN PENSIONS CONFERENCE

20 June 2019 London Marriott Hotel, Grosvenor Square

The inaugural European Pensions Conference aims to tackle some of the key challenges facing Europe's pension schemes today, while also highlighting many of the successes that have taken place in the European pensions space.

At this interactive one-day event, key players in the European pensions arena - to include pension funds, associations, advisers and providers - will come together with a series of presentations and panel discussions to discuss and reflect on:

- **Investment strategies and asset allocation trends in play across Europe's leading pension funds**
- **Risk management and de-risking solutions that Europe's pension funds can and should be utilising**
- **The increasing role that ESG and sustainability is playing in the European arena**
- **The cross-border pensions debate and how this is developing**
- **A spotlight on innovation and which pension funds are leading the way in this area**

and much more.

For all the latest news and updates about the conference follow us @EuropeanPension #EPannual

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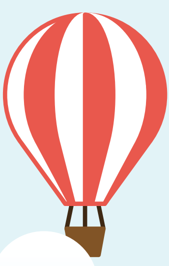

The event will be attended by European pension fund managers, trustees, CIOs, advisers and providers and is a must-attend forum for anyone involved in running pension funds in any country in Europe, as well as a great opportunity to learn from and network with some of the key representatives from across the European pensions space.

SPEAKERS/PANELLISTS

- **Peter Borgdorff**
  Director,
  Pensioenfonds Zorg en Welzijn
- **Robert Branagh**
  Managing Director,
  London Pension Fund Authority
- **Francesco Briganti**
  Secretary General,
  CBBA-Europe (chair for the day)
- **Théodore Economou**
  Chair, Investment Committee,
  Lombard Odier Pension Fund
- **Evalinde Eelens**
  Supervisory Board Member
  Delta Lloyd corporate pension scheme; Executive Board Member, BPF Particuliere Beveiliging; Board Member, BPF Schilders
- **Snædís Ögn Flosadóttir**
  Managing Director, FÍA and LSBÍ Pension Funds
- **George Graham**
  Fund Director,
  South Yorkshire Pensions Authority
- **Sandra Hack**
  Principal Financial Stability Expert,
  EIOPA
- **Julien Halfon**
  Head of Pension Solutions,
  BNP Paribas Asset Management
- **Martin Hedensiö**
  Head of Communications and Sustainability, Alecta
- **Ruud Kleynen**
  Chairman of the Supervisory Board, Stichting Pensioenfonds Medisch Specialisten
- **Luigi Leo**
  Member of the Investment Committee,
  Stichting Pensioenfonds Vopak
- **Hillevi Mannonen**
  CRO, Chief Actuary,
  Ilmarinen
- **Peter Meier**
  Board and Investment Committee Member, SV Stiftungen (Pension Plan of SV Group); Investment Committee Member, Pensionskasse der Saurer-Unternehmungen
- **Piet Molenaar**
  Chairman of the Board at Pensionfund Lloyd's Register Nederland and board member/investment committee member of PNO Media
- **Jerry Moriarty**
  CEO, Irish Association of Pension Funds (IAPF)
- **Kevin O'Boyle**
  Head of Pensions, BT Group
- **Tim Reay**
  Treasurer, International Employee Benefits Association (IEBA)
- **Christophe Schaer**
  Chief Investment Strategist,
  Compenswiss
- **Jens van Egmond**
  CFA, Board Member (trustee) and Member of the Investment Committee, Stichting Sportfondsen Pensioenfonds
- **Theo van Kessel**
  Director Business Improvement & Change, APG
- **Giovanni Vergani**
  BoD member,
  Cassa Pensione Città di Lugano

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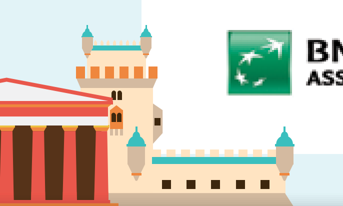


Follow the event on Twitter: @EuropeanPension #EPannual

Summary
- Bullying on pension trustee boards most often takes the form of intimidation, with those with less experience frightened to speak up, or trustees reluctant to contradict those with more 'power', such as a senior colleague on the board or the trustee chair.
- The chair should be the first port of call if a trustee is experiencing bullying. If unable to do so, turning to another senior scheme person, whistleblowing to TPR or seeking legal advice are other options.
- Implementing codes of conduct and undertaking regular board assessments can help minimise the risk of bullying.

When push comes to shove...

... is there a problem with bullying on pension trustee boards? Laura Blows finds out

Workplace bullying is rarely discussed, yet it affects almost a third of the UK workforce – 29 per cent, or 9.1 million people, a 2015 YouGov poll for the Trades Union Congress (TUC) found.

There is no suggestion that pension trustee boards face any unique problems with bullying. But there is also no reason why they would be an exception.

While the more extreme end of bullying – such as threatened or actual

violence and name calling – is clearly recognisable as abuse, beyond that it can be more difficult and subjective to determine what constitutes bullying.

Slater and Gordon's specialist employment lawyer, Clare Armstrong, states that there is no legal definition of bullying and that it can come in lots of different forms. "The classic bully is someone who calls you names and says nasty things, but in a workplace context it can mean excluding someone, overlooking them for work opportunities, unfairly criticising them or undermining or belittling them and their performance in front of others."

'Classic' bullying is rare these days, Professional Trustee Standards Working Group (PTSWG) and Association of Professional Pension Trustees council member Robert Thomas says. He states that he has not seen any case of it and that a PTSWG colleague has only observed one example of bullying during a 40-year career, in the 1980s by an overbearing trustee chairman.

However, Thomas adds that when PTSWG was drawing up its Professional Trustee Standards, The Pensions Regulator (TPR) warned the group that what they see may not be representative of all pension trustees – "they were conscious that there is some bad practice out there".

BESTrustees chairman Alan Pickering notes that "pension schemes are centred around a number of relationships and within those is the possibility of bullying, either based upon intellectual or status asymmetry".

Power imbalance

According to former Chartered Insurance Institute senior pensions examiner, David Trenner, the risk of bullying or intimidation on pension trustee boards is a "very difficult issue and has not been helped by the introduction of member-nominated trustees (MNTs)".

"Inevitably, MNTs cannot be expected to argue against people who, outside the trustee meeting, are their bosses," he explains.

However, Pickering feels it is not MNTs that suffer from this problem. He says: "One thing folk may find a paradox is when you have a trustee board comprised of employer- and member-nominated representatives, it is often easier for the MNT to stand up to status-based bullying than is the case with the company-nominated trustees."

Armstrong states that employees who are also occupational pension scheme trustees have special protection from being treated detrimentally or dismissed by their employer for performing any of their functions as a trustee. "This could protect an employee who feels they are being bullied because of decisions they have made or opinions expressed in performance of that role," she adds.

Despite this, Association of Member-Nominated Trustees (AMNT) co-chair David Weeks acknowledges that a MNT could feel intimidated by a trustee board dominated by senior company figures. He has not seen this be a problem for AMNT members, "but our members have voluntarily joined us, a forum in which to exchange views, so we feature the more self-confident end of the trade".

Boisterous or bullying?

Drawing the line between 'self confidence', 'being passionate about giving opinions' and 'intimidation' can be a difficult one.

"You are bound to have strong personalities when you have matters of high finance that can have a major impact on a company's profitability being discussed," Pickering says. "There is bound to be an opportunity for people to lose their temper. Whether you call that bullying or not is a different matter, but the outcome is the same."

Bullying and harassment at work

According to gov.uk, bullying and harassment is behaviour that makes someone feel intimidated or offended. Bullying itself is not against the law but harassment can be under the Equality Act 2010, when it relates to disability, age, sex, race, sexual orientation, pregnancy or maternity leave, marriage or civil partnership, gender reassignment and religion or belief. The negative behaviour counts whether it occurs face-to-face, in writing, on the phone, online or via email. It also does not have to be directed at an individual – for instance colleagues making discriminatory jokes within earshot can still count as harassment.

Examples of bullying or harassment include spreading verbal abuse, malicious rumours, unfair treatment, picking on/undermining someone and denying someone training or promotion.

A 2015 YouGov poll for the TUC found that 29 per cent of people have been victims of workplace bullying – equalling to 9.1 million of the UK workforce.

The Advisory, Conciliation and Arbitrary Service (Acas) states that workplace bullying costs the UK economy £18 billion a year through sickness-related absences, staff turnover and reduction of productivity.

Research from the Chartered Institute of Personnel and Development found 43 per cent of workplace bullying occurred by a line manager, 38 per cent from colleagues and 20 per cent from a senior manager or chief executive.

Employers are responsible for preventing bullying and harassment, and liable for any suffered by employees, gov.uk states.

Citizens Advice's website notes that the self-employed and volunteers are not covered by the Equality Act 2010.

However, in December 2018 the government announced a new Code of Practice to tackle sexual harassment at work and announced that it will consult on whether volunteers and interns need additional protections.

The expectation as to what is acceptable behaviour has changed in recent years, Weeks points out. "In terms of culture, there may be some people used to a more robust debating style than others," he explains. "Some of our members, for example, have backgrounds in local authorities, the cut and thrust of debate in the council chamber meaning they are used to strong opinions. But if you are trying to attract people *[onto the pension trustee board]* who are not used to that sort of thing, there may be some mismatch.

"I have certainly been in meetings where it turns out people have very different expectations as to the way to behave. Older people on the board may call it 'robust debate'; younger people may say it verges on intimidation."

Weeks says he would not describe this as 'bullying', but more 'entrenched management'; the attitude of 'this is the way we've always run the scheme and we don't like outside interference'. "Being dyed in the wool instead of conscious bullying," he explains.

"While you can sometimes encounter boards with forceful personalities, I would be careful not to class this as bullying," Hymans Robertson senior consultant Laura Andrikopoulos agrees. "A certain level of robust challenge and debate on a board is entirely healthy and contributes to quality conversation, which is a keystone of good governance."

Smart Pension's independent chair of trustees Andy Cheseldine says trustee boards should use the cognitive diversity it possesses to arrive at better decisions for everyone. "But if one side

Bullying within the pensions industry

"Over the years I have experienced both bullying and harassment," a source tells *Pensions Age*. "One example of bullying occurred when I worked for a large industry-wide scheme that was very male dominated. I sent a proposal to a prospect that had a spelling mistake in it. One of the directors emailed me copying in all the other directors, lambasting me, calling me stupid and unprofessional – basically calling me an airhead – raging about protocols for checking etc. I explained I had followed procedures and it had been signed off to go. I'm dyslexic, so I do get things checked, but his abuse continued. In the end the chairman stepped in and HR did ask if I wanted to make a complaint but it was too little too late. This was not the first time the CFO had tried to bully me but it was the most public humiliation."

2018 saw PensionBee CEO Romi Savova publish an open letter to Aegon's CEO, accusing it of 'corporate bullying' its mutual customers and PensionBee itself, as a relative newcomer to the industry, by making it slow and difficult for Aegon's customers to transfer to PensionBee. In response, an Aegon spokesperson told *Pensions Age*: "The matter occurred some time ago and was resolved successfully through an agreement with both companies' management."

Arguably representing a personal manifestation of bullying culture with regards to pensions is Philip Green. The BHS pensions scandal of 2016, with its sponsor and trustee board relationship, could be a prime example of how being neglected is a form of bullying that can have devastating consequences.

Fear of speaking up against workplace superiors on the pension trustee board is another, and one that is currently being debated regarding Green. His recent proposal to half the sponsor pension payments into the Acadia pension scheme has drawn concern, partly due to half of the trustees on the pension board also being Arcadia employees.

Former Pensions Minister Baroness Ros Altmann goes as far as to accuse Green of bullying and intimidation over the BHS debacle, stating that she was "bombarded with texts" from Green who was "furious" about TPR's investigation into the BHS pension scheme.

Staying within politics, last year Shadow Minister for Work and Pensions Debbie Abrahams was removed from Labour's frontbench following allegations of bullying by an unspecified number of staff.

Meanwhile, the #MeToo movement, highlighting sexual harassment in the workplace, has broadly bypassed the pensions industry. But instances have been known to occur at industry events. For instance, a female source tells *Pensions Age* of being groped at an industry event, and at another event, of being pushed against a wall to be kissed against her will, only for a male colleague to pass by and pause, enabling her to escape.

Pensions Age has also been informed of ageism in the industry, with one source recalling verbal comments from a senior person at a trade body in response to the suggestion that younger people (under 35 years old) speak at its annual conference. "We have to think of our reputation, we can't embarrass ourselves" and "what if *[the younger person]* were to collapse gibbering on stage" were the responses, along with "best if *[younger attendees]* watch *[the conference]* from their desks, I mean unless they can put a very convincing argument to their boss's boss's boss about why they should be allowed to attend".

keeps 'winning' because they are older/ more senior/louder, decisions will be suboptimal in the long run," he warns.

According to Cheseldine, it is the role of the chair to prevent this occurring and to ensure discussions remain amicable but honest.

The Pensions and Lifetime Savings Association (PLSA) agrees that it is the chair's role to foster the board's culture and conduct, ensuring that it is supportive and inclusive.

TPR also expects the trustee chair to ensure everyone has the opportunity to contribute their view and tackle anything that amounts to bullying, its spokesperson says.

Chair problems

So, the chair should be the first port of call for any trustee feeling bullied or intimidated. However, sometimes the chair itself is the problem.

For instance, Weeks notes that a typical intimidation situation may be where the chair and scheme administrator together have been used to running the scheme and not being questioned, so they try to give the MNT the brush-off.

Chair intimidation was discussed in a break-out session at the recent PMI annual conference and was described by an audience member as "quite a big issue".

They gave the example of a trustee chair who was the only professional on the board. "The other trustees virtually said nothing for the whole meeting. The chair wasn't trying to dominate but it was almost like they were so intimidated by the fact they didn't feel they knew enough. Despite being well-educated and having good positions in the company, they just didn't seem to have that confidence."

Another audience member agreed that it is usually the most vocal person who is confident enough to speak out whose opinion the board gets 'anchored' to. "Generally that person in my experience is the chair, or someone quite senior on the board, so there is that lack of challenge."

To counter this, an audience member, who is a trustee chair, recommended letting those people who are not particularly confident on the trustee board speak first.

"If an adviser recommends something, you *[as chair]* do not give your opinion first as otherwise you anchor the discussion as to whether it is a good idea, and you do not want someone to just agree with what the chair says. So there is a risk that nobody has the courage to say anything," they said. "What you have to do is build up a well-trained, collaborative board. This takes time; it does not happen overnight. It may take a year's cycle to discuss everything for people to then feel confident enough to chip in, especially with professional trustees on the board that may make people feel less knowledgeable."

In contrast, Thomas highlights how professional trustees can help mitigate this problem. Their role, either as chair or assisting the chair, is to meet the Professional Trustee Standards, he says, which says that the chair should recognise each individual trustee's potential and ensure their knowledge and skills are used effectively, and to encourage full participation and open board discussions.

"Without a professional trustee on the board you may not have someone who specifically feels they should be doing that check and balance to ensure all get a fair share of the discussion," he adds.

If a trustee is feeling bullied or intimidated by their trustee chair, they should speak to someone else senior in the running of the scheme for help, such as the pensions manager, scheme administrator or HR director.

"But if all else fails then I think that touching base with the scheme's legal adviser on a quasi-whistleblowing basis would be the right way forward," Pickering says. "In most schemes I have

Pension funds tackling bullying

Pension funds can play a role in tackling workplace bullying. Smart Pension's website features a comprehensive review of what defines bullying, how to spot signs of bullying, what employees can do if they are being bullied and how employers can prevent bullying occurring.

Last year the *Financial Times* reported that Calpers, the largest US pension fund, and the Los Angeles County Employees Retirement Association (Lacera) will both start asking fund managers to disclose their history of harassment cases and settlements. Calpers updated its investment policy to include sexual harassment as a form of misconduct and Lacera said it may add language about sexual misconduct risks to its investment management contracts.

However, Weeks is more sceptical, noting that a trustee code of conduct may be open to different interpretations.

Implementing short evaluations after each meeting, possibly anonymously, could also help. "This may also include one-to-one interviews on an annual basis with the chair or an external consultant, who can provide feedback and coaching on an individual's level of contribution and the way they handle themselves in meetings," Andrikopoulos suggests.

An annual governance and culture review may also help the board understand the importance of creating a strong culture of openness and trust, she adds, with reviews taking place without the chair's involvement, to ensure they also receive sufficiently robust feedback.

been involved with, individual trustees are not normally allowed to commission advice from the legal adviser, but there is normally a clear exception that such advice can be sought if a board member genuinely feels they need to blow the whistle."

For any trustees concerned about bullying, TPR says to contact it via its dedicated website page for whistleblowing.

Prevention

It would be better for all involved to prevent bullying long before it gets to the stage of whistleblowing.

According to PLSA policy lead, investment and stewardship, Caroline Escott, it may be appropriate to formally consider and document trustee board culture and conduct as part of a scheme's risk management approach.

"This could identify possible issues and ensure there are clear procedures and processes in place, which are well understood by the trustee board and executive, should there be any concerns about workplace bullying and harassment," she explains.

Pickering agrees that a code of conduct could be helpful. "With all quasi-voluntary organisations, which pensions trusteeship is, there is a temptation not to behave in the way you would in relation to your day job. People tend to be less formal. So I think it is important to have a conduct protocol. It only needs to be a couple of lines on respecting and behaving appropriately to others," he says.

Decline?

Hopefully, instances of trustee bullying is in decline. Andrikopoulos states that behaviour is part of trustees' softer skills, "which is an area increasingly under scrutiny by the industry". She adds that behaviour expectations should be reinforced throughout the trustee recruitment and training cycle.

Also, since pension freedoms, the intimidation of experience has declined, Weeks notes, as newer trustees may still have as much experience of freedom and choice as older trustees.

Thomas has also found a changing attitude by trustee boards. "A lot of boards have very consciously made the effort to improve diversity. If a trustee board has that self-awareness to promote diversity of thought and they succeed in getting a more diverse range of trustees, those boards are likely to be sensitive enough to respect those individuals.

"The problem is the board that doesn't even recognise it has a problem. Without that level of self-awareness, if someone new and 'different' comes in, there could be a risk of bullying."

Written by Laura Blows

Summary
- Many schemes have struggled to find people willing to act as MNTs for some time due to regulation and falling active memberships.
- DB and DC consolidation are leading to a further drop in numbers.
- Better education and communication of the role could help fill gaps on boards.
- Recent negative high-profile pension headlines may have attracted a new cohort of potential candidates.

Mass exodus

Scheme consolidations, shrinking boards and tougher regulation are forcing more lay trustees off boards. Does this mean that the days of the MNT are numbered?

It was the Pensions Act of 1995 that introduced the requirement for one third of company pension scheme boards to be made up of member-nominated trustees or, in the case of a sole trusteeship set up, member-nominated directors.

Circumstances were markedly different back then. The vast majority of FTSE 100 companies were able to dangle a final salary DB scheme carrot in front of prospective new employees and regulation was, in the most part, still of the light-touch variety. The future of the MNT looked secure.

Some 20 years later, with DB schemes falling like dominoes and The Pensions Regulator (TPR) cranking up the dial, the story could not be more different. Companies are now focused on either moving on, or winding down, their DB schemes, while the number of replacement DC schemes also looks set to shrink significantly as the pensions world prepares for a master trust-dominated future. For the remaining funds, regulation is leaving some MNTs to question their positions.

