Summary

- PLSA DB Taskforce chair Ashok Gupta at the association's annual conference explained that 50 per cent of the UK's DB schemes have a 50 per cent chance of default over the next 30 years.
- The development of a pre-PPF fund that would consolidate the governance and the investments of the smallest and most at-risk funds was mooted.
- Two large DB schemes hit the rocks in 2016, highlighting the case for change. Tata Steel asked the government for a cheaper way to value its pension liabilities to keep the business afloat, while The Pensions Regulator sought to hold Philip Green to account for the deficit in the BHS Pension Scheme.
- Ros Altmann's account of disillusionment at pensions being used as a political football in government and thereby overriding smart policy decisions was another key moment of 2016.
- One of George Osborne's populist measures had a short life, however. The proposal for the public to be able to trade their annuities in a secondary annuity market was scrapped.
- Britain's ranking in the Melbourne Mercer Index slips in 2016 from 9th to 11th, due to a less generous state pension for those aged in their 20s and 30s, coupled with inadequate saving rates in DC.
- 2016 has prepared the industry for the rise of robo-advice, fintech and new pension freedoms in the future.

2016, a year in review: Revolution in the air

The victories of Trump and Brexit in 2016 highlight that the establishment is under threat and pensions is no different. David Rowley reviews the big events in pensions this year

There were many shocking moments in pensions in 2016, but of those likely to reverberate into the future, the speech given by PLSA DB Taskforce chair Ashok Gupta at the association's annual conference must rank high.

In a tone that conjured up a Prime Minister announcing a declaration of war, Gupta explained that 50 per cent of the UK's DB schemes have a 50 per cent chance of default over the next 30 years.

All this was a prelude to an even-greater bombshell, namely a pre-PPF fund that would consolidate the governance and the investments of the smallest and most at-risk funds.

While the proposal has many sceptics, the new Pensions Minister Richard Harrington said in his speech to the conference that schemes needed more 'nudges' to consolidate.

Gupta said small schemes were inefficient purchasers of fund management services, a theme picked up on by the FCA's *Asset Management Market Study* in November, which added that schemes were often unable to assess the quality of advice provided by consultants too.

Gupta's idea has the encouragement of one of the country's most influential lawyers, even if it is fraught with difficulties. Sackers senior partner Ian Pittaway says: "It sits astride the delicate fault line between cutting back all members' benefits while saving jobs for the actives and preserving value for shareholders. The PLSA has bravely ventured into the warzone and we await the conclusions of their taskforce in 2017 with great interest."

DB on the rocks

Two large DB schemes hit the rocks in 2016, highlighting the case for change. Tata Steel asked the government for a cheaper way to value its pension liabilities to keep the business afloat, while The Pensions Regulator sought to hold Philip Green to account for the deficit in the BHS Pension Scheme.

There was widespread sympathy for Tata Steel. This led to a government consultation, now reportedly shelved and the situation is ongoing.

But, there was unanimous vilification of Philip Green. A pantomime villain for the tabloids, who competed to outdo each other with revelations of meanness; the *Daily Express* came up with the best headline: "Sir Philip Green bullied Pensions Minister with 5am texts". Green was seeking a special deal, but the Pensions Minister at the time, Ros Altmann, so the article says, passed him back to the regulator.

Such was the depth of feeling, Work and Pensions Select Committee chair Frank Field MP described Green as worse than Robert Maxwell on BBC's *Radio 4 Today* programme in July.

He said:"I've always thought Maxwell meant to pay the money back, he was just going all over the place borrowing money to keep his companies going.

"Sir Philip Green... just needs to get his chequebook out and start writing a cheque to cover the huge pension deficit. He has wealth beyond the dreams of avarice and should act."

Lawyers for Green issued a letter stating Field's statements were:"highly defamatory and completely false".

At the time of writing, no deal was reached on BHS and on 2 November, The Pensions Regulator started an enforcement action against Philip Green.

Altmann's account of disillusionment at pensions being used as a political football in government and thereby overriding smart policy decisions was another key moment of 2016.

In a resignation letter to the new Prime Minister Theresa May (some media outlets reported she had been sacked), she blamed the desire to curry favour ahead of the Brexit vote as one cause of bad pensions policy.

One of former Chancellor of the Exchequer George Osborne's populist measures had a short life, however. The proposal for the public to be able to trade their annuities in a secondary annuity market was scrapped after it was judged there would not be a "vibrant or competitive" market and not enough consumer protection.

Further controversy over the Pensions Minister role ensued when Altmann's successor Richard Harrington was given the title Undersecretary of State for Pensions, which prompted anxiety that pensions had been demoted by the new government.

"The seniority of ministers really does matter, not least in dealings with other government departments such as the Treasury," said ex-Pensions Minister Steve Webb, now policy director at Royal London. Shock was compounded by bewilderment at exactly what the new Under-Secretary, Richard Harrington, MP for Watford, knew about pensions.

This was addressed in one of the many bravura speeches at the PLSA annual conference, where Harrington persuasively tackled these objections head on, like a scene from *12 Angry Men*.

We learnt he was May's right-hand man at the Home Office, was friends with powerful people in the Treasury and had used such connection to specifically ask for the Pensions Minister role. He referred to himself as a centre-right conservative, a successful businessman and therefore "not a hack-politician".

He spoke of his interest in UK pension funds investing in residential homes and standing up to the might of the large Canadian and Australian funds that had purchased lottery provider Camelot and the Kings Cross regeneration project. He spoke positively of giving more power to the regulator and emphasised the importance of getting the communication right before announcing rises in auto-enrolment contributions.

The task at hand for auto-enrolment was illustrated by Britain's ranking in the *Melbourne Mercer Index* slipping in 2016 from 9th to 11th due to a less generous state pension for those aged in their 20s and 30s, coupled with inadequate saving rates in DC.

The Lifetime ISA (LISA) would appear to be another threat to the UK's position in the index.

In April, Osborne had ushered in LISAs by stating: "My pension reforms have always been about giving people more freedom and choice, so faced with the truth that young people aren't saving enough I am providing a different answer to the same problem."

Those aged 18-40 will possibly like the LISA, but the industry generally hated it. Indeed, industry feedback led to the following headlines; "City watchdogs fear Lifetime ISA could lead to mis-selling scandal", "The Lifetime ISA – millennial savings magic, or future scandal?" and "Webb blasts Lifetime ISA as 'horrible hybrid'".

What does 2016 tell us about the future?

For Hargreaves Lansdown head of retirement Tom McPhail, it is all about the rise of robo-advice, fintech and new pension freedoms.

He says: "The policy pulum is swinging away from collectivism towards individualism."

Meanwhile, MHP Communications director Andrew Fleming, a PR company representing leading pension funds, believes more can be done to counter-balance the negative stories on pensions.

"There is an enormous reservoir of talent and good will at the industry's disposal," he says."Government figures published in June showed that average pensioner incomes are now only 7 per cent below those of working age households, compared with 38 per cent 20 years ago. It should not be beyond the wit of the pensions community to remind its customers of the very real benefits being delivered day in and day out to millions of British households."

Written by David Rowley, a freelance journalist