"For many schemes the honest truth

is that they are looking at consolidation as they may have four or five member trustees coming to retirement and they're struggling to get a new wave coming through, as DB is now a legacy issue," says TPT Retirement Solutions' head of direct distribution, Adrian Cooper.

"Regulation is also not going to slow any time soon. I'm having conversations with quite a few MNTs and they are telling me that they don't want to do this anymore, or they believe that they've done their duty for the scheme and it's time to step off."

At the same time, professional trusteeship continues to grow in influence. Cooper sees sponsors increasingly turning to professionals in order to cover off governance requirements. This, he muses, could accelerate the exit of further MNTs, particularly from small and medium-sized schemes, who may be reassured that their scheme will be managed competently in their absence.

His view is widely shared. In March this year, a survey run by RSM found that around 70 per cent of pensions professionals believe that there will be no need for lay trustees to be present on pension scheme boards in 10 years' time.

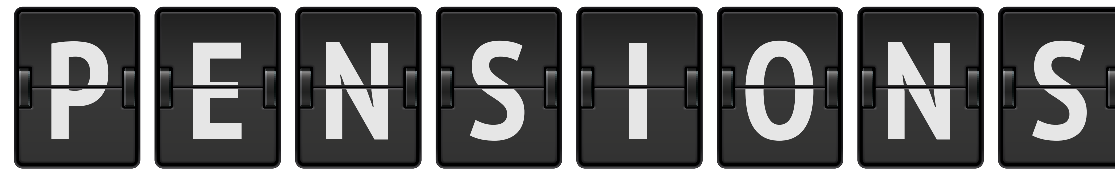
The Association of Member Nominated Trustees (AMNT) is also concerned about the prospects for MNTs. One of its committee members, Peter Sparks, says that recruitment has always been challenging, but the required knowledge, and lack of understanding of what it means to be a trustee have now led to the establishment of even higher barriers to entry.

A lost voice

For many, MNTs have become essential parts of any trustee board.

"I'm a big fan of MNTs – they add genuine value to trustee meetings," says Barnett Waddingham partner Paul Houghton. "The trustee world will be poorer if we do end up with an absence of member trustees. Some of the more challenging questions come from MNTs. Their questions can help us step back and consider whether what we're doing is right."

Another benefit that most MNTs



bring to boards is their intimate knowledge of a sponsor. To Houghton, this understanding is vital when it comes to discussing member communication, particularly in terms of its style and nature. "They can also add value when the trustee role requires negotiation with the employer," he says. "Having an insight into an employer can be very helpful and MNTs give a more rounded balance to a board."

For Aon partner Susan Hoarne, a world without member trustees is one that risks rubber stamping groupthink, where everyone is running in the same direction with the same viewpoint, and therefore "must be right".

Including MNTs is about the need for diversity, she argues. This ensures that funds have different thinking patterns, which then lead to boards making the best decisions. "The big risk is that we are deprived of the voice of the shop floor worker *[and lose that ability]*."

Member trustees are also capable of fostering greater engagement from a scheme's membership. Arc Pensions Law partner Vikki Massarano says that one downside of consolidation and the use of master trusts can be the lack of involvement of members in the operation of the scheme.

"Increased use of professional trustees is beneficial where it results in increased efficiency and good governance. Nevertheless, it would be a shame if this led to a situation where MNTs were not used at all," she says.

A little education goes a long way

The drop in MNT numbers could perhaps be reversed with a little education. Many members are put off applying for the role because they believe they need to be highly informed in all areas of pension matters. Houghton explains that this is a common misconception.

"It's really the level of understanding across the whole board that matters, rather than each individual knowing everything inside out," he says.

"If you compare it to a company board, most of them are run very well on the premise that it's made up of people with different skills and it's the board as a collective that matters. So the HR director is not required to understand all the ins and out of the finances; they only have to have a minimum level to contribute to the conversation. It can be the same on trustee boards."

MNTs should not think of themselves as inferior to their professional counterparts either, argues Sparks. He endorses TPR's push to raise standards and levels of professionalism, but believes that this has led to a false belief in some camps that trustees have to be professional. "As a trustee and a MNT, I welcome the call to raise standards, and believe that all trustees should act professionally. Trustees on both DB and DC schemes should look to deliver member benefits in the most professional way and to the highest standards. The type of trustee should not affect the execution of the role."

Making the role more attractive

Hoarne says that the MNT role could be made more attractive with some refreshed marketing.

When asking for nominations, communication within schemes usually focuses heavily on the technical aspect of the trustee role. Instead, she recommends also highlighting the softer skills that effective trustees need.

"We have to talk to people and say these are the key skills that we think trustees bring to the role. It should be more about broad skills, not just technical skills. Then someone can look at that and say 'I can add value to this role'. That's the piece that is missing."

Hoarne believes that companies could work harder to help attract MNTs as well. She suggests that potential candidates should be encouraged to view a position on a trustee board as being the equivalent of that of a non-executive on a company board. "It is a huge development opportunity and so for me there should be people fighting to take that role on in the business. It is an important role and one that you can gain so much value from."

Hope springs eternal

Encouragingly, there does remain some interest in the role, particularly in larger organisations, which better communication and education could capitalise on.

Sparks' fellow committee member at the AMNT, Chris Mounton-Hill, admits that positive and informed input is required to refute certain misconceptions and to reinforce the need for MNTs, but argues that there remains a large pool of members to choose from.

"I query the basis and validity of information put forward relative to problems finding lay trustees. Unions and staff associations have a strong interest in the continuance of this role and never seem to be short of volunteers. If there is a problem it is the need for training because of the growing complexity of pensions and pensions-related issues."

In her experience, Massarano has observed an increased interest for some schemes. She says that members may have become keen to be involved in trusteeship because of recent press coverage of high-profile fund failures.

There may yet be a future for MNTs after all.

Written by Marek Handzel, a freelance journalist

Get the Complete Picture of your Defined Benefit pension scheme...

The outlook

The Pensions Regulator (TPR) has made it clear that some Defined Benefit (DB) pension schemes could benefit from consolidation. As noise around the subject only increases, leading DB consolidator TPT Retirement Solutions, gathered respected voices to discuss and debate it at The Shard.

Broadcaster Andrew Marr and economist Dr Andrew Sentance, CBE set the scene, speaking on the impact of current economic and political uncertainty on business and pension schemes in the UK.

TPT's Mike Ramsey and Adrian Cooper focused on how DB consolidation looks set to transform the UK pensions landscape, and how TPT can provide '**The DB Complete Solution**'.

Mike Ramsey commented: "We know from DWP's White Paper, 'Protecting Defined Benefit Pension Schemes', that it believes some pension schemes could benefit from consolidation.

"Consolidating these schemes, in effect pooling their resources with those of others, would give them access to economies that allow them to access better advice, governance, more appropriate or scheme-specific funding and investment strategies, and higher quality – and lower cost – administration."

> "The consolidation debate is gathering pace - there is political will, regulator desire and commercial momentum. Defined Benefit consolidation will come sooner than you think"
>
> **Mike Ramsey, CEO, TPT, speaking at the event.**

Consolidation, consolidation, consolidation

Any scheme, even one that is well-funded, can find itself unable to initiate a full buy-out of its members' benefits.

There are alternatives which are based on a more affordable route than an insured buy-out. However, these new entrants have yet to prove their business model. The established alternative, with over 70 years' experience, is TPT Retirement Solutions.

The concept – proven

DB Complete is TPT's fully-bundled solution for legacy DB schemes. It offers schemes a comprehensive service package within a Master Trust covering trusteeship, actuarial, investment and legal services, administration, scheme accounting, covenant assessment and member communications, all under one roof. It offers peace of mind with professional governance for schemes that find it increasingly difficult to demonstrate that they are acting in their members' interests.

Reaping the benefits

Consolidation with TPT creates considerable benefits for schemes that are struggling to remain independent, including:

- Reduced scheme running costs by up to 30% (and potentially a lot more); and
- Access to award-winning administration and investment strategies that include liability driven investment (LDI) as a standard – not a nice to have – feature.

We know this is important to sponsors, many of whom have maintained control of their DB scheme because they care about the income and quality of service their workers will receive in retirement. That may not be possible with other consolidation models.

What's more, without the need to commit so much time to overseeing the scheme, a lot of management time can be reclaimed and directed towards what Directors do best – running their business.

We believe that this is DB Done Better!

To get a Complete Picture of your Defined Benefit pension scheme, call and arrange a free scheme health check:

Tel: **0345 123 6660** Email: **DBComplete@tpt.org.uk** Visit: **www.tpt.org.uk/CP**

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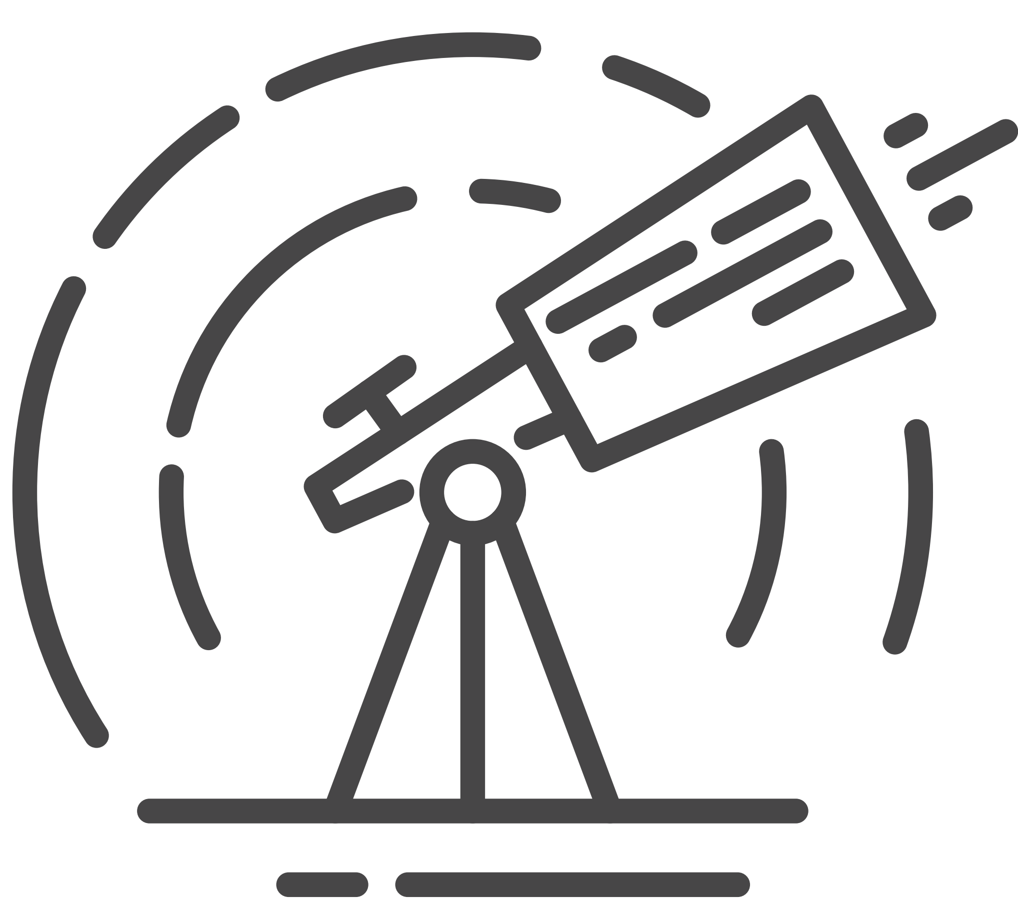
Another option for DB consolidation *– TPT head of direct distribution Adrian Cooper highlights the benefits of DB master trusts for those schemes considering consolidation* ***p46***

Under one roof *– Master trusts are being increasingly reviewed by a growing number of DB scheme trustees, reports Graham Buck* ***p48***

DB master trust focus:

In full view



TPT head of direct distribution Adrian Cooper

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Another option for DB consolidation

TPT head of direct distribution Adrian Cooper highlights the benefits of DB master trusts for those schemes considering consolidation

Why has DB consolidation become such a hot industry topic in recent years?
I think a lot of it stemmed from the work of the DB Taskforce, supported by the PLSA. Then, in conjunction with the Department for Work and Pensions (DWP), The Pensions Regulator had a look at how schemes could be better managed and how they could take advantage of some of the economies of scale that consolidation could give them. Which, all other things being equal, should mean that member outcomes are improved. So then the next step is how to achieve consolidation. That's where we come in, as a DB master trust. It is important to note that there are DB master trusts, as many people automatically link master trusts to DC.

For people who aren't necessarily aware, what exactly is a DB master trust?
A DB master trust is essentially a one-stop shop. We provide all the actuarial services and manage the investments. We also provide the legal services and covenant review, manage the administration and handle the scheme communications. We do all that in an integrated way under one roof.

Underneath the DB master trust umbrella is a single trustee board, which in our case is chaired by Joanna Matthews. The trustee board delegates responsibilities to an executive team within TPT. Having our own board of professional and experienced trustees is a major advantage of this model, as a lot of schemes are struggling to retain trustees and have succession planning problems.

When DB schemes consolidate into a DB master trust, their assets are held in their own ring-fenced sections, instead of being pooled into one fund. So it will have its own bespoke funding and investment plan, depending on what's right for that scheme and what the end game for that scheme is.

The other thing to point out is that with some other consolidation models, they only focus on closed schemes. With us, we're focused on both open and closed schemes.

DB consolidation has been greatly discussed in recent years, and there's been new entrants to the market offering consolidation services. Trustees may be nervous to make the leap to a new consolidation model. In contrast, I believe TPT has been running for many years?
We've been around since 1946. Originally we were for multi-employer schemes, providing pensions and retirement benefits for social workers. Since that time we built up a strong reputation in social housing, in the charity space and the not-for-profit sector. But now we're very much a business across all sectors. Schemes that are consolidating into us are coming from financial services, from manufacturing, from different sectors generally. We've got a fantastic heritage; around 70 years or so. We know how to consolidate schemes.

What are the benefits of moving into a DB master trust?
First of all, schemes are often paying for many different sets of advisers, actuaries, administration, investment services, legal advisers. The prices aren't going down. Plus there's any number of project costs over the past two or three years, such as resolving GMPs. So, the sheer amount of costs that schemes are having to pay is very often disproportionate to the scheme. Because all our services are done under one roof, we tend to be able to bring down the operating costs by an average of about 30 per cent per year without sacrificing quality. We are able to offer a very significant cost saving in no small measure because of our not-for-profit status with any surplus used to enhance services to members.

On the investment side, we have £9 billion of DB assets under management, providing us with a lot of buying power so we can negotiate our charges down. Our size means we are able to access investment classes like private debt, private equity and infrastructure that

standalone schemes just wouldn't be able to access. The combination of reinvesting cost savings with potentially better return means scheme objectives and improved member security can be reached more quickly. We can also offer our 44 schemes access to sophisticated tools and techniques to minimise risk and volatility, with LDI as standard.

DB is increasingly a legacy issue, but sponsors are still finding they have to spend an awful lot of time managing the scheme. But by being with us the sponsor just has one point of contact, instead of multiple advisers for example, therefore reducing the amount of time spent on the scheme.

Under the master trust umbrella, you have a single set of trustees, so schemes no longer need their own trustee board anymore and many will benefit from the robust governance DB master trusts offer.

The other thing is that under the DB master trust umbrella, the link with the sponsor remains unbroken. That differs from so-called superfunds, where the scheme's link with the sponsor is broken. There is still an uncertain regulatory framework with superfunds as we await the consultation results, so in many respects, it's an easier decision for trustees and sponsors to make, to consolidate to a DB master trust, rather than a superfund.

On the flip side to that, though, what have been the main reasons when trustees' and sponsors' have been reluctant to enter a DB master trust? And how would you counter them?
It is a big step, so it's not to be taken lightly. They should research all options and take the decision with eyes thoroughly open. Sometimes trustees are reluctant to let go of the reins. To ameliorate any concerns, we do offer an oversight option where they (either the entire trustee board), or more likely selected trustee nominees, can provide oversight of the transition to TPT and the period beyond – eg one or two years – and then once they are totally comfortable and have total peace of mind, they let go entirely.

But a lot of the heads of pensions I speak to actually welcome consolidation, because it means they can focus on DC, and focus on engagement with their current employees, rather than having to spend a lot of time and money on managing the DB scheme,whose members, in many cases, have moved on to competitors.

Do you feel there is enough awareness of DB master trusts as a consolidation option?
The short answer is no. There are a number of DB master trust players in the market. TPT is the largest, and probably the most well-known. But it's only in comparatively recent times, the past two or three years, that we've taken a conscious decision to communicate what we can do more loudly.

There's a lot of talk about DB consolidation currently, and a lot of talk about commercial consolidators coming into the market, which is exciting a lot of people. Rightfully so; they pose some very interesting issues. But it's our view that the target market for some superfunds is actually quite small and their ability to help funds is in many cases quite limited. Whereas we think we can help an awful lot more schemes. We tend to focus on schemes anywhere between £25 million to £750 million. That's where we think we can deliver some significant advantages for those schemes.

The DB consolidation market seem to be in a state of flux. How do you think it will change over the next few years?
The first thing I'd say is I think the trend is unstoppable. If you have a look at the drivers for consolidation, I don't think you'll see that consolidation is going to stop. For an increasing number of sponsors, DB is a legacy issue. Finance directors and sponsors simply want to minimise their time on it and manage risk better. Consolidation presents good answers to some of their problems.

Whatever the results of the consolidation consultation, any changes will take a while to bed in. So, I can't see any legislation being enacted before 2020 at the earliest. But no matter what, the DWP and the regulator have said very specifically that there are significant advantages to be had by consolidating schemes. So, the direction of travel is pretty clear to me and I suspect consolidation will happen more quickly than many people think.

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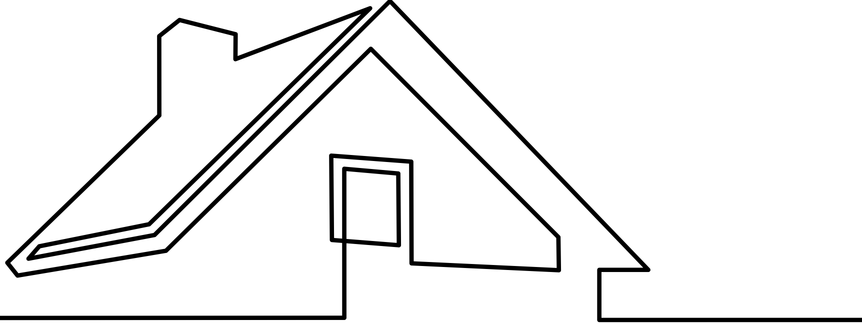

Summary
• The attractions of defined benefit master trusts (DBMTs) include the efficiencies of having a single trustee board and a single set of advisers and suppliers. This should mean lower running costs and higher levels of governance, particularly for smaller schemes.
• Many DB scheme trustees welcome the ability to transfer many of the time-consuming demands of their role to a DBMT, but some are reluctant to accept what they regard as a ceding of control.
• The new pensions bill is expected by many to propose a DBMT accreditation regime, along similar lines to that being introduced for defined contribution master trusts (DCMTs).

Under one roof

Master trusts have proved a successful consolidation option for DC schemes and are now being reviewed by a growing number of DB scheme trustees, reports Graham Buck

With consolidation very much the name of the game, it's a matter of conjecture how many UK defined benefit pension schemes there will be in five, or 10 years' time. How much will the figures have reduced compared with the current total of 5,450 DB schemes?

In recent months, much attention has focused on the two commercial consolidators – aka superfunds – entering the market. Clara-Pensions and The Pension SuperFund offer a further consolidation option for DB scheme trustees, alongside fiduciary investment management, DB master trusts or a buyout.

Mercer head of longevity swap consulting, Andrew Ward, notes that fiduciary investment management represents the 'first level' of consolidation and lately that market has been evolving and growing strongly. Buyouts are too expensive an option for many DB schemes and the number that move to the superfunds remains to be seen, but could be limited – Clara reported last October that it was in talks with "north of 40" DB schemes.

This leaves a further option, that of DB master trusts (DBMT), as an effective solution for scheme trustees seeking to minimise risk. Aon head of UK retirement policy, Matthew Arends, notes that a DBMT has several distinctive features that make it the most appropriate option in various situations.

"Specifically, a DBMT consolidates the governance arrangements of schemes by having a single trustee board and a single set of advisers and suppliers across all of its sections," he explains. "This offers the prospect of reduced running costs and higher levels of governance, particularly for smaller schemes."

DB schemes choosing to go down this route transfer their assets and liabilities when they join, with the current employer maintaining support to the scheme once the transfer takes place. Mercer UK head of fiduciary management, Ben Gunnee, describes DBMTs as the "next step of evolution" after fiduciary investment management by combining its advantages with additional benefits of consolidation, such as improved pricing and better decision making.

"You also get the bonus of professional trustees sitting on a master trust. That's a distinct advantage for many schemes who seek suitably qualified individuals to become trustees but often find no-one interested among the younger members, or ready to take on the many duties and responsibilities."

One-stop shop

Today's more complicated investment environment, coupled with a lack of investment expertise among many trustees is a further reason why DBMTs make sense for many DB schemes, adds TPT Retirement Solutions head of direct distribution, Adrian Cooper. "They can provide access to various asset classes that are attractive but not easy to get into, particularly for smaller schemes – which, in addition, would otherwise find them prohibitively expensive."

TPT, originally established in 1946 as the Social Workers Pension Fund, became The Pensions Trust in the late eighties. In late 2016 it rebranded again, with the aim of doubling its size and becoming the leading DB consolidator.

"There are around 10 DBMTs in the UK and we're the largest with 43 schemes and around £9 billion of assets under management," Cooper adds. "We focus on schemes with between £25 million and £750 million of assets under management and – unlike the superfunds – TPT takes open schemes

and not just closed ones."

He describes the DBMT as effectively a "one-stop shop" for managing DB schemes. "Many of them have their own fiduciary manager and investment consultant, trustee boards, a scheme secretary and a host of other service providers, which don't make for efficiencies or economies.

"All these services can be transacted by a DBMT and brought together under one roof. So DB schemes have their own trustee boards, whereas we have one overarching board of professional trustees and an executive team to whom authority is delegated.

"With us, the link with the sponsor remains intact. What's more, each scheme in the master trust is ring-fenced from others and has its own separate funding and investment strategy. We review each scheme's funding, investment and covenant, and we also talk with the sponsor to decide an appropriate strategy – for some it will be self-sufficiency, while for others it will be clearing the debt."

However, a note of caution is struck by Lane Clark & Peacock partner, Alex Waite, who comments: "Master trusts for DB schemes are a useful tool in the range of corporate solutions available, as they enable certain aspects to be delegated. But their pros and cons need careful consideration before choosing which solution to apply in specific circumstances."

Colleague Dan Mikulskis agrees, noting: "Master trusts can yield some of the classic benefits of scheme asset consolidation, such as: cheaper asset management fees, access to more sophisticated investment strategies and assets, improved governance to make swifter decisions and address risks.

"However, in some of these areas, roughly equivalent benefits can be gained through other means."

Another consideration is that some scheme trustees, far from welcoming the chance of transferring duties and responsibilities, sometime resent what they regard as ceding control.

"It's a fact of life that consolidation of DB benefits is more likely than not to involve the existing trustees falling out of the picture," notes Sackers partner Eleanor Daplyn. "This is certainly true where the consolidation option is a DBMT.

"Trustees have often been involved with their scheme for many years and rightly feel a sense of responsibility – it's natural to be concerned that another trustee board may not approach things in the same way, have the same priorities or know enough about the history of your scheme."

Daplyn suggests most of these concerns can be allayed by considering that the receiving master trust is run by trustees who share the same fiduciary responsibilities. "Master trust trustees are typically professionals, which means they bring additional expertise to offset their lack of background knowledge with a particular group of members or set of benefits. Longevity and succession are also important – a DBMT can manage succession and ensure a flow of high-quality trustee candidates that most private occupational schemes can only dream of."

Accreditation regime

Concerns could be further allayed by introducing a DBMT accreditation regime. While the Department for Work and Pensions' recent consultation focused principally on the commercial consolidators/superfunds, a broader review of DB consolidation is expected to feature in the new pensions bill. The timing of this legislation is unclear although "we should have a better idea by the early part of the summer", says Daplyn.

"What we have to go on meanwhile is the consultation itself, which envisages an authorisation and supervision regime similar to the one that recently came into force for DC master trusts (DCMT)."

Cooper says that TPT would welcome such a development and has already applied for its DCMT to be authorised by The Pensions Regulator (TPR). "The regulator imposes very rigorous requirements, which for some DCMTs have proved overly demanding. So the number is likely to reduce, although those remaining will be of very high quality."

He highlights several key features that could potentially feature in any DBMT accreditation regime, such as: costs listed on a per member basis arrived at by an agreed formula; details of the mechanism by which trustees can be appointed and removed; historic investment performance; and the scale of funds under management.

While there's no 'burning platform' or compulsion to hasten consolidation, there are several changes that might persuade stakeholders to explore DBMTs, suggests Hymans Robertson trustee secretary and pensions manager Lindsay Davies.

They include: changes in corporate personnel, particularly the departure of a long-server with pension responsibility; the growing challenge of finding suitably qualified trustees and efficiency and economy. For example, DBMT Citrus Pensions believes it can get sections to buyout faster and attain better terms at point of settlement, while there can be concerns about adviser value for money.

Other factors that might lead to funds exploring DBMTs include the option of more innovative approaches, such as the use of digital and capital efficient investments, and TPR's move towards enforcing a stronger "comply or explain" regime for all DB schemes on scheme funding. DBMTs give stakeholders the opportunity to place that responsibility into a strongly-governed arrangement in which effectively meeting that requirement will be the norm for sections and sponsors whose circumstances differ widely.

Written by Graham Buck, a freelance journalist

In association with

Yvonne Braun, Association of British Insurers Director of Policy, Long-Term Savings & Protection

Natalie Tuck, Deputy Editor, Pensions Age

The modern age

***Pensions Age* deputy editor, Natalie Tuck, chats to the Association of British Insurers (ABI) director of policy – long-term savings and protection, Yvonne Braun, about her work at the ABI and her thoughts on key pension topics**

Congratulations again on winning the Pensions Age Personality of the Year Award, as voted for by our readers. Can you tell us about some of the work you've been involved with over the past year at the ABI, and what it means to you to have this recognised by others in the industry?
Thank you very much. The highlight of my work over the past year was the pensions dashboard, which was my signature project. It was a really great project to be involved with, because it has so much potential for people, in terms of helping them engage with their pension in an easier way. In addition, there's around £20 billion of pension savings that people have lost, and finding that could make a big difference to people's lifestyle in retirement. It was also great because it was cross-industry, so it wasn't just members of the ABI; there was also quite a lot of other parties involved too.

I'm also really pleased about extending the reach of the ABI over the past year. We're now a much bigger organisation, and we also count Hargreaves Lansdown, Vanguard, PensionBee, and Smart Pension among our members, and that is something that I'm really pleased about.

In terms of the award and what it meant to me, the evening itself was obviously great fun, but what has been even better are the lovely messages I received from people congratulating me.

Some came from people who I haven't worked with for a while, which was nice. It also reminded me that on a day-to-day basis, for most of us there isn't all that much recognition of our daily work, and so it reminded me that it's really important to appreciate your colleagues for what they do, and to tell them.

You mentioned the pensions dashboard, something the ABI has been heavily involved with, in particular the creation of the prototype – are you happy with the progress that has been made by the government on the dashboard? And what are your thoughts on how much information should be on the dashboard at launch?
I'm really pleased about where it has got. From our perspective, the most important thing would be the commitment from the government to legislate to compel schemes to provide the data, and we've got that now, which is great. I'm also really pleased with the DWP accepting a lot of the key recommendations from the work that we did in the project.

In terms of what to include in the dashboard, I think there's obviously a trade-off between getting something up and running really quickly, and having a very complete set of data. It's quite important that the best is not the enemy of the good and that they don't overload the dashboard with too much information from the word go. For example, I think charges, performance and asset allocation etc. can come later. Like with any other service, and we see it with our apps on our phones all the time, it is an interactive process, which I think will get better over time. I think we should also not forget that people draw their information about their pension not just from the dashboard, but also from the annual statements they receive.

You've mentioned in the past about the need to build up trust between the industry and consumers. Do you think this is something that is improving? And what else can the industry do to increase that trust?
If you look at the trust barometers, we're still not where we want to be. But there's also quite a big contradiction because at the same time we've got very low opt-out levels from automatic enrolment. Very large numbers of people are saying, 'it's normal for someone like me to have a pension', so I think we can take some comfort from the fact that we seem to be making a bit of headway on the ground.

The pensions dashboard will help, and we just have to get to a place where having a pension is normalised. It's also important that every interaction that somebody has with the industry when they come to us, which is not that often, is a really positive experience – the dashboard is part of that.

It's also about being sensitive to the needs of all of our consumers, for example, to be sensitive to the needs of vulnerable consumers. And it's also really important that we reflect, in the make up of the industry, the composition of our customers. Therefore, I think the diversity and inclusion agenda is very important. I'm executive sponsor at the ABI for diversion and inclusion, and I'm very heartened by how our senior executives take that very seriously.

The ABI has been very vocal on the issue of Brexit and the need for a deal when the UK leaves the European Union. However, despite the extension the UK has been given to delay Brexit until this autumn, it's still not known what the country will end up leaving with. What impact is this having on the pensions industry?
The continued uncertainty is not good for UK business and is not good for the industry, but it is a great deal better than coming out without a deal. From our perspective that would have been an unforgiveable act of economic and social self harm. I think what is key now is that we get somewhere with the cross-party talks so that we actually make progress and that we don't have Groundhog Day again in October. I really think that would be unacceptable to have this continued uncertainty beyond that.

And lastly, as someone whose work has been recognised and is respected by others in the industry, what advice would you like to give to the sector?
Keep modernising. I think automatic enrolment is such a huge social experiment, probably the biggest social experiment in pensions for the last generation. As a sector we are very privileged because we have hundreds of thousands of new customers, and their profile is very different from the traditional customer profile. I think we must keep a relentless focus on making customer engagement better, and modernising the experience that our customers have is a very big part of that.

To watch this video, visit pensionsage.com.

Written by Natalie Tuck

Trustee workbench.

THURSDAY 6 JUNE 2019

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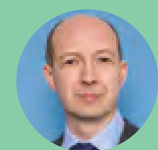

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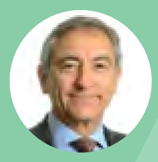

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Summary
- Diversity is hard to define as it must take into account elements such as gender, ethnicity, age and culture.
- Having a diverse senior management team could improve diversity across the organisation.
- Employers must look at who they nominate for trustee positions.

The whole spectrum

Sunniva Kolostyak explores the efforts being taken to diversify the industry's workforce

The financial industry, and pensions in particular, has tried to get rid of the 'male, pale and stale' sticker for quite a while – and most of the industry actually seems to be in agreement that it is improving. Through varied initiatives, businesses and trustee boards are trying to have a diverse representation. But what is actually changing?

Diversity is hard to define and an even harder goal to fulfil, it seems. A number of initiatives have been launched to increase the representation of different ethnicities, genders, sexual orientations, ages, socio-economic status, disabilities, and so on. This includes The Diversity Project, creating a more inclusive culture within savings and investments, the NextGen campaign, aiming to encourage the next generation to get involved in pensions, and HM Treasury's Women in Finance Charter.

Furthermore, the Pensions and Lifetime Savings Association (PLSA) launched a campaign in 2017, *Breaking the Mirror Image*, to lead and encourage a more diverse workplace within the pensions industry, and joined the think tank New Financial's report *Diversity from an Investor's Perspective*.

All of these initiatives, reports and charters are in order to level out an arena that seems to be further from the goal than many other sectors.

In fact, research by Leeds University Business School has previously revealed that trustee boards are seriously lacking in diversity – most of them are highly

educated and financially literate, 81 per cent are male, aged between 50 and 70, with 10 years of trustee experience.

Top-down

This was also a subject of the PLSA Investment Conference earlier this year. Speaking on culture change within investments, Financial Conduct Authority co-director of life insurance and financial advice supervision, Debbie Gupta, argued that this is something that must start at the top: "Leadership is absolutely critical to ensuring that you have a workforce and senior leadership team that has bought into the agenda."

Pensions specialist law firm Sackers is lucky to represent an area of the industry that has reached that tipping point when it comes to gender diversity, its HR director Debbie Holmes says. "I would go as far as saying gender issues are pretty much off the table here. It is not a barrier for anyone," she states.

In fact, 60 per cent of Sackers' partners, and over 60 per cent of the rest of its fee earners are female. This, Holmes notes, is a good start for Sackers and for the industry.

The key to how the firm got to that position, she says, has to do with the flexibility it offers, making it easier for employees of different backgrounds – mums, dads, carers, those on the wind-down to retirement – to find a work/life balance that works for them.

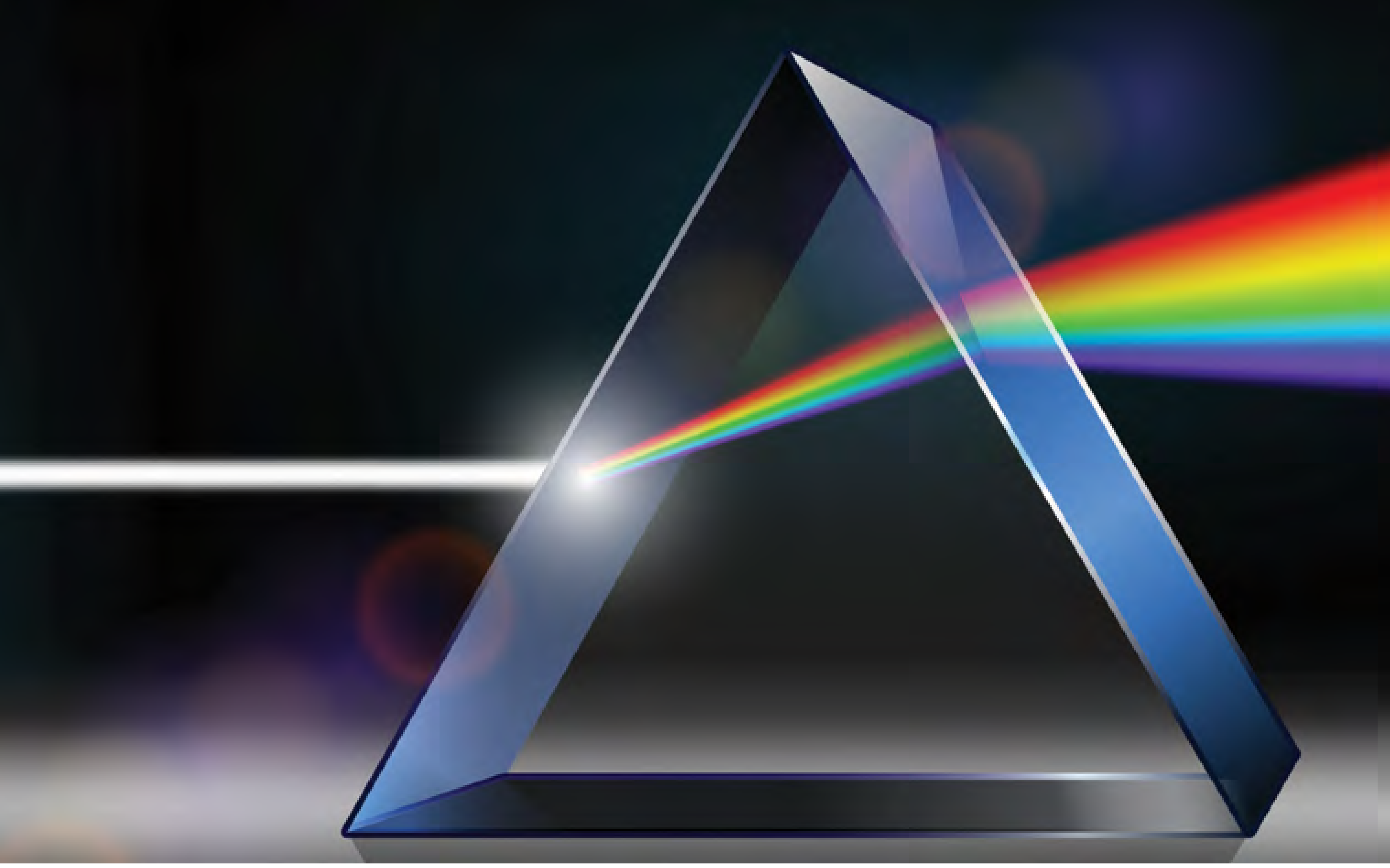
"We make it very easy for people to leave early and come in late to enable them to attend all sorts of commitments that they have outside of work. It is not a place where anyone questions where you are going or how you are making up the time. It is not that type of culture."

Trustee diversity

Sackers has noticed that a number of its clients are starting to consider diversity more when it comes to trustee boards. Furthermore, they are asking whether boards can do more to make sure they have proper representation of their members.

The Pensions Regulator (TPR) has, as part of its guidance on defined contribution schemes, said that trustee boards should be diverse and well-balanced, "as far as possible".

Sackers associate Emily Rowley says that although TPR currently has no powers over this, it has "indicated the trustee boards should review the



effectiveness of the board and make sure there are different viewpoints and that this may be an area it starts looking into in future".

In her *Diversity Client Paper,* Rowley has discussed that improving diversity can be difficult for trustees, as boards are not in sole control of appointments. It is also dependent on the employer, as well as suitability for the role.

She says: "TPR has expressed the view that diverse boards can help to deliver good governance, but there is not anything more concrete than this at present."

But how do you measure diversity when culture is not quantifiable and does not suit one single form where each element can be ticked off?

PTL client director Clare James agrees that diversity on trustee boards is linked to wider issues in the pensions industry. "I think part of that *[responsibility]* is going to sit with the employers themselves. As employers increase their diversity, naturally there will be a more diverse pool of people from whom to encourage to become a trustee of their employer's pension scheme," James says.

PTL trustees, she notes, sit on a number of boards, and, are aware that some boards on employer-based pension schemes have far greater diversity than others – meaning there still is a lot of work that needs to be done across the board.

"It is important because as a trustee, you're representing the members and the interests of all the members of the pension scheme. So it is really important that those people who are making the decisions as trustees are fully representative of the makeup of the members of the pension scheme – so that everybody's thoughts, expectations and viewpoints can be represented and reflected in the decisions that are made. That it is the right pension scheme for the members," she explains.

Meeting the potential

Rowley argues that there are of course actions that trustees could consider. This includes completing questionnaires on the current status, adopting diversity policies and reviewing the trustee literature and the member-nominated director (MND) and employer-nominated director (END) selection processes.

"Other ideas we have seen being considered are offering 'meet the trustee-days', where individuals can speak with members of the board about the role and what it entails face-to-face," she says.

"Other ideas include roadshows in the key office sites and locations or meetings. Mentoring could also be an option, if there are certain individuals or 'up and comers' that would be suitable for the board, but again, given the industry-wide nature of the scheme, this would [...] involve conversations with a number of key stakeholders."

Private equity investor Pantheon is one company that has launched its own mentoring programme, *Mentoring @ Pantheon – without borders*, to encourage the development of relationships across offices and departments, fostering access to different cultural, gender and regional perspectives.

Pantheon global head of marketing and diversity sponsor Amanda McCrystal explains that in the private equity space, the game changer will be when the current level of women in senior roles is doubled – from 10 per cent to 20 per cent.

"Put simply, it doesn't make any sense that firms are not accessing the full 50 per cent of talent potential that is represented by the female population. There are studies that have shown that more diversity can equate to stronger performance and enhance decision-making, but in our view it principally comes down to the basic fact that there is a lot of untapped talent available that we'd like to consider building their careers at Pantheon," she argues.

Pantheon's current global staff is 43 per cent female, as is 35 per cent of its investment team. At 1 January, 44 per cent of its investment departments were led by women, and in terms of ethnic diversity, one-third of its global workforce in non-white.

James agrees it could be a good idea to mentor people, making sure the environment is encouraging and supporting.

"We see the merits of diversity in terms of the breadth of different views and experiences. Diversity just makes us a much stronger proposition, a stronger organisation as a result. So it is something that we definitely want to promote.

"The more diverse, the wider the breadth of views and experiences. I think it makes you stronger, in terms of robust decision making and in appreciating the bigger and wider picture," James says.

Written by Sunniva Kolostyak

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GMP equalisation: A once in a lifetime opportunity *– With the High Court ruling that GMPs need to be equalised for men and women, Adrian Hartshorn looks at how trustees and plan sponsors can use the process to work together during this once in a lifetime opportunity* ***p58***

Calm before the storm *– With the High Court ruling that GMP equalisation must be undertaken, schemes now have to prepare for the process and decide which method they're going to use. Talya Misiri reports* ***p60***

GMP equalisation focus:

A balancing act

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GMP equalisation: A once in a lifetime opportunity

With the High Court ruling that GMPs need to be equalised for men and women, Adrian Hartshorn looks at how trustees and plan sponsors can use the process to work together during this once in a lifetime opportunity

On 26 October 2018, as part of the Lloyds Banking Group judgment in the High Court, it was confirmed that pension scheme trustees need to equalise total benefits for the effects of Guaranteed Minimum Pensions (GMP), and, at the time of writing, it looks increasingly unlikely that that fundamental requirement will be overturned. Given the need to take action, it is Mercer's view that there is an opportunity for plan sponsors and trustees to work together and simplify the otherwise complex benefit structure that has developed over many decades within UK defined benefit (DB) plans. This is also likely to lead to longer term cost savings and better outcomes for individual members.

In the article we outline the background to the current position, before considering how companies and trustees might respond.

Pre 88 GMP

Post 88 GMP

Pre 97 excess over GMP

Post 97 pension

Figure 1

What is all the fuss about?
The GMP was first introduced for DB plans in April 1978, and is paid from age 65 for males and age 60 for females. GMP was broadly intended to replicate the State Earnings Related Pension (SERPS). Additionally, due to integration with state benefits, calculations connected with GMP must assume payment ages of 65 for men and 60 for women. No new GMP was earned by members after April 1997.

These factors, combined with other legislative changes, add significant complexity to the benefits that are paid to DB members, and the associated administration calculations. This detracts from the understanding that many members have of this otherwise valuable benefit.

Figure 1 illustrates how a typical members' benefit might be split, with each segment potentially having different payment ages and pension increases when in payment.

There has been a legal requirement for UK DB plans to pay equal benefits to men and women since the date of the Barber judgment (17 May 1990) from the European Court of Justice. However, although UK schemes have equalised their (main) pensionable ages, most schemes have not taken any action to equalise benefits to compensate for GMP inequalities as there has been no clarity on whether there is a need to do so and if so, how. As a result, the amount of benefit that any individual receives at different points in their retirement could be higher or lower than the amount of benefit they would receive if they were treated as being of the opposite sex. The Lloyds Banking Group judgment has now provided clarity in this area that allows trustees and corporate sponsors of DB schemes to move forward and finally equalise all benefits.

Equalisation approaches – an overview
Method A: This entails comparing the pension of an analogous man and woman each year. In almost every year they will both get an increase, and the higher increase is paid. Three variations exist; A1, A2 and A3. Methods A1 and A2 were not considered in the judgment.

Method B: Government proposal of 2012. This entails calculating the member's pension each year when an increase is due; at the same time the pension is calculated as if the member were the opposite sex. The higher of the two amounts is paid.

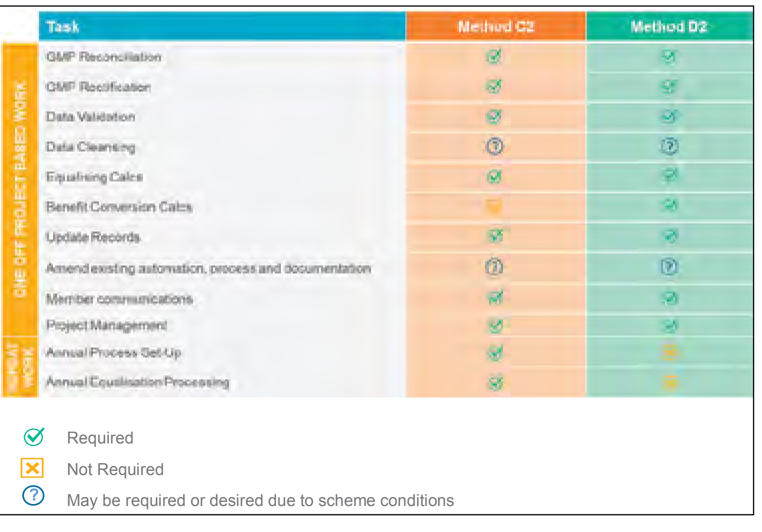
Method C: This entails calculating annual increases as for method B but, instead of automatically paying the higher pension to both members, you also look at the accumulated value of the pension paid to date. This equalises accumulated pension, rather than pension paid each year. Two variations exist, C1 and C2, the only difference being that interest is allowed for on the accumulated value in method C2.

Method D: This is the government consultation of 2016 and compares value (not an annual test). This entails calculating the prospective value of the male and female pension that will be paid between now and the date of the member's estimated death, with a payment of the difference to the disadvantaged member as an actuarially assessed addition to pension. Two variations exist; D1 and D2. Under D2 the GMP is converted to non-GMP, whereas under D1 the GMP is not converted, and consequently is not a method that satisfies the equalization requirement.

So what does this mean for DB pension schemes? Why is this a once in a lifetime opportunity?
Trustees will need to take action to

rectify the inequality, and now have legal guidance. Depending on the method adopted, there is the possibility for trustees and plan sponsors to substantially reduce the complexity that has built up and perpetuated over 40 years. In our view, this is a once in a lifetime opportunity. To do so will require close working between trustees, plan sponsors, administrators, actuarial advisers and legal advisers, and clear communication with members. However, a successful outcome for the effective implementation of GMP equalisation could be simpler, equalised benefits paid to men and women that are better understood by the membership.

Looking at this in more detail, many commentators are focusing on methods C2 and D2 as the two most likely approaches that will be adopted. In the absence of any direction from the plan sponsor, trustees are able to adopt method C2 as an acceptable approach. Subject to legal advice, the adoption of any other approach will likely require agreement of the plan sponsor. A comparison of the tasks required to implement methods C2 and D2 is set out in the table below, split between 'one off tasks' and 'annually recurring processes'. It is worth noting that some trustees and sponsors may adopt methods B or C1, which have very similar tasks to C2.



	Task	Method C2	Method D2
ONE OFF PROJECT BASED WORK	GMP Reconciliation	Required	Required
	GMP Rectification	Required	Required
	Data Validation	Required	Required
	Data Cleansing	May be required	May be required
	Equalising Calcs	Required	Required
	Benefit Conversion Calcs	Not Required	Required
	Update Records	Required	Required
	Amend existing automation, process and documentation	May be required	May be required
	Member communications	Required	Required
	Project Management	Required	Required
REPEAT WORK	Annual Process Set-Up	Required	Not Required
	Annual Equalisation Processing	Required	Not Required

Required

Not Required

May be required or desired due to scheme conditions

Our view is that whilst there are some additional one-off steps that need to be taken for method D2, such as GMP conversion, there are significant benefits available in undertaking this work because it removes the need for the repeat annual equalisation process. This is likely to lead to lower ongoing operation and other administration costs, and may also benefit the scheme if it is ultimately insured through a buy-in or buyout.

For trustees and sponsors to determine the best approach given their circumstances it is likely to be in their interests to work together to determine how to move forward and simplify many years of complexity.

There is also the opportunity to convert other benefits, not just the GMP benefits, to further simplify the administration, benefits and understanding for individual members. Simplified administration would be achieved by reduced and clearer benefit data facilitating future demands on scheme data such as the pensions dashboard and calculation automation.

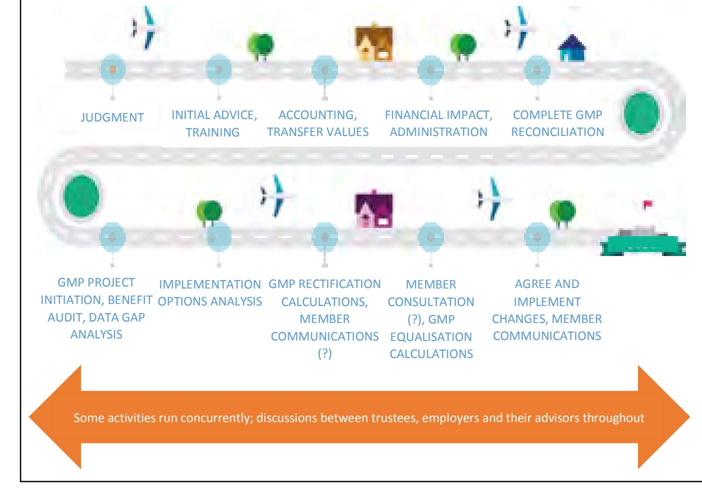
So what next?

Many schemes are in the process of reconciling their GMP data with HMRC. This process will need to be completed shortly because the team that deals with this at HMRC will cease to exist. Trustees will then need to consider their own GMP data and the data that has been reconciled with HMRC and put in place a GMP rectification process. It is only once that this has been completed that trustees will be in a position to implement GMP equalisation and conversion. However, in anticipation of the need to do so, a number of key decisions will need to be taken, which can be considered whilst the scheme's GMP data is undergoing the necessary reconcilliation and rectification processes. A simple message is 'now is the time to start'.

Dealing with GMPs will be a journey, with several stages and dependancies. Many trustees and sponsors have already completed the early stages of the journey – the focus is now turning to planning for implementation. This will require collaboration across advisers and service providers to ensure that the right data is available, the impact of different GMP rectification and equalisation options are understood and that, at the end of the process, members understand the changes that are being made to their benefits.

Written by Mercer senior partner Adrian Hartshorn

In association with



Summary
- While the current GMP guidance does not cover all aspects of equalisation, or outline a specific route that schemes should take, initial preparations are required.
- Schemes will begin to decide which equalisation method best suits their members and benefit structure.
- Data needs to be sorted and in the correct format to proceed with implementation.
- Communications with members will be dependent upon the equalisation method selected by each scheme.

Calm before the storm

With the High Court ruling that GMP equalisation must be undertaken, schemes now have to prepare for the process and decide which method they're going to use. Talya Misiri reports

The most recent GMP guidance published by the Department for Work and Pensions (DWP) in April is set to encourage schemes to consider equalisation in more depth.

While the current guidance does not cover all aspects of equalisation, or outline a specific route that schemes should take, initial preparations are required.

A collaborative effort is essential from trustees, scheme sponsors, advisers and administrators in order to: make crucial decisions regarding equalisation, collate data and deliver the correct communications to one another and to members.

Decisions

In the initial stages of preparations for GMP equalisation, "schemes and trustees are having to make individual decisions about how and when to proceed," says Royal London director of policy Steve Webb.

It is agreed that schemes looking to embark on benefit conversion exercises in the nearer future have specific reasons for doing so.

"Across the industry, pension schemes that are gearing up for buyouts are likely to be amongst the early adopters of GMP conversion. This is because insurers have indicated a clear preference for the conversion approach," Hymans Robertson head of GMP equalisation Matt Davis says.

Aon consultant Thomas Yorath, who was an expert witness in the original Lloyds court case, agrees that those schemes looking to equalise as early as this year, may be buying out their scheme, going through a corporate restructuring or in the process of an administration transition. "There is generally other factors at play that is driving the motivation to equalise quite quickly," he says.

With the conversion method, schemes will also have the option to make more significant changes to the shape of their benefits structure. One possibility, Pinsent Masons Stephen Scholefield explains, is "having a pension that increases in payments". This would involve a higher flat pension and while the value would remain the same for members, "it is potentially attractive for schemes as if you do a buyout with an insurer, they price that on a more attractive basis".

As a result, schemes that are converting benefits may decide to also simplify their benefit structures and "do something a bit more fundamental", Scholefield notes. And, where "some benefit structures lend itself very nicely to conversion", schemes can "convert and simplify without having a huge impact on the shape of members' benefits".

Although, "it would be wrong to think that using conversion takes the complexity out of equalisation," ITM GMP expert Maurice Titley says. "There are other pieces that need to come together as well: data preparation, historic rectification and ongoing calculation process changes are all key pieces of the jigsaw."

Of course, not all schemes will act immediately. Others will be debating which method to implement and making key strategic decisions around this. While the DWP's guidance did "set out some clear steps for trustees and plan sponsors to follow in order to achieve GMP conversion", Mercer senior partner Adrian Hartshorn notes, a number of schemes are still awaiting Pasa and HMRC's guidance before they act on their chosen method. Ultimately, however, it will be down to each scheme to assess and decide upon which is the right method for their members.

Preparations

Nonetheless, "only a handful of schemes actually have the data that they need to

get on with equalisation," says Yorath.

With the majority of the schemes not yet prepared, therefore, preparations are encouraged before the implementation process begins. "There's no excuse for not doing the planning", ahead of the publication of further guidance, Hartshorn says.

Scholefield explains that while the emphasis isn't currently on equalising GMP benefits, scheme trustees will have to start to consider whether their data is sorted and in the right format to proceed.

Hartshorn agrees that data must be "in good order to allow GMP equalisation and conversion calculations to be carried out once the preparatory phases are completed". In order to prepare, schemes should look at understanding their data, the key strategic decisions and the implications of those. This would involve schemes locating affected members, deciding upon their equalisation method and when they plan to do it.

The second key area of preparation would involve looking at the scheme's historic data and best practices. With this, it can become apparent that far more information is needed to equalise than to administer the pension scheme day to day.

Schemes will need to look back and identify how long each individual was part of the scheme for and also locate where the data is held, whether that be on a database, in a box of records or on microfiche, for example. Trustees will also need to "reconcile their scheme records with the records that HMRC hold," Hartshorn adds.

In addition to the vast amount of information needed for this exercise, challenges can also arise with certain types of members.

Yorath highlights that additional information is needed for dependent members. "For spouses where the original member has died, you need to link that spouse back to the original member and that can be quite a tricky process for schemes. We are finding that most schemes don't have an easy way to link the dependent back to the original member."

Moreover, schemes that have had a number of administration changes over the years also face significant challenges in collating required data. Often not all of the data is passed on in these situations is in an easily accessible format. While the data will be available, it might take a manual focus to ensure it is in order to carry forward.

Resultantly, this will have to be addressed in the preparation stage by schemes that have undergone these changes.

Ultimately, Scholefield highlights the key thing for schemes to be mindful of is that "there's only so many pensions administration firms in the country". So, schemes should speak to their administrators as early as possible to avoid capacity issues and devise a "clear project plan", he adds.

Hartshorn agrees: "The key thing for trustees and scheme sponsors is to set out the journey and understand what will be required in each stage and who will be responsible for acting on those."

Communications

While communication between scheme trustees, employers and advisers is vital through the equalisation process, communication with members is not currently top of the agenda throughout.

Sackers partner Faith Dickson says that schemes are being "fairly low key" when it comes to communicating the planned changes to members at the moment.

Scholefield agrees: "Communications with members is slightly difficult, as until you've decided what to do, you don't want to get members unduly worried or unduly excited that this is going to be a big windfall", when it is more likely to be a slight change. So, "there's a bit of managing expectations that goes on with this", he says.

Instead, if schemes have got a newsletter, or if members request a quote or transfer, notice of the changes to benefits are likely to be made.

Nonetheless, for schemes that opt for conversion, there is a statutory requirement for trustees to "notify members ahead of time and give them time to feedback any views and comments". This is in addition to communicating with members after the change has taken place, Dickson explains.

Where schemes convert benefits, they may also do some wider reshaping of people's pensions and the scheme. If so, "this could have a bigger impact on members and will probably need greater communication", Scholefield highlights.

Larger schemes are likely to face the challenge of letting all affected members know at once. With this, Dickson says, schemes will have to inform members that the process is underway, but also that it will be a staggered process; it is not going to impact all in the same way and at the same time.

Before any communications with members can take place or trustees can begin the equalisation process, however, the majority of schemes will be waiting for legal and industry guidance.

For example, Titley highlights: "There is still a lack of clarity around tax implications of adjusting benefits. However, this is just the beginning and some outstanding issues will need to be resolved – no doubt, further rulings and judgments will follow."

"The GMP Equalisation Working Group is now looking at these outstanding areas and will be issuing some good practice guidance in due course," Pasa Cross Industry Working Group on GMP Equalisation chair Geraldine Brassett concludes.

Written by Talya Misiri, a freelance journalist

In association with

Safety in numbers

Following a number of high-profile acquisitions and mergers, it is not just pension schemes that are consolidating, but the industry as a whole. Jack Gray looks at what impact this could have on the future of pensions, who will be the big winners and losers, and whether there is safety in numbers

Summary
• Company consolidation may lead to improved benefit security and standard of service, but it could also stifle innovation and restrict choice.
• DC consolidation continues to progress rapidly, with The Pensions Regulator's master trust authorisation regime driving change.
• Consolidation in the DB market, especially in superfunds, may be being held back by uncertainty surrounding the lack of regulation.

Safety in numbers is a common survival technique. As the pensions industry moves towards consolidation in a variety of ways and vicinities, it could be interpreted that the industry is using this primal technique to improve benefit security for members. However, safety in numbers can bring about issues, as it does not work for everyone and it may not be as simple as using the tactic adopted by living things for millions of years.

Mergers and acquisitions

During 2018 and 2019, there has been a number of high-profile acquisitions and mergers. In April 2019, Marsh and McLennan (M&M) announced that it had completed the acquisition of Jardine Lloyd Thompson Group for $5.6 billion (£4.3 billion). This year also saw Cardano agree to purchase Now Pensions, which will result in group assets under its management exceeding £25 billion, while in 2018, Aegon acquired BlackRock's UK DC platform and administration business, transferring £15 billion of assets and 450,000 customers to Aegon.

"Consumers and advisers will increasingly be able to access the full suite of services from a single provider," begins BlackRock interim head of DC, Alex Cave. "Some of the larger providers are beginning to compete head on with the retail banks to own the whole consumer and be their central saving, investment and insurance hub."

Large, consolidated companies may result in smaller providers having to either adapt, exit the market or consider consolidating themselves. "Those that remain have to have a clear value add proposition," Cave adds.

"There are participants in the market who want to be known for the sophistication of their proposition and the quality and flexibility of their investment products.

"Others have created distinct propositions for both ends of the market and worked on the integration with their retail/wealth platform."

Cave believes that this will make competition for customers "fiercer" and, although there could be less participating firms, they will have "broader and more equal" offerings.

"This means hitting the key decision points for both trustees and their advisers will be critical and will make providers more selective on the tenders they go for," says Cave.

There is some concern that this could create a lack of choice for consumers. LifeSight head of propositional development, David Bird, believes that there will be four main types of provider in the future – auto-enrolment specialists, life company providers, employee benefit consultants and accidental master trusts, such as the Universities Superannuation Scheme.

He continues: "Employers seeking to outsource to a master trust may be looking at a long-list of around 20-30 providers, with fewer than 10 providers dominating the market and accumulating employers, assets and members."

However, Cave does not think there will be a lack of options. He concludes: "I don't think that the merger and acquisition activity we have seen in the platform space has reduced choice. Those acquired platforms still exist under a re-branded guise."

Administration

There has also been recent merger and acquisition activity in the administration market, with XPS Pensions Group acquiring both Kier Pensions Unit and Royal London Corporate Pension Services Limited in the past eight months, while Aegon purchased BlackRock's administration business.

TPT Retirement Solutions head of direct distribution, Adrian Cooper, believes that this is a problem area. "There is an issue in the pensions administration in its reduced capacity," he says. "Some are providing an excellent service, but some aren't. If schemes are thinking of switching administrators, there aren't many options."

Despite this, Cave says there is an opportunity for administration consolidation to improve member experience. "Administration is definitely a scale game and both asset managers and platform providers will seek greater assets to drive down costs, which are passed on to members," he explains.

DC consolidation

Defined contribution consolidation is being primarily driven by The Pensions Regulator's (TPR) master trust authorisation regime. Supporters believe that it will help drive down costs for the member, provide greater benefit security and achieve the economies of scale needed to invest and capture more opportunities, improving member outcomes. Redington director, Jonathan Parker, says that DC master trusts provide "sufficient flexibility for employers that want to retain a bit of control".

He continues: "They can have trust structure while still having control over investment strategy. You want to make sure that schemes are run well, but not many have the funds or expertise to do it. In three to five years I think there will be less than 20 master trusts – we don't need more than 20."

Parker adds that the "incredibly thorough" authorisation process was the correct way forward as "people need to trust in their provider".

Some industry members think that the DC master trust market will continue to grow. "We can imagine that there may be some regulatory convergence and that this will push even more employers towards master trusts.

"There will remain some employers with the time, energy, commitment and resources to run single employer trusts but we can expect that increasingly to be a minority," Bird says.

However, some do not have as much confidence. A recent survey from the Pensions Management Institute (PMI) found that 77 per cent of industry members think that less than half of DC single-trust schemes will transition into master trusts.

Furthermore, there is concern that smaller schemes could be squeezed out of the market as they won't be able to compete and will not have the funds to meet stricter regulations. In March 2019, Welplan Pensions exited the market due to TPR's authorisation regime, which it believes has made the practise "cost-prohibitive" for many smaller schemes.

Welplan Pensions chief executive, Bruce Kirton, said at the time: "Over the past six months it has become increasingly clear that the master trust regulatory environment is one that favours much larger scale.

"There is now no meaningful place for a small or even medium-sized specialist business such as Welplan Pensions. This is something we've already seen with other smaller providers being acquired by larger ones."

DB consolidation

Within the DB space there are two main forms of scheme consolidation – superfunds and DB master trusts. The PMI's survey found that 67 per cent believe DB consolidation to be a good idea, although most concede that schemes have to look at their individual requirements and decide whether to consolidate, seek a buyout or achieve self-sufficiency.

Hymans Robertson partner and head of trustee DB, Susan McIlvogue, says: "It is important that trustees and sponsors keep an open mind, consider the options available and objectively reach the best decision for their members.

"There is no doubt that consolidation can create value for many small schemes, through reduced running costs, good governance and more effective investment strategies. Consolidation can also reduce the cost of ultimate buyout."

Cooper, however, highlights that it may not be that simple for smaller schemes. He concludes: "Smaller schemes cannot access certain assets and schemes that are not well funded may find it difficult to survive without consolidating.

"For smaller schemes, recruitment and retention of trustees is hard. Where will trustees come from? Either professional trustees need to be employed or the scheme needs to consolidate.

"DB consolidation is not going away, it just depends on the pace of change."

Written by Jack Gray

Summary
- So far nine schemes have exited the market, with a further 35 wind ups currently ongoing.
- Continuity strategies have been put in place by all schemes, as part of the authorisation process, in the event they are forced to wind up.
- TPR will oversee the whole event and schemes will be assigned a named contact at the regulator to ensure a smooth process.
- As of yet, the regulator has not encountered any issues with the overall process.

Pack it up, pack it in, let the wind up begin

With much of the media attention focused on the master trusts that have applied for or received authorisation, little attention has been paid to the schemes that are exiting the market. So for schemes that are being forced to exit the market, what is the process, what do they have to consider and has it been plain sailing so far? Theo Andrew investigates

With much of the attention focused on who is going to achieve master trust authorisation over the next few months, there has been a distinct lack of column inches devoted to what is happening on the other side.

As schemes wait with bated breath to see if they will be allowed to continue to operate in the market as a fully authorised master trust, what about those that have already decided to jump ship? And what about the schemes for whom authorisation might just fall by the wayside?

Unlike many of us, this is an issue The Pensions Regulator (TPR) has not been neglecting.

According to figures from the regulator, of the 14 million savers who are in a master trust, 98 per cent have been granted or have applied for authorisation, meaning in terms of exits, the regulator will be managing less than 2 per cent. But, when it comes to member security, every single one is just as important as the next.

At the time of writing, TPR is managing 35 ongoing exits from the master trust market, having already overseen nine exits, meaning that the number of schemes that could now potentially be authorised has more than halved throughout the process.

Tasked with overseeing a good proportion of these exits is the regulator's senior case manager, Peter Pearce, who says TPR is happy so far with the consolidation that has taken place in the market.

"We are still comfortable that we are seeing a healthy consolidation of the market. We've seen schemes of all sizes finding new arrangements and we have not had any evidence of master trusts or exiting master trusts struggling, or any difficulty finding a new provider," he says.

So for those who are being forced to wind up, or have decided to exit the market voluntarily, what is required of them?

The continuity strategy

As part of the authorisation process, schemes have been required to put in place a continuity strategy, outlining what they would do in various 'triggering events'; scenarios in which the scheme is forced to act to protect members, with the ultimate event being scheme wind up.

Aegon head of master trust, Kate Smith, says: "Each master trust should have a plan, such as setting up an emergency trustee committee, as well as informing members, employers and TPR what happened.

"They will have a default process about what actions need to be taken in order to find a new home for the assets, as when they are winding up they obviously have to transfer to another master trust, so there will be a default arrangement where you have to find one."

Once a triggering event has occurred, trustees of the scheme have 28 days to submit their implementation strategy to the regulator for it to review. The strategy must include how they are going to maintain contributions throughout the period, as well as how it will fund the administration of the scheme. Exiting schemes are then assigned a named contact at TPR.

Pearce says: "We will then do analysis, take the strategy, review it, challenge the trustees on elements of that strategy and ultimately make amendments to it until we are happy to approve it, and we must approve that strategy before the trustees can get down into the nitty gritty.

"Once we have the approval and we are comfortable with the direction of travel trustees have set out, it will result in protection for members and ultimately an orderly exit from the market. We

then monitor and work with the trustees through the process and really hold them to it."

A plan in action

After the strategy has been approved by the regulator, the trustees of the exiting scheme will have 14 days to write to the employers and members, providing specific details on what is happening, notifying them of the continuity strategy and what the process is going to look like.

According to Smith, employers and members will then have a choice about whether they are happy with the provider selected in the strategy.

"Employers can choose their own provider, they don't have to go with the default. It will be part of the communication plan, 'this is what the trustees think is good, but you can go somewhere else'," she says.

"A lot of it is about communication to make sure that people know what their rights and options are."

Of schemes that have wound up and consolidated, very few of them are happy to publically talk about the process.

In April 2018 however, The People's Pension (TPP) completed a master trust merger with Your Workplace Pension (YWP), passing over around 8,800 new members along with £20 million in funds under management.

Helping oversee the process was JLT Employee Benefits head of discontinuance, Tom Pook, who said at the time: "Winding up the YWP master trust offered some significant challenges, but through focused project management and co-operation

with each of the two trustee boards, we were able to achieve a smooth transition for members and employers.

"The government has mandated that all authorised master trust schemes will need a plan in place to deal with potential winding up, without increasing cost to members, and our experience has demonstrated the value of high-quality advice and upfront planning."

This pays credence to TPR's plan in ensuring that all master trusts have a plan in place in the first instance, but also highlights the difficulties that some schemes may be facing.

One of the biggest challenges the regulator spotted early on was data.

Pearce says: "When we looked at what problems could arise, we were very clear from early on, in our communications and guidance, we wanted to make sure that data was good for all schemes and we have encouraged all schemes as early on as possible to ensure it is up to date and clear for the receiving schemes.

"The majority of schemes have shown that they have good data. In instances where it has not been quite up to scratch, we have challenged trustees on that. Trustees of transferring schemes are working with trustees of receiving schemes to create solutions to those problems."

He adds that the regulator has had a particular focus on smaller schemes, but as they have progressed, it hasn't "seen any problems".

Another element that schemes must be prepared for is the cost of winding up.

In July 2018, TPR raised the minimum amount master trusts must hold to £150,000, after responses to a consultation on the authorisation and supervision of master trusts suggested the initial £75,000 funding requirement was too low.

The Department for Work and Pensions estimated that it could cost individual master trusts between £89,000 and £196,900 to exit the market. It is an area TPR is monitoring closely.

"The legislation is quite clear on costs, and the fact that scheme costs should be covered by the scheme funder. Any situation where we have had a triggering event, we are engaging directly with the scheme and the scheme funders for any concerns, ensuring they are monitoring the costs and making sure that they have the appropriate level of reserves to ensure that the wind up takes place as it should," Pearce says.

"One of the requirements of the strategy is that they provide detail on how costs will be paid for, as well as details on any reserves."

A firm grip

The regulator is confident that it currently has a firm grip on the winding-up process, and is happy that everybody is on the same page when it comes to exiting the market.

Of the 35 that are currently exiting the market, TPR has said that it does not foresee any issues on the horizon.

Pearce states: "Trustees and scheme funders must be very clear on the requirements and should be seeking their own advice. There is a lot of information on the website and just engaging with us as early as possible to start the relationship will ensure that we are all working towards the ultimate goal."

Written by Theo Andrew

Taming the Wild West

Richard Butcher navigates the master trust authorisation process

Perhaps it's a little unfair to describe the world of DC master trusts as a Wild West frontier. But only a little.

Auto-enrolment (AE) created a huge surge in demand for DC pension schemes. In the early days the prediction was that most of the new business would flow to insurers and their group personal pensions. However, everyone knew Nest would also do well out of it, principally because they would be the utility provider of last resort.

How wrong we were. I'm not sure which one appeared first (although I have a sneaking suspicion), but PTL picked up our first master trust appointment in 2010. From there they were popping up left, right and centre.

We won a lot of appointments and, as a result, we got even more approaches but it's fair to say they weren't all of the highest quality. It did become a little Wild West. In one case I asked to see a cashflow forecast. The response was "what's a cash flow forecast?" In another, the conversation began with the caller, who had a bit of the Arthur Daley about him, telling me he was going to make me rich beyond my wildest dreams. We put off or turned away far more than the 15 we won.

Master trusts were set to become the new giants of the industry but their quality was not universally high.

The response to this, in a remarkable display of deferred barn door shutting, was master trust authorisation. Better, however, late than never.

As if to make up for their tardiness, the government rushed to describe, consult on and refine a set of tests that master trusts would have to pass. Before they'd even finished The Pensions Regulator described, consulted on and refined how they'd run the tests. Master trust authorisation landed in April 2018, dummy entries were submitted over the following summer, the application window opened on 1 October and closed again on 31 March this year. We're waiting to hear how this will all end, but end it must, no later than October.

Describing, implementing and working out how to apply has been a colossal learning curve for all parties, which we've all had to climb at break neck speed. It's no wonder, then, that it's a little rough around the edges.

Don't get me wrong, authorisation is a robust process that will result in improved standards and better member outcomes. But its implementation has been a little hairy from time to time.

Firstly, the same rules apply to all: insurance-based, consultancy-based, for-profit, not-for-profit, semi-government-backed, mono or multi-line. The hole is square. Work out how you fit – it's not easy. A good example is capital adequacy as part of the business continuity plan. It's eminently sensible that trustee access to cash for operations on wind up should be guaranteed. If it's not, trustees risk not having the money they need to pay to wind up a trust. In the context of a well-capitalised, PRA-regulated insurer though, it seems a little unnecessary (the quantum of risk is the same, but the likelihood of needing it is vanishingly small).

Secondly, it was initially thought the process would be (a) apply and (b) outcome, but this morphed to (a) apply, (b) TPR triage, (c) seven-week meeting and (d) outcome. In reality it's been (a) apply, (b) triage, (c) lots of Q+A, (d) seven-week meeting, (e) more Q+A, possibly (f) another meeting, (g) more Q+A and (h) outcome. Only two master trusts, well three as L&G submitted applications for two, have made it so far *[at the time of writing]*.

Systems and processes have had to be changed (and although with good intent, I'm not always sure for the better), re-documented and resubmitted and detailed anomalies identified and resolved (it turns out I did the Trustee Toolkit with a defunct personal email address. They couldn't find my record. I had to dig out the certificate and send a scan).

We will end up in a good place. The cowboys will be gone. But it has been a mammoth and complex task for all – applicants as well as TPR.

Written by PTL managing director Richard Butcher

The Next Generation of Emerging Markets: the fastest growing countries in the world

MSCI Emerging Markets Index members

MSCI Frontier Markets Index members

Additional RWC universe

The **RWC Next Generation Emerging Markets Equity Fund** is designed to provide investors with access to potential growth opportunities in the emerging and frontier market universe that are under-represented by current indices and funds. 86% of the current MSCI Emerging Markets Index lies in 8 countries. The remaining 16 countries represent 14% of the index. These smaller emerging markets are at an earlier stage of development than large emerging markets such as China, Brazil, India and Russia but are more advanced than most frontier markets. **rwcpartners.com**

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The case for emerging smaller markets *– James Johnstone explores the investment opportunities of those emerging markets currently under represented by indices* ***p70***

Flexing its muscles *– Where within emerging markets are pension funds placing their money, how are EM funds evolving, and how should funds prepare for the future? Peter Carvill reports* ***p74***

Emerging markets focus:

A world of opportunity

James Johnstone, portfolio manager, RWC Next Generation

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The case for emerging smaller markets

James Johnstone explores the investment opportunities of those emerging markets currently under represented by indices

There is considerable diversity within emerging markets. Some countries are at nascent stages of industrialisation and infrastructure development whereas others are at the cutting edge of technology. Some have promising macroeconomic backdrops while others are suffering from economic and political instability.

Within smaller emerging markets there are growth opportunities in countries currently under-represented by indices. For example, Indonesia, Colombia and Egypt all have minimal weightings in indices but possess significant investment opportunities akin to some of the larger emerging markets 10-15 years ago.

A well-trodden path

The economic development of emerging markets follows an established path. Generally speaking, economies in an early stage of development tend to rely on agriculture. As an economy maximises its output from agriculture, the overall result is a productive surplus that primes demand for goods and services. This incites a drive towards manufacturing and urbanisation that takes place as workers migrate out of agriculture.

Cheap labour and attractive prices for manufactured goods generates interest from other economies and as an economy's export base grows, disposable incomes rise. Technological upgrading then streamlines the manufacturing process, leading to increased imports, thus laying the foundation for industrialisation.

Financing and credit at this point becomes a necessity, and so financial inclusion is a constant theme of the process. Furthermore, as disposable incomes rise, demand for property and white goods increases exponentially *[see figure 1]*.

Current opportunity set

Currently 84 per cent of the MSCI Emerging Market Index is composed of eight countries. Fourteen per cent is allocated to the remaining 17 countries. These 17 smaller countries, along with some of the large frontier markets, provide an interesting and diversified investment universe.

Most of these countries are at an earlier stage of development than large emerging markets but are more advanced than many of the smaller frontier markets. There are over 2,500 publicly-listed companies within this category. Many, while under-owned and under-researched, are fast growing, well managed and can deliver compounding growth. While c.27 per cent of the current MSCI Emerging Markets Index represents the technology sector, the traditional emerging market themes of financial inclusion, industrialisation and urbanisation are far more prevalent in emerging smaller markets.

The more domestically focused companies also tend to be less sensitive to global economic factors and have lower correlations to the larger emerging and developed markets.

Attractive valuations

Supporting the case are valuations that look attractive relative to larger emerging markets *[see figure 2]*.

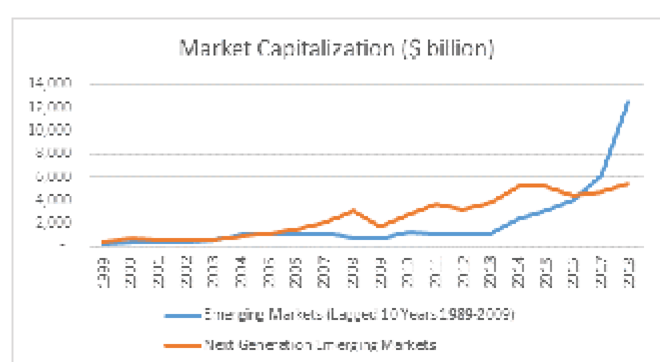
Opportunities by country

Saudi Arabia

The Saudi Arabian stock market is big and liquid. It boasts a total market capitalisation of $570 billion and trades roughly $1 billion per day and despite its up-coming inclusion into the MSCI Emerging Markets Index this month, foreign ownership of the market remains low at 2.1 per cent. Saudi Arabia presents a potentially attractive investment opportunity in light of the significant transformation programme initiated by Crown Prince Mohammed Bin Salman in 2016.

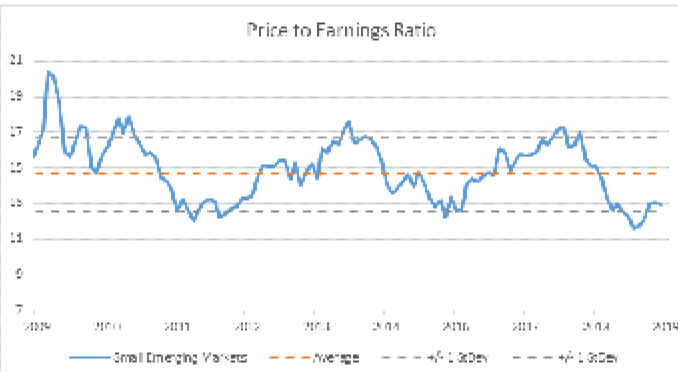
Whilst containing numerous pillars and goals, the overriding ambition is simple: the country aims to progress from a government-driven economy to one that is powered by private enterprises. The government plans to double GDP and increase the participation of Saudi men and women in the country's workforce.

Emerging markets vs. emerging smaller markets



Source: RWC, Bloomberg. Emerging Markets = MSCI Emerging Markets Index Constituents 1989-2009, Next Generation Emerging Markets = Malaysia, Thailand, Indonesia, Poland, Chile, Turkey, Philippines, UAE, Qatar, Colombia, Peru, Hungary, Greece, Czech

Figure 2



Source: RWC Partners, Bloomberg, 31 March 2019

Thailand
Thailand is one of the more well-known Asian emerging markets. However, the economy has faced various headwinds, which has led to foreigners selling more than $19 billion of equities since 2013. High levels of household debt and an ageing population have discouraged foreign investors, but the country still possesses idiosyncratic investment opportunities. Furthermore, the country has strong external dynamics with a current account surplus, which equates to around 8 per cent of Thailand's GDP. Tourism has seen considerable growth over the past 10 years. While the initial bout of inbound tourism was driven by Europeans, in the past five years arrivals from China have increased rapidly. Regional inbound tourism is set to continue as Thailand's unique geography allows it to tap into the potential flows from neighbouring frontier markets.

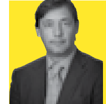
Indonesia
Indonesia has encouraging economic fundamentals with a large population of c.270 million, a young workforce and low household leverage. However, the country was pushed into a structural current account deficit in 2013, which led to a less favourable macroeconomic outlook over the past few years. Nonetheless, the country is still growing robustly at c.5.2 per cent. Bank Indonesia has kept interest rates elevated to preserve macroeconomic stability, which suggests a good environment for equity investors. The palm oil price is currently attractive due to constrained supply and better-than-expected demand, which is a good proxy for the Indonesian economy.

The Philippines
The Philippines is one of the fastest growing economies in Asia. GDP growth is expected to continue from 6.5-7 per cent, while President Duterte's policies will likely lead to a significant improvement in the country's infrastructure development. The Philippines boasts an encouraging demographic dividend with more than half of the 100 million population below the age of 25. The country's growth continues to be supported by two key pillars: The first is Business Process Outsourcing, which is currently 8 per cent of GDP, having been at around 1 per cent of GDP in 2004. The second is remittances which account for c.10 per cent of GDP. Over 10 million Filipinos work overseas, and inflows may continue to bolster the economy.

Turkey
The country is currently undergoing a significant macroeconomic adjustment after the currency crisis of 2018. However, the country boasts a young, well-educated population and a strong business culture that has attracted significant foreign direct investment and has led to robust GDP growth in the past. While both households and corporates have a significant degree of leverage, valuations are attractive and the country is currently offering idiosyncratic investment opportunities.

Egypt
From an investment perspective, Egypt is one of the most attractive reform stories in the emerging market universe. Years of policy mismanagement under the Mubarak administration led to the emergence of large fiscal deficits, weakening growth, high levels of debt and declining foreign exchange reserves. Since then, Egypt has undertaken significant reforms under the supervision of the IMF. GDP growth has started to accelerate driven by investment and exports and the overall fiscal deficit is expected to come down from c.9 per cent to c.7.5 per cent in 2020. FX reserves have improved significantly, inflation is coming down and Egypt has one of the lowest minimum wages in the world which should continue to boost the country's manufacturing segment.

Pakistan
After a strong performance from 2011 to May 2017, Pakistan's equity market fell considerably during the next 18 months as a combination of current account and fiscal deficits and diminishing foreign exchange reserves led to the Pakistani Rupee falling from 105 to 141 vs. the US dollar. However, the macroeconomic environment seems to be bottoming out. An IMF deal in the range of $6-8 billion is close and Pakistan is receiving additional support from China, Saudi Arabia and the UAE.



Written by James Johnstone, portfolio manager, RWC Next Generation Emerging Markets Equity Fund

In association with

All opinions expressed here are those of the RWC Emerging and Frontier Markets team as at 2 May 2019.
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Past performance is not a guide to future performance. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.
No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment

Summary
- After a rough 2018, emerging markets are seeing an uptick.
- Investment in this space is less about geography and more about sectors, particularly technology.
- Emerging markets are not homogenous, and should not be treated as such.

Flexing its muscles

After a disastrous 2018, emerging markets have seen an uptick in the first quarter of this year. But where within emerging markets are pension funds placing their money, how are funds evolving, and how should funds should preparing for the future? Peter Carvill reports

If you were an emerging market, 2018 was not a good year for you. A wave of international crises, fears, and narrowly-averted catastrophes on the global stage led to Bloomberg, in December, calling emerging market performances 'floundering' and 'turbulent'.

However, the news did not appear to be all bad, given that, "while the currencies, stocks and local-currency bonds of developing economies are all heading for their worst year since 2015, they have rebounded from lows in the past few months".

After a backdrop of a US-China trade war, potential war between the US and North Korea, the Brexit squeeze, the Kim-Trump meeting, political corruption in Malaysia, domestic troubles in Turkey, sanctions imposed on Russia, the murder of Jamal Khashoggi, political upheaval in Venezuela, and the rise of populism in Latin America, things had begun to improve.

As Lazard Asset Management wrote in Outlook on Emerging Markets, published in April: "Emerging markets equities rebounded in the first quarter after declining significantly in 2018, due mostly to a stabilizing US dollar, perceived progress in US–China trade talks, and recovering oil prices."

If 2018 was a rough year for emerging markets, it was a reversal of the steady growth that had characterised the sector since 1990. Between then and 2002, real GDP growth in this space averaged 4 per cent per year, compared to 2.5 per cent in advanced markets.

This had jumped between 2002 and 2012, in growth fuelled by China's expansion, to 6 per cent. Between 2013 and 2018, this slowed to 4.4 per cent; however, this still outpaced the GDP growths of the EU and the US. According to World Bank statistics, this was 2.456 per cent for the former in 2017 and 2.217 per cent for the latter.

A brighter future

Despite the tribulations of 2018, the outlook is bright. In March, Swiss Re released Emerging Markets: The Silver Lining Amid a Challenging Outlook. The authors said: "Emerging markets will remain the growth engine of the global economy over the next decade and as part of that, we expect the shift of economic power from west to east to continue.

Our projections indicate that together, the emerging economies will account for 60 per cent of global growth in 10 years' time. The seven largest emerging markets will contribute up to 42 per cent of global growth, and China alone 27 per cent."

The same report states: "In spite of current macro adversity, emerging markets remain in a favourable economic position, especially vis-à-vis advanced markets."

Lazard Asset Management's head of emerging markets, James Donald, acknowledges that 2018 was a difficult year. He says: "It was dominated, to a large degree, by macro-economic and political events. Along with the sanctions on Russia and the strife in Turkey, the strong dollar was putting pressure on every currency. There was also a major effect during H2 from the US' higher tariffs, particularly on Chinese exports.

Given that, I'm not surprised to see markets up now. Given it was only Q1, the increase was more than I expected."

Pension funds, with their vast assets, have long invested in emerging markets. In September, Willis Towers Watson estimated that the 15.1 per cent increase in AUM by the world's top 300 pension funds in 2017 was driven by the growth of pension funds in this area.

Donald's perspective on pension funds and their investments in this space is that the interest is not delineated by geography, but is instead focused on areas such as technology. "This is," he says, "because it tends to be a big sector. Tech tends to be a big part of their investments. There's some huge Chinese and Korean internet companies."

RWC Partners' co-head of emerging and frontier markets James Johnstone expands on this point, linking it with the commodities that emerging markets have traditionally been associated with. "In the old days," he says, "back in the nineties and the first decade of this century, emerging markets were closely linked to commodities, particularly if you look at their rise and the growth of China.

"With the emerging markets of 2019, nearly 85 per cent of those markets import oil. They should have lost their relationship with commodities. Nearly a third of index in emerging markets is now involved in tech. You've got fantastic Chinese companies that are at the cutting edge of the tech world. I think that when oil prices fall, this will be a boon for China and India."

All change

Johnstone's colleague, head of business development, Tord Stallvik, says that the approach taken by funds investing in this space will probably change, although he adds that it is difficult to make a definitive statement on this. He says that the typical fund approach is driven by target assets.

"If you have the emerging markets index as your benchmark, it becomes risky for the pension fund to do the things that a crossover portfolio would do. The irony, of course, is that the risk in that case is the risk that your performance differs from that of the emerging market index. What we hope they'd be thinking about is the return they'd make if they didn't go into smaller emerging markets and therefore miss out on the returns from those fast growing markets."

Stallvik questions what funds will do as China's economy and market continues to grow, and whether that will cause the country to be allocated separately. It will, he says, be interesting to see what it means for emerging market mandates if funds do go down that road.

One change that has been apparent, according to Newton Investment Management's chief commercial officer, Justin Lyne, is that funds and other individual investors have been looking with closer attention to the ethical and sustainability targets and characteristics of their investments. He says that he has seen more questions posed about carbon footprints, water usage, and diversity. "In emerging markets," he adds, "people are more attuned to the natural world the opportunities it offers, particularly in the focus on ESG."

This closely relates to the idea of governance, and how companies in the emerging economies regulate themselves and the methods taken by their local governments to oversee them. Quite often, in these countries, such measures are a work in progress. When asked about this, Donald says that Lazard Asset Management does extensive testing through questionnaires and the results often impact the valuations given. The impact, he says, is "significant".

"The devil is in the detail," Donald says. "We've been discounting for governance for the last two decades. The lesson we've learned in that time is that every company is different, and their governance is more sensitive to what they do than to the regulations in place. With this type of thing, you have to look at everything on an individual basis and understand the intent of the people in charge."

Different characteristics

It is important to remember that emerging market countries are not homogenous. There are differences in regulation, social mores, levels of corruption, workers' rights, and limits in foreign investment. One issue that has a great impact on this sector is the level of state intervention in the domestic economy. "We believe," says Lyne, "that being the minority shareholder in a company where you're at the whim of political interests is not a good place to be. We try not to have exposure in those areas".

The future, for now, seems to be bright, with experts making the case for increased investment by pension funds. Lyne says: "Pension schemes are going to look at the intrinsic growth opportunities and make individual allocations to individual markets. From there, it comes down to their point of view. It's also the point when I think we'll see the interesting conversation between active and passive management. If there's a risk budget and a cost budget, a lot of schemes are going to be making allocations to emerging markets."

Written by Peter Carvill, a freelance journalist

In association with

Summary
• Interest in defensive strategies are rising as investors want to lock in the gains they have made.
• Predicting the future of equities markets is difficult and defensive strategies that offer upside potential and downside protection are looking attractive.
• There are a variety of strategies, ranging from low volatility to option-based overlays and mixing convertibles and equities.
• Each comes with their own set of challenges and investors have to be aware of the risks.

On the defensive

With institutional investors turning their attention to equity defensive strategies, Lynn Strongin Dodds reports on the variety of options available and the challenges and risks they pose

Although equity markets continue to defy gravity, the end of last year is a reminder that valuations can unexpectedly plunge. Not wanting to get caught by surprise again, institutional investors are revisiting equity defensive strategies. While low volatility remains a firm favourite, options strategies are increasingly becoming part of the mix.

According to Mercer's *2018 European Asset Allocation* survey, allocations to defensive equity strategies are up by 12 per cent. One reason is that timing the end of the prolonged bull market has been tricky. For example, the strong rally since the beginning of this year indicates a positive outlook for equities but on the other, falling bond yields suggest that that there is trouble on the horizon and investors are running for cover.

PanAgora Asset Management director, multi-asset, Nick Alonso, believes that "there is a growing consensus that we are in the later stages of the economic growth cycle and positioning an equity portfolio for an uncertain path forward is prudent."

"Equity markets have been in a bull market for a very long time but there are economic signs that growth is slowing," he adds. "For example, Eurozone Q4 gross domestic product slowed to just 0.2 per cent and there remains uncertainty as to the resolution and timing of Brexit".

However, State Street Global Advisors managing director, EMEA head of investment strategy and research Altaf Kassam thinks "we are in a 'new normal' and nowhere near the levels we would be at if we were at the end of a normal business cycle".

"This can go on a lot longer if the patient stays on the QE drip and central banks continue to be accommodative. However, as we have seen before, something can always come out of left field, and people want to protect the gains they have made over the past 10 years."

Kassam also notes that UK defined benefit schemes do not need the same high levels of returns that they did in the past. They have benefited from strong equity returns and closed their funding gaps. As a result, they can adopt a defensive approach and relinquish some of the upside for downside protection.

Spoilt for choice

As with many investment approaches, equity defensive strategies come in different flavours with varying degrees of protection, complexity and returns. One of the most popular is and has been the low or minimum volatility funds, whereby investors gain exposure from smart beta products or funds. Empirical evidence points to the low volatility anomaly, which shows that these securities, because they typically fall less in down markets, tend to generate higher risk-adjusted returns over the longer term. They proved their mettle in 2018 where Brexit, slowing global growth and continuing trade tensions between China and the US took its toll in the fourth quarter. Research from MSCI showed that its Minimum Volatility Indexes across different regions outperformed their corresponding broad market indexes by six percentage points and higher.

Variable beta and quality stocks are also in vogue. "Within defensive equity, strategies focusing on quality equities are well-proven in the long term. These strategies invest in stocks where the underlying companies have high quality earnings, with characteristics like stability of dividends, high return on equity, and low accrual ratios," says Mercer investment consultant Matt Scott. "We are also including variable beta strategies under the heading of defensive equity, where managers have the flexibility to move from equities to fixed income, cash or even gold, if they feel equity valuations are unattractive. They would also typically invest in lower beta sectors, canonical examples of which include the healthcare or utilities sectors."

Looking at all options

Sitting at the more complicated end of the spectrum are the market neutral long/short equity strategies, as well as option overlays, which are gaining traction. They involve buying puts and selling calls to reduce the volatility and drawdown potential of equities. "Here either the asset manager acts as an adviser for in-house teams or is allocated an amount of cash or portion of the equity portfolio to use as collateral for the hedge," says LFIS head of fund solutions Edouard Laurent Bellue.

He adds that another alternative to hedging is funds with a differentiated defensive profile. "We have seen growing interest from institutions in this sort of solution, which employs a multi-asset approach using derivatives not as an overlay but as a means to take more defensive equity positions," he says.

Parametric Portfolio Associates, the quantitative affiliate of Eaton Vance, has a slightly different option twist with its global defensive equity fund which is split between cash and equities. It seeks to harvest the volatility risk premium and does so by selling short dated out of money call options on the equity securities, and put options on the cash position. The aim is to deliver outperformance in negative, flat and modestly high equity markets and trail, albeit with positive returns, in strong markets.

"The use of options can meaningfully add to portfolio performance," says Parametric Portfolio Associates fund manager Alex Zweber. "The objective is to deliver equity-like returns but with a much smoother ride than many other traditional equity strategies. The other benefit is that this is a cheaper alternative than an equity hedge fund strategy."

Another variation is funds that combine equities and convertible bonds. "Investors are concerned about a variety of downside risks today and the level of risk asset prices broadly, but timing the markets is difficult," says Calamos Investments senior vice president, co-portfolio manager Dennis Cogan. "Investors are also uncomfortable being on the side lines when there is a strong market rally. We think our lower-volatility strategies are a good solution because they keep investors exposed to the equity market but provide a better risk-return profile."

Cogan says that the Calamos Global Opportunity Fund blends convertible bonds and equities across sectors and geographies. The structure of convertible bonds that have principle protection similar to straight bonds along with the option to convert into common equity provides a natural asymmetry that has the potential to deliver long-term equity-like performance with lower volatility. By combining convertible with equities, we can calibrate equity market exposure and maintain the favourable upside and downside capture dynamic through the cycle."

There is of course no free lunch and each approach comes with its own set of issues. For an actively-run equity run strategy these may include forecasting risk for each company, avoiding unintended bets and excessive concentration, according to AQR principal and co-head of global stock selection Andrea Frazzini. "Some defensive equity portfolios can end up with large concentrated bets in a few industries," he adds. "Implementation also presents a challenge. As with all equity strategies that take active bets, paramount to success is determining an appropriate level of trading and rebalancing, taking into account transaction costs and trading in a cost-effective way."

If the portfolios employ option overlays then a larger governance budget and oversight function is required. "There is an operational intensity because pension funds may need to make decisions quickly in terms of whether they want to vary the hedging or roll over the contracts," says Scott. "There is also a documentation burden. However, this is often easier if the UK pension fund has a segregated liability driven investment strategy and manager because much of the documentation and a pool of collateral will already be in place."

Wellington Management multi-asset strategist Ben Cooper also notes that the cost of portfolio hedging with options varies substantially – 50-250bps p.a. – and for many clients, especially those with long investment horizons, this is prohibitive," he says. "In such cases, we have seen more interest in risk-mitigating strategies, such as macro or relative hedge funds, or alternative risk premia strategies. Attention should also be paid to the details of the structure – maturity, strike prices, and the underlying asset, as well as the operational and reporting set up."

Written by Lynn Strongin Dodds, a freelance journalist

New finance for new energy

Although the pensions industry is increasingly looking to be more sustainable in its investment strategies, few seem to be talking about nuclear energy. Jack Gray speaks to EDF Energy about this much-misunderstood form of low-carbon energy, and why pension funds should consider investing in it

When discussing sustainable energy, people usually think of wind farms popping up offshore or fields of solar panels out of their windows as they drive down the motorway. What many don't realise that is that around 20 per cent of the UK's electricity is produced through its nuclear power stations.

EDF Energy currently operates all active nuclear power stations in the UK, which were predominantly built in the 1970s and 80s, but they are all due to close between 2023-2030. However, it has begun construction, with assistance from the government and state-owned Chinese company CGN, on Hinkley Point C, which is expected to be completed in 2025.

The French energy company is now seeking to build a second new nuclear power plant, on the Suffolk coast, called Sizewell C. It is looking to replicate the design of Hinkley Point C and is urging pension funds to invest in this sustainable energy source. Although some may be sceptical after funding issues and delays with Hinkley Point C, EDF insists it has learnt from these issues and has employed techniques to ensure Sizewell C will proceed smoothly, and that pension funds should consider it as a sustainable investment as a result.

Investment consideration

"UK pension funds are a good match for the long term, regulated and reliable returns which nuclear power at Sizewell C can provide," begins EDF Energy director of nuclear development, Julia Pyke. "Pension funds have a strong track record of investing in national infrastructure assets and energy."

Pension funds may be concerned at the risk associated with investing in nuclear power stations, but Pyke wants to assure potential investors that risk has been reduced after EDF's experiences with Hinkley Point C and that changes have been made to address concerns.

She says: "Two things have changed – first a new regulated finance model is being developed with government which

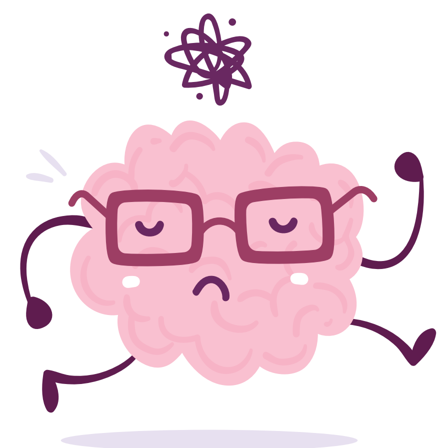
The knowledge and skills needed to administer a defined benefit pension could become a 'black art', with the few remaining practitioners naming their price. Older pension schemes are already suffering from having experienced staff retire or leave without passing on key information, but a little common sense can help avoid a 'brain drain' that slows down complex work in rarely-explored areas.

Companies must identify emerging skills gaps and make sure knowledge is readily available; managers can note if there are any staff that are regularly called upon as experts, and encourage them to train their peers and prepare written instructions. A skills matrix can be a great help here.

The industry cannot afford to lose that knowledge, but if people with DB experience and credentials are to be kept in the workforce, talent retention is critical – and a higher salary and better tangible benefits may no longer be the main motivations for change.

Modern lifestyles make flexible working, both in pattern and location, and training and education in the workplace key drivers of employee satisfaction. Younger, more agile companies have discovered this and are reaping the benefits. DB pensions may not evolve, but the companies that administer them must do so, or pay a steep price.

Intellica head of pensions Garreth Hirons



Logically of course DB knowledge will become gradually more scarce, as those who have spent most of their career in DB administration retire. However the prospects are not so frightening as, for example, is the scarcity of programmers who are expert in the COBOL language, used by many of the early mainframe computers.

There have been many profound changes in the pensions landscape over the past 40-50 years; not least the fundamental change in the pensions tax regime on 6 April 2006 ('A Day'). Experts on the fiendishly complicated Revenue Limits regimes, which ruled member benefits in the pre-A Day world, have been retiring ever since, but no-one is panicking.

DB and DC are not completely foreign languages, one to the other. Many of the skills are transferrable, and professional development courses and qualifications such as those provided by the Pensions Management Institute continue to encompass DB as well as DC knowledge.

Aries Insight director Ian Neale

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Material change: A five-step ESG checklist for trustees – The consideration of ESG information can help pension scheme trustees meet their core objective of providing retirement benefits for members. But what does this mean in practice? **p80**

The age of ESG responsibility – With ESG discussions coming to an end and implementation beginning, Elizabeth Pfeuti looks at how schemes can integrate an ESG approach into their investments **p82**

Sustainability focus:

Sowing the seeds of change

Iancu Daramus,
Sustainability Analyst, LGIM

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Material change: A five-step ESG checklist for trustees

New guidelines from the Department for Work and Pensions (DWP) clarify that environmental, social and governance (ESG) information can have an impact on the financial bottom line. The consideration of ESG information can therefore help pension scheme trustees meet their core objective of providing retirement benefits for members. But what does this mean in practice?

Step 1: Defining ESG integration

ESG factors – from climate change to the quality of management – pose potential risks and opportunities, which can have a material impact on the performance of investments.

Therefore, ESG integration aims to identify and support good management, as companies that are aware of their impact on wider stakeholders should be less likely to face political or regulatory pressure.[1] Such companies can reap multiple benefits, from more efficient operations to attracting and retaining talent.[2]

Frequently discussed ESG considerations: • climate change • labour standards • supply chain sustainability • board diversity • director independence • executive pay • audit standards

Historically, ESG integration has been associated with screening out companies or entire sectors (an approach taken under 'ethical' investing). But instead of exclusions, we believe other, data-driven approaches may promote capital allocation to companies that are well managed, using information that has fallen outside of traditional financial analysis.

Other approaches, such as stewardship, are less quantitative: it is in the financial interest of asset owners to demand high standards from the companies in which they invest, through their corporate engagement and voting activities. By holding to account companies that fall short, investors contribute to market stability, a key driver of investment performance.

There are two ways in which we view ESG considerations as 'financially material':

- As a protection against risk
- As a potential source of financial outperformance

At LGIM, we believe that responsible investment approaches, which integrate ESG considerations, can indeed help mitigate risks and have the potential to lead to better, long-term financial outcomes.

Step 2: Defining investment beliefs in the Statement of Investment Principles (SIP)

In the SIP, trustees are expected to provide comprehensive details on their scheme's governance structure. In some schemes, monitoring ESG considerations may fall under the remit of internal investment teams, while for smaller schemes this might be delegated to external asset managers.

As the regulations refer to the "selection, retention and realisation of investments", we at Legal & General Investment Management (LGIM) encourage trustees to conduct a robust review of policies, risks and opportunities throughout the entire investment process.

	Old regulations	What's changed?
ESG and ethical considerations	Environmental, social and ethical issues were grouped under the same category. Trustees were required to explain how they were incorporated into investments, if at all.	A clear separation between material ESG issues (which trustees **must** take into account) and the ethical views of their members (which trustees **may** take into account). DC scheme trustees are also expected to explain how material risks (including ESG) are managed in the default strategy, not just the self-select option.
Reporting against SIP (for relevant schemes)	'Red flag' approach: report only in case of a breach of policy.	'Green light' approach: report on how the SIP has been implemented.
Stewardship	Trustees were asked to report on the 'policy (if any) in relation to the exercise of the rights (including voting rights) attached to the investments.'	All schemes must have a policy on stewardship. The definition has been broadened to include more than just voting, including engagement with 'relevant persons' (directly with companies, indirectly via asset managers, or with fellow shareholders) and on 'relevant matters' (which include ESG issues).

Step 3: Reviewing strategy and asset allocation
Trustees should be prepared to give an account of how they have considered ESG matters when developing an investment strategy and how this has been taken into account within its asset allocation for default and self-select options.

Trustees may adopt multiple ways of integrating ESG considerations: by taking direct action in investments; committing to support responsible investing organisations and initiatives (e.g. through investor networks); or by setting explicit expectations when selecting and monitoring asset managers.

We expect DC members to increasingly engage with efforts to integrate ESG considerations into their portfolios. If they knew their pension was having a positive social impact, 53 per cent of respondents to an LGIM member survey said they would engage more with their pension and 27 per cent of respondents said they would even pay more into it[3].

Step 4: ESG integration in asset manager selection
The regulations require trustees to be able to give an account of their managers' approaches to material issues, including ESG considerations. Engagement is a key mechanism for investors to hold companies to account; the only mechanism, in the case of index funds, which cannot buy and sell securities – for investors to hold companies to account on how they are preparing for long-term growth. In addition, many asset managers will have made explicit commitments to engage, as signatories to the UK Stewardship Code and similar initiatives around the world.

The depth of engagement conducted by asset managers varies. Some may only vote with their shares on a subset of investee companies, or limit engagements to the 'G' of 'ESG' (issues such as executive pay or director appointments). However, asset managers do not need an explicit mandate to engage with companies on material ESG issues.

The starting point is assessing the manager's ESG integration capabilities as a routine part of requests for information, as well as through other reporting channels. Trustees can use this information to compare and monitor the performance of their managers.

Trustees are likely to find that elements will already be incorporated into their investments in some form, but can it be improved?

The new regulations require scheme trustees to have a stewardship policy. At LGIM, we believe there are general principles underlying effective stewardship:

- 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

We encourage trustees to ask for information on:

- The scope of voting
- The consistency between voting policies and professed engagement aims
- The levels of disclosure
- The extent of reliance on proxy advisers (and how voting activity differs from their recommendations)
- The willingness to collaborate with other investors to drive market changes
- The level of engagement with key actors to raise market standards
- The extent of engagement in asset classes other than equities

Step 5: Reporting requirements
Trustees of DC and dual class schemes are required by law to produce a public report detailing the implementation of the SIP by 2020.

Asset owners can help raise the standards of ESG reporting by supporting initiatives such as the Taskforce on Climate-related Financial Disclosures.

ESG integration – in spirit as well as letter
As investors increasingly recognise that ESG factors play a crucial role in determining asset prices, LGIM believes responsible investment approaches in which they are fully integrated are destined to become the new normal.

Increased transparency and ambition from asset owners can help send an important signal across the investment chain. In addition to helping trustees to prepare for the new DWP guidelines – most importantly by engaging with their asset managers – embracing the spirit of the regulation can have a positive impact on investment portfolios. In the case of DC schemes, it also may bring significant engagement opportunities for members.

Written by Iancu Daramus, Sustainability Analyst, LGIM

In association with

[1] *BofAML, ESG Part II: a deeper dive, June 2017*
[2] *https://www.tandfonline.com/action/showCopyRight?scroll=top&doi=10.1080%2F20430795.2015.1118917*
[3] *Source: LGIM survey of 1,000 respondents, made up of contract-based members, mastertrust members and L&G staff members, 2019.*

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As school children march about climate change, demanding action is taken to reduce its speed and impact, they are calling on the generation in power to take moral responsibility.

For pension fund trustees, however, this responsibility is already being imposed by regulatory forces looking to harness the power of institutional assets to help reach targets on environmental, social and governance (ESG) issues.

In September 2018, the Department for Work and Pensions (DWP) published its response to a consultation on changes to regulations around how retirement funds should invest. Within this response was the new instruction that trustees needed to consider ESG issues when making investment and asset allocation decisions.

Despite a shift having already been taken by some in the industry to highlight risks around climate change and other societal challenges, it was the first time the government had been explicit in calling for trustees to consider them.

Under these new regulations, by October 2019 trustees will have to update or prepare their strategic investment policy (SIP) to include their rules on ESG. These rules will be included under the "financially material considerations" tab, indicating the importance the DWP considers these factors to have, leaving trustees to ponder the "appropriate time horizon" over which to measure it.

Trustees will also have to set out how they intend to engage as investors, indicating the DWP thinks stewardship should move up the spectrum of responsibility for owners of some of the world's largest – and smallest – asset owners.

All in this together

While the above applies to both DB and DC schemes, for those with members actively allocating their own investments, there is an additional duty.

By October 2019, DC schemes must show on a publicly available website

Summary

- The discussions over ESG is over and its implementation into pension fund portfolios has begun.
- By October 2019 trustees will have to update or prepare their strategic investment policy (SIP) to include their rules on ESG.
- Trustees should make efforts to understand what their investment managers' ESG actions are.

The age of ESG responsibility

With discussion over whether ESG issues should be taken seriously coming to an end, implementation has begun. Elizabeth Pfeuti looks at how schemes can integrate an ESG approach into their investments

how their SIP complies with these new regulations – and a year later report back to beneficiaries how the trustees have acted on their responsibilities.

Legal & General Investment Management head of DC client solutions, Simon Chinnery, says doing nothing was no longer an option.

"New guidelines from the DWP clarify that ESG information can have an impact on the financial bottom line," Chinnery says. "The consideration of ESG information can therefore help pension scheme trustees meet their core objective of providing retirement benefits for members."

Hermes Investment Management head of sustainable investing, Andrew Parry, says, rather than just conforming to a current way of thinking, the DWP measures would help pensions stay ahead – or at least up to date – with how the economy might be affected by ESG issues.

"The main obligation for trustees remains to meet liabilities," he notes.

"Funding ratios are still challenged, so the most important thing for them to look at is their risk/return and how they are going to meet that challenge."

It is important to note that the DWP has not set out an explicit formula on how it wants pension investors to conform. Due to the range of investors around the country and the differences in scale and sophistication, it would not have been practical.

Parry says trustees needed to think about these new responsibilities as a focus on long-term risks and use the outline given by the DWP to consider what the issues mean to them and how they can best tackle them.

Pays your money, takes your choice

For most pension funds, DB and DC, investment decisions are delegated to third-party providers. Barnett Waddingham partner, Neil Davies, says most asset managers would be incorporating ESG factors into their investment processes, but the extent of this will vary.

Davies explains: "Trustees should seek to understand what their current managers are doing to take account of the ESG opportunities and risks in their portfolio during their investment decision making process; how these are monitored throughout the life of the investment; and how managers engage with companies and vote as shareholders, where possible."

He adds that most trustees would take a steer on their investment policy from looking at existing strategies but doing this would be adhering to the bare minimum. Rather, many in the sector see this move by the DWP as a chance to better explore the opportunities available by repositioning a portfolio.

Chinnery says there was a range of ways to integrate ESG considerations: Taking direct action in investments; committing to support responsible investing organisations and initiatives; or by setting explicit expectations when selecting and monitoring asset managers.

He adds that historically, ESG integration had been associated with screening out companies or entire sectors, but instead of exclusions, data-driven approaches "may promote capital allocation to companies that are well managed, using information that has fallen outside of traditional financial analysis".

"Approaches such as stewardship; demanding high standards from companies in which you invest and holding those that fall short to account through corporate engagement and voting activities, contributes to market stability, a key driver of investment performance," Chinnery says.

Parry says the world was going through a series of changes – good and bad— and people were noticing the growth opportunities appearing as a result. He notes: "Changes in tech, increasing global trade and changing demographics are impacting everything."

He says trustees, through their investments, could capitalise on these changes, rather than get left behind.

"The question must become: 'Why wouldn't you integrate ESG into your approach?' rather than 'why would you?'," Parry states. "If you don't think about the impact of S and G, you are not going to get a picture of future sustainability. Survival of everything – including companies – is the most important thing for investors, and ESG inputs should help ensure survival."

He says that while there were no guarantees that putting a sustainable label on something would produce the future returns a pension fund needed, trustees should be aware of the portfolio's inherent ESG risks.

"If you have no policy on this, it will be as big a problem as it would be in any other part of the management of your fund, such as interest rates and longevity," said Parry.

First steps

Despite some investors ardently believing in ESG issues and setting a strategy some time ago, others may be just starting out on the journey. Aviva Investors chief responsible investment officer, Steve Waygood, suggests a range of first steps to set these trustees on the way.

"Sign up to be a member of the United Nations Principles for Responsible Investment (UNPRI) and ensure your managers have done so," Waygood states. "If they have not, trustees need to find out why and put pressure on them to adapt to the approach investors around the world are starting to expect."

Waygood adds that unlike many areas of the investment world, where getting an inside edge was key, those working on sustainability were more collaborative: "For trustees just starting out, there are plenty of others within the UNPRI who are further along the path who will help. The pool of resources is very deep."

How do members fit into all of this? Davies says it was optional to take members' views into account around ESG issues, but trustees should be aware of the time horizon of DC and how implementing these factors openly may play out over the scheme's lifetime.

With the impact of climate change already being seen and pushing changes in demographics and global trade, it is likely that by the end of a pension fund's time horizon the world will look very different to today. For Waygood, members are the key to the whole point of "responsibility".

"It is the beneficiaries who are asking the question and they deserve an answer, but it is not just about activists vs grown-ups. The European Union, Financial Stability Board and the Organisation for Economic Co-operation and Development are looking earnestly at what needs to happen," he says. "If trustees have not looked at their strategies, their fiduciary duty now compels them to do so as the regulatory push has arrived."

Written by Elizabeth Pfeuti, a freelance journalist

In association with

Group work

The number of pension industry working groups seems to have increased in recent years. Is this beneficial for the industry, with a more dedicated focus on a variety of issues, or is there a risk of there being too many of these groups to make an impact? *Pensions Age* asks your views

The increase in the number of pension industry working groups is a general reflection of the increasing complexity of UK pensions. Take GMP equalisation. That is an issue that we have been able to avoid for almost three decades but, now that it is live, we need to consider data quality and record keeping, trustee fiduciary duties and data tolerances. The Pensions Administration Standards Association (Pasa) industry group will be reporting on all these points.

It also seems quite possible that further working groups will be formed in future, for example, to consider tax issues. This seems like an efficient route to achieving sensible ways forward – and it is pleasing to see an industry in which so many people will volunteer their efforts for the benefit of all.

Occasionally, the industry needs a definitive view when there is a range of opinion, and I see this as being a role primarily for The Pensions Regulator.

Of more concern is whether industry groups always recognise when they have achieved their objectives and wind-up, rather than continuing to exist for the sake of it. Similarly, groups need to recognise when their objective is unrealistic, or is being met in some other way, and disband.

Aon head of UK retirement policy Matthew Arends

We support the concept of working groups within the pensions industry to help navigate important areas of development, drive innovation and position the area of pensions to effectively meet the evolving needs of members. However, I believe that in order for working groups to be as successful and effective as possible, they could leverage a new approach. The current Achilles heel for some working groups is the lack of diversity. It's often the case that the same individuals within the pensions industry sit on the current roster of working groups, giving rise to groupthink, which potentially limits the number of new ideas; an area that is fundamental to their ongoing success.

Furthermore, there is an opportunity for working groups to incorporate the views from members, ensuring their needs are kept front and centre to any future developments. Integrating external input will better ensure that the right member outcomes are delivered, which I believe is an important area of responsibility for the pensions industry. Finally, working groups can be more strategic – and discuss the big themes that are likely to influence the pensions industry in the next few years, such as technology, how to engage across the generations and the evolution of retirement in the future.

Kas Bank managing director UK Pat Sharman

Working groups 'work' when they are tasked with looking at specific issues and have the appropriate skills/resources/willingness to deliver. That's why Pasa ensures there's no re-inventing of wheels and, when we're looking at the required skills, we have the ability to go beyond our membership if we need to for our working groups. This ensures we have an enriched, but focused, approach.

As long as each working group has an agreed objective, is accountable for delivery and assuming there isn't another group already seeking to deliver the same thing – I think they are beneficial.

Pasa chair Kim Gubler

It is difficult to generalise, because of the variety of working groups in the industry, and effectiveness varies. Industry groups that are set up with a very specific focus on difficult issues, such as the Pension Scams Industry Group, can be hugely beneficial in pooling expertise from across the industry and gathering different perspectives (legal, actuarial, administration etc). Working together, often in instances where the legal or regulatory position is complex or unclear, allows the sharing of ideas and testing of solutions to reach pragmatic outcomes such as the setting of industry standards eg the industry Code of Practice on Combatting Pension Scams. Occasionally there may be working groups that do not appear to work so well, eg where they are slow to assemble/produce output, lack focus/clear objectives/encounter competing objectives, or overlap with the work of other groups, which can be confusing. Such groups may not appear to add value in the same way. However, in general, the collegiate nature of the pensions industry is a good thing that benefits both the industry and the pension scheme members it serves.

Sackers partner Caroline Legg

Summary
• As mis-sold PPI claims draw to a close, claims management companies are turning their attention to mis-sold pensions transfers.
• SIPP providers, financial advisers and DB trustees are most at risk of litigation.
• The number of mis-sold pension claims increasing is expected to be costly for the pensions industry, in terms of time, money and reputation.

Have you been mis-sold a pension?

Following a rise in complaints about inappropriate pension transfer advice, claims management companies may now look to replace their 'mis-sold PPI' revenue with that of 'mis-sold pensions'

"Have you been mis-sold PPI?" This phrase, shouted out through adverts, calls, emails and texts, was once so ubiquitous that it conditioned for many a Pavlovian-style visceral reaction of annoyance. But thankfully for blood pressure levels, these words have been ringing out less and less as the cold-calling ban comes into effect and the deadline date for PPI claims, 29 August 2019, creeps ever closer.

However, claims management firms will be looking to replace the income generated from PPI claims. And they're looking in the direction of the pensions industry.

Dalriada Trustees senior trustee representative Hugh Nolan notes that while the mis-sold claims currently seem to focus around Self-Invested Personal pensions (SIPPs), they may in time also cover DB to DC transfers and drawdown advice.

"The claim will be that the consumer has lost out as a result of the advice given, which may simply be because it didn't work out as well as they had hoped or that their previous scheme would have been better with the benefit of hindsight," he adds.

Also looking back was the FCA, which in its 2017 *Update on DB transfers* noted that since October 2015, of the 88 DB transfers it looked at, where the recommendation was to transfer out, only 47 per cent were found to be suitable.

The Pensions Scams Industry Group (PSIG) also found in January 2019 that, of the 27,000 transfers it researched, one in 20 were 'dodgy'.

Increases expected

So there is potentially plenty for claims management companies to work with. And working they are.

"There is no doubt that claims management companies are looking for a new revenue stream to replace PPI claims. The amount of money in pension schemes makes our industry potentially attractive if they can find a way to earn money from any mistakes. I fully expect the volume of these claims to rise in future," Nolan predicts.

The Financial Ombudsman Service agrees, expecting 14,400 investment and pension complaints during 2018/19 – a 15 per cent increase on the 12,362 received the previous year.

The Financial Services Compensation Scheme (FSCS) also states that pension claims will be the majority of its compensation costs on 2018/19, with the bulk of these claims arising from bad advice to transfer retirement savings out of occupational schemes and into SIPPs. It expects the number of these claims to reach 8,200 in 2019, compared to 7,800 last year. In April, FSCS' protection limit rose to £85,000 for these claims.

Pensions 'mis-selling' claims are incredibly varied, Eversheds senior associate Dan Jackson points out, with claims ranging from c.£20,000 into the hundreds of thousands. "However, the majority of claims tend to be in the region of £40,000 to £70,000."

A quick Google search shows these high figures are used by claims management companies' websites to tempt people. They highlight case studies of people receiving many thousands of

pounds for 'mis-sold pensions'. They stress that claims can be resolved 'hassle free' in mere weeks. Feedback comments call fees in the range of 50 per cent 'reasonable' (despite the Money Advice Service's website stating that the same help can be achieved for free through the ombudsman service, with the same likelihood of winning).

When websites aren't enough, phone calls are also used to drum up business.

For instance, Better Retirement financial adviser William Burrows received one such cold call last year, with the caller suggesting that transferring into a SIPP was 'high risk' and therefore may be entitled to compensation.

The Personal Finance Society chief executive Keith Richards points out that most claims management firms provide an invaluable consumer service and will even deter consumers from pursuing a claim when inappropriate.

"However, there are some unscrupulous behaviours and poor practice, with evidence of the cowboy ambulance chasers already trying hard to stir up claims and revenue opportunities."

If mis-sold pension claims are successful, the cost could run to billions, PSIG chair Margaret Snowdon warns. But their winning the case is certainly not guaranteed. As she says, the pension may not have been mis-sold.

"It is the job of the claims management firms to claim that the transfer was not properly processed in order to win compensation. If a few are successful, there will be a flood of others," she states.

At risk

At most risk of these claims seems to be financial advisers, Nolan states, "who need to make sure they are competent, follow proper processes and give (and robustly document) suitable advice".

SIPP providers are also facing particular focus, mainly due to the inherent flexibility offered by a SIPP, and the wider scope of underlying investments that can be made via a SIPP, Jackson says.

Trustees are also in the firing line. The case of Mr N, where the Pensions Ombudsman found that his pensions trustees did not carry out sufficient due diligence before making a transfer to a scam, "has led to a rise in opportunistic claims by members, represented by claims management firms, who see the possibility that a case could be made for compensation for possible detriment from the transfer", Snowdon explains.

Preventing unsuitable transfers may be difficult for the trustees of ceding schemes, Eversheds partner and head of pensions disputes Claire Carroll warns, as, in many cases, the member will have a statutory right to transfer. "In those circumstances, the key is to ensure there is a clear paper trail to evidence any warnings given about the risks of transferring to the new scheme."

For any pension scheme that is facing accusations of a mis-sold pension, Snowdon recommends asking the members to use the scheme's internal disputes resolution procedure. The scheme should also seek legal advice before getting drawn into exchanges directly with the claims firm, she adds.

Impact

Snowdon reckons that these claims are unlikely to be successful, "but they could tie up schemes in costly arguments for many months", she says.

To avoid this, "as we have seen with whiplash claims in car insurance, schemes can be tempted to offer settlements rather than incur the costs of defending the complaint, even if they fully expect that they'd eventually win", Nolan states.

He adds that "meritless claims will lead to extra costs for schemes, with formal complaints procedures costing schemes substantial amounts to fight at little or no cost to frivolous litigants".

Some claims may cost members financially though, if the firms charge a fee up front for trying, Snowdon warns.

These claims will not just affect the specific schemes targeted, but will also change the nature of the pensions industry generally, Carroll predicts. "All that remains to be seen is the extent of these changes and the industry's response."

Nolan is in no doubt that the reputation of the pensions industry will be damaged by these claims and the negative press they will generate about pension schemes. "The worst thing is that a handful of bad cases could dissuade thousands of people from making the proper savings they'll need once they retire," he warns.

So how worried should trustees, SIPP providers and advisers be of 'mis-sold pensions' being the new 'mis-sold PPI'?

The risk of PPI-style fraudulent mis-sold pension claims is reduced now that claims management companies are coming under the supervision of the FCA, "creating a level playing field and mitigating the poor practice so evident over recent years with fraudulent PPI claims", Richards says.

Yet, "pensions mis-selling claims are no doubt a real focus for claims management companies and claimant law firms. These companies are gathering groups of potential claimants and bringing complaints and claims on a volume, template-driven basis", Jackson says.

However, he states it is difficult to see the level of pensions mis-selling claims ever coming close to the level of PPI claims. "Quite simply, these types of claims are not anywhere near as ubiquitous as PPI."

Pensions mis-selling may not have the scope of PPI claims, but even at a fraction of the size it is still large enough to be turning the heads of claims management companies.

So while they may not reach the voluminous levels of PPI claims, it still seems best to prepare to be bombarded with the cry: "Have you been mis-sold a pension?"

Written by Laura Blows

Time to move?

Recent research suggests that many trustees wouldn't ever consider moving to a commercial consolidator. *Pensions Age* asks: In what circumstances would it be suitable for trustees to consider moving to a commercial consolidator and when would it not be suitable for pension schemes?

The key test trustees should apply when considering the suitability of a commercial consolidator is: Does it improve member outcomes, relative to what else we can do? These outcomes will largely depend on both sponsor covenant strength and funding level, which need to be evaluated in unison when considering a move to a consolidator.

With consolidation, an open-ended sponsor covenant is replaced with a finite pool of capital that can be transferred to the consolidated scheme in a downside scenario.

Consolidators will tend to use prudent funding bases, and most schemes are likely to need top-up funding to be eligible to transfer in. Because consolidation gets a scheme off a sponsor's balance sheet at a lower cost than buyout, the sponsor might be willing to provide top-up funding into the scheme that they otherwise wouldn't, again improving member security. Trustees should also consider how member security might change over time, in the context of the structure of the consolidator, its mechanism for returning capital to investors and how investment decisions are made in the consolidated scheme.

In general, however, schemes with weaker sponsors and lower funding levels can find consolidation to be the best way to secure member benefits. Otherwise, the traditional buyout and self-sufficiency endgames are likely to be more suitable.

Redington senior vice president investment consulting Mathias Rasmussen

Consolidation won't work for everyone but there are instances where it will. Setting aside the debate on member security and governance, that will be dealt with through regulation at some stage, there is still a question of how much the possibility of consolidation is a trustee or employer decision. There are employers who will want scheme liabilities off its books but can't afford buyout – however, they may have enough to meet a consolidators' requirements. Trustees may not be happy that the employer has suddenly found some money but do have to consider if the consolidator scheme is a better bet than a reluctant employer. One particular area we expect to see some interest in is merger and acquisition (M&A) cases. Getting the pensions scheme off the books will simplify the process.

PMI president Lesley Carline

It's quite possible that for any given pension scheme, one commercial consolidation model will be suitable but the other won't, so they need to be considered separately, and not as a group. And the circumstances in which each type of consolidator would be suitable could be very different.

Technically a move to a consolidator is a 'bulk transfer without consent', so the test for trustees should be whether it is better than remaining with the sponsor long term or waiting for a possible buyout. In practice trustees already see this as a very different proposition to a bulk transfer, so are cautious, and the regulatory environment looks set to reinforce that difference. Add to that the human tendency to favour the status quo rather than something new and there seems to be still some way to go before use of consolidators becomes widespread.

SPP president Paul McGlone

It follows that some trustees will conclude that a commercial consolidator is their best option because it maximises the likelihood that their members will receive their pensions in full – for example, where a sponsor is willing to make a one-off contribution to support the move to a commercial consolidator, but is unlikely to be able to afford to make that contribution in the future if the deal does not proceed. Other trustees will conclude that the level of capital already backing their members' pensions and the strength of their sponsor's financial covenant mean that longer term run-off, potentially followed by insured buyout, is the best route.

Mercer partner David Ellis

Entry into a commercial consolidator (CC) is likely to be relevant to only a minority of DB pension schemes. But then again, the same is true for bulk annuities, which run to about £20 billion of annual transactions – that's only about 1 per cent of UK DB liabilities. And yet, bulk annuities are hardly considered a niche opportunity.

Where covenant is strong or funding levels are high, buyout or run-off are likely to be more attractive. Weak sponsors are unlikely to be able to afford CC entry.

But where CCs will be most suitable will be as part of M&A (when there may be a one-off opportunity for additional financial support for the scheme) or in those 'middling covenant cases' when buyout is unlikely to be realistic in the medium term, but the CC would increase security for members' benefits.

Aon head of UK retirement policy Matthew Arends

A sponsor looking to transfer a pension scheme to a commercial consolidator must persuade the trustees that the security of members' benefits will not be adversely affected. Sponsors may find it difficult to pitch this correctly, without shooting themselves in the foot.

The sponsor will typically have to say that it is willing to pay a (typically large) 'top-up' to get the scheme into the consolidator, but at the same time convince the trustees that it can't (or won't) fund the scheme to the point where, taken together with the ongoing covenant, members' benefits would be at least as secure by staying in the scheme.

This is a dangerous game for sponsors to play, potentially playing havoc with the next round of funding discussions. But in some circumstances it could make sense for everyone.

It is perhaps most likely to be in play where the money isn't available from the 'direct covenant', but is offered by a parent company against which the trustees do not have any legal rights. Other situations where this might be compelling include one-off opportunities to get at cash funding (eg proceeds from a transaction) or employer covenants that are demonstrably time-limited (eg businesses in run-off).

Sackers associate director Tom Jackman

It is surprising that so many trustees wouldn't ever consider a commercial consolidator. Trustees have a duty to act in the best interest of members and moving to a commercial consolidator could easily be in the best interest of members, if, for example, it led to a material contribution from an employer who otherwise had no intention or requirement to make such payment, or where the covenant of the scheme sponsor is weak or likely to deteriorate over time. Recent history is full of high-profile sponsor collapses and it seems improbable that there won't be more.

Trustees should bear in mind that there are already two very different models of consolidation, one of which acts as a bridge to buyout (which is often seen as the gold-plated standard and where most trustees would ultimately like to get their members to). This market is in its infancy and more solutions will develop and trustees should keep up to date as these emerge.

The current buyout market is seeing record demand from schemes and there are many very large pensions schemes looking at buying out. This has brought capacity issues for smaller schemes. Whilst a well-run broking process does alleviate this to some extent, the development of a well-run consolidator market could bring some welcome capacity for smaller schemes, where the inefficiencies of running a pension scheme are greatest.

K3 Advisory managing director Adam Davis

Pensions history

Portfolio performance

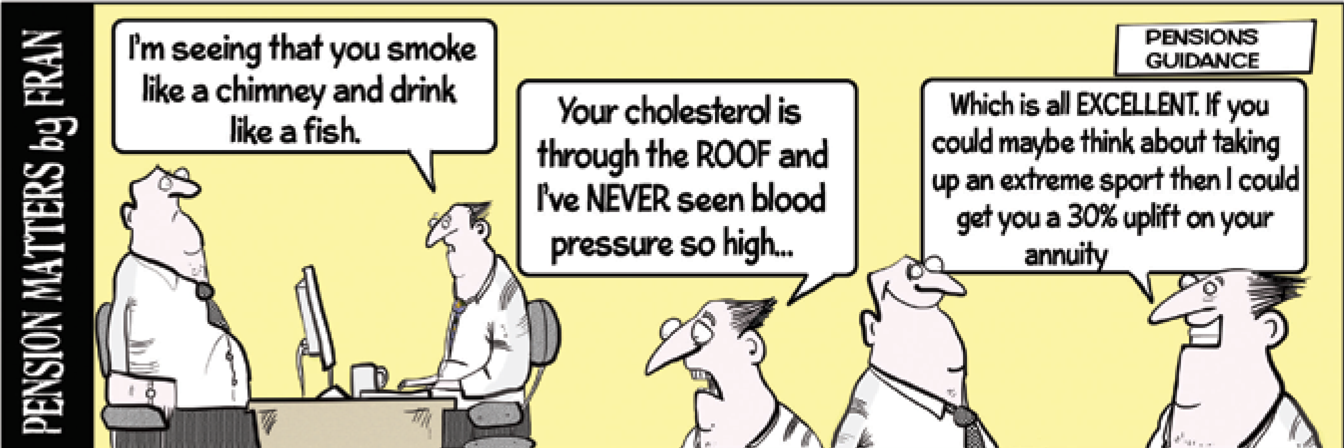
"There is at the moment in the pension fund world a dangerous disease known as portfolio performance" so said George Ross Goobey when addressing the Irish Association of Pension Funds in May 1973's *Pension Fund Investment Today*. "Don't think from this that I am against checking up to see how your investment ideas are working out, but I think it is highly dangerous to apply short-term measurements to what we all agree is a long-term operation," he continued.

He went on to express the view that in the 'go-go' approach to pension fund investment it was difficult to find a place for property investment. He thought the 'go-go' boys were missing the opportunity of investing in what he considered to be the best avenue for investment by pension funds at that time. He recognised the reasons why property did not fit the 'go-go' approach, which was valuation. To value a portfolio of stock exchange securities one merely had buy a copy of the *Financial Times* whereas re-valuing a property portfolio was a rather more expensive business and the sale of property could take longer than selling stock exchange securities.

Another aspect of this short-term portfolio performance that worried Ross Goobey was that investors got so carried away by the concepts of the calculations involved in calculating 'money weighted' or 'time weighted' rates of return that they were in danger of overlooking the practical side. In the report prepared by the Society of Investment Analysts there was the comment: "In the absence of a reliable index of property values this sector is excluded for the performance test." He felt there was almost an inference that because short-term performance measurement could not be applied to property investments then they were not worth considering for pension funds.

Written by The Pensions Archive Trust chairman, Alan Herbert

Fun and games



I know that face... Answer: Intellica independent chairman Paul Bingham

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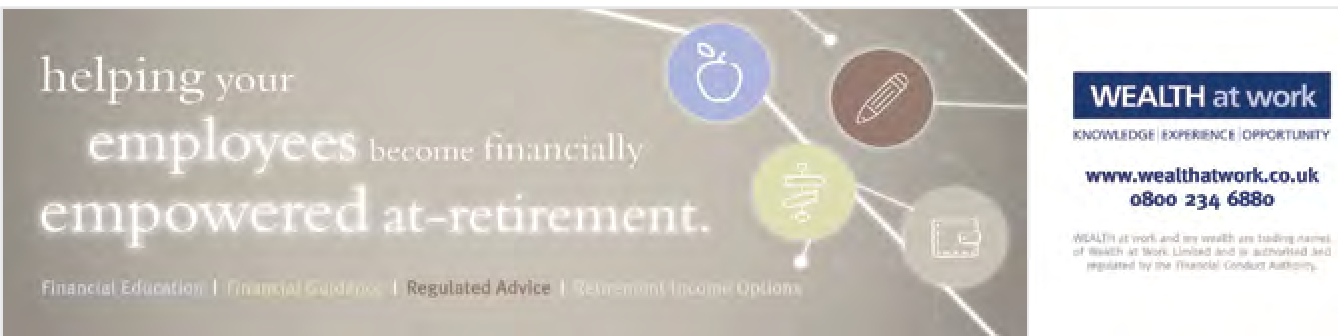

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We are looking for an experienced Pensions Finance Assistant to join our growing Finance team and work alongside the Finance Director and Financial Controller. Your main focus day to day will be the running of the Master Trust finance function.

Main responsibilities:

- Assist in the running of the Master Trust finance function in line with service level agreements.
- Monitor investment dealing requests using automated system processes.
- Update relevant databases and systems.
- Reconcile payments received to investments made / reconcile to bank account.
- Track and process refunds.
- Member unit reconciliations & un-allocated units reconciliations.
- Prepare investment related transactions journals.
- Process member payments and update relevant pension administration records.
- Assist in the preparation of the annual audit of the Pension Scheme.
- Provide assistance with ad hoc project work as and when required.

Smart Pension was founded by experienced finance & technology professionals and has been designed specifically to support UK businesses faced with the challenges of auto enrolment. Our team spent over a year developing & testing the platform whilst also establishing the partnerships necessary to meet regulatory requirements and deliver a seamless end-to-end experience. With thousands of satisfied employers, advisers and employees now using the platform, we know we offer the best workplace pension solution currently available in the UK.

REQUIREMENTS

- Very strong interpersonal and communication skills with high amounts of energy and drive with the ability to explain accounting concepts to other team players that are not accountants.
- A high level of diligence and attention to detail.
- Strong time management and organisational skills.
- Be a self-starter with a willingness to learn and a 'can do' attitude.
- Possess strong intellect with the ability to understand complex issues quickly, grasping new concepts and ideas rapidly.
- Excellent written and verbal communication skills coupled with highly developed analytical and problem-solving skills.
- NetSuite experience is an advantage but not essential.
- Pensioners' payroll experience would be an advantage

BENEFITS

- 25 days holiday per year.
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Senior Pension Consultant
Ref: PS17168 London/Bristol **£70,000 to £80,000 pa**
You will demonstrate CRM for larger clients in your career. This role will manage one high profile DB client with a variety of different schemes. Regular attendance of Trustee & Sub Committee meetings this role has full support of 2 Ass. Consultants whom you will manage.

Communications Consultant
Ref: PS17264 London **£40,000 to £50,000 pa**
You will deliver creative, forward thinking communication strategies for pension scheme clients enabling employers to engage with staff on pensions and employee benefits. This is a client facing role, managing projects, client budgets, services in the digital market space.

DC Pension Consultant
Ref: PR17361 London/Surrey **£50,000 to £70,000 pa**
This DC Pensions Consultant will offer career advancement. You will client manage the Trustee Board and sponsor guiding them through scheme design, legislative changes, investment options and member communications. APMI preferred & great flexible benefits.

pip@branwellford.co.uk

Senior Pensions Administrator
Ref: CB17380 Birmingham **£28,000 to £35,000 pa**
You will provide high quality pension administration service for Clients who will be DB and DC and be one of the technical experts in the team and sharing your expertise. You will drive process improvement & be responsible for supporting less experienced colleagues.

Pensions Team Manger
Ref: CB17381 Birmingham **£38,000 to £43,000 pa**
You will have proven experience of managing a team and strong technical knowledge for pension scheme legislation. Working with client relationship managers, you will also introduce new services to existing Clients and ensure you have team development plans in place.

Pensions Administration Manager
Ref: CB17363 Berkshire **£ In line with experience**
Joining this leading specialist, you will be responsible for the day to day management of the DB pensions administration team and management of client relationships within the portfolio. You will attend client and Trustee meetings and project manage ad hoc and annual projects.

christine@branwellford.co.uk

Pensions Specialist
Ref: HB17378 London **To £45,000 pa**
Be a key part of the pensions' in house team, ensuring all pensions matters, regulation and legislation are compliant. You will help drive changes to policy, employee financial wellness solutions as well as help to deliver communication and engagement campaigns.

Senior Pensions Officer
Ref: HB17383 Avon **To £35,000 pa**
Looking to work within an in house department and diversify away from administration? Expand your skills within a role responsible for managing the pensions projects and annual renewals. DB, advanced Excel and data manipulation experience is essential.

Pensions Fund Accountants (All Levels)
Ref: HB17382 London & Home Counties **To £55,000 pa**
We have various in house Pension Fund Accountant roles in London and the South East at all levels. To be considered for these roles you will have experience of Pension scheme accounting and working knowledge of Pensions Scheme SORP.

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