A year of change?

For all those who would like to see a five-year moratorium on new pensions legislation, 2017 looks likely to be a frustrating year. David Rowley reports

Summary

- The scrapping of higher-rate taxpayer relief on pension contributions is set to be one of the biggest events of 2017. Brexit could help to force this through.
- The influence of parliamentary under-secretary of state for pensions Richard Harrington is also likely to provoke change. Lack of scale in UK pensions is also an issue.
- A green paper will be unveiled early in 2017 that is expected to contain Harrington's stated belief that the government must nudge consolidation and to give trustees more flexibility over which form of indexation they should choose.
- Fintech disruption is also set to occur. Online member interaction in 2017 is also set to step up.
- High probability of volatility in markets caused by Brexit developments could mean a record year of de-risking.

The most audacious pensions event of 2017 could well be the scrapping of higher-rate taxpayer relief on pensions contributions.

Two of the best-connected people in pensions quietly believe that the government will be able to use the extraordinary and extenuating circumstances of Brexit to force through a measure that has previously been squashed by powerful pressure groups and politicians.

"I will be surprised if the current taxation system can survive 2017," First Actuarial director Henry Tapper says.

"Too much of our financial services industry is there to protect the wealthy. It is not there to benefit the JAMs (the 'just about managing' groups in society)."

Hargreaves Lansdown head of pensions research Tom McPhail also senses revolution in the air.

"While there is no agenda item to this effect, there is a strong possibility we will see further scrutiny of pensions taxation in 2017," he says. "The Treasury might keep twiddling the dials and turning down the allowances or they might do something more radical. They have got the joker of Brexit right now, which could be used to justify anything they want to do on taxation."

Both Tapper and McPhail see the likelihood of other forceful change due to the influence of parliamentary under-secretary of state for pensions, Richard Harrington.

"This strikes me as a government that is not happy to sit back and watch. I think it will get stuck in," Tapper states.

"The fact they he *[Harrington]* got sign off on a green paper on the governance and funding of pensions is indicative of a man who has a reasonable amount of credibility and goodwill within the party machine," McPhail adds.

Anyone who has seen one of Harrington's speeches will know of his bewilderment at the lack of scale in UK pensions and his desire to do something about it. One of his common anecdotes is his shock at finding that only a large overseas pension fund such as the C$171 billion (£103 billion) Ontario Teachers' Pension Plan had the scale to purchase the Lottery's Camelot operation, based in his constituency of Watford.

A green paper will be unveiled early in 2017 that is expected to contain Harrington's stated belief that the government must nudge consolidation and to give trustees more flexibility over which form of indexation they choose. His views are likely to be shaped by the Pensions and Lifetime Savings Association's DB Taskforce final report, due in March 2017 at the PLSA investment conference in Edinburgh.

The taskforce has so far recommended an amalgamation of at-risk DB schemes to improve performance and cut fees.

Harrington is encountering an industry that is waking up to the same ideas on consolidation and many predict a record number of single employer trust's moving to pooled arrangements in 2017.

Pan Governance chief executive Steve Delo says: "There will be more consolidations and transfers. A lot of standalone DC schemes may give up and say 'you know what? it would be possibly more sensible to deliver our solutions via a master trust."

However, he warns that this is easier said than done due to the legal hurdles that need to completed.

Fintech disruption

Ever-increasing expectations for online member interaction in 2017 will be a key reason for single-trust schemes wanting to become part of something bigger, KPMG head of pension administration Girish Menezes says.

The extensive wishlist of good DC technology includes gamification around member education, robo-modellors, daily investment figures, platforms that allow all an individual's financial affairs to be seen and interacted with in one place and debt consolidation services such as Neybr.

"To make DC fit for purpose you need to have systems talking to one

another and to get real-time access," he says. "We are so used to logging on and buying a train ticket but you cannot access your pension in the same way."

He believes big is best for DC. "If you have got a DC arrangement I am not sure why you would want to be administered by an EBC *[employee benefits consultant]* anymore, if they do not have scale," he comments.

Traditional DC providers have never had more pressure to up their front-end technology, as they face the threat of fintech companies that have grown through word of mouth in 2016.

Two prominent disruptors, Nutmeg and Scalable Capital, already offer online-only switching of investment options, real time valuations, robo-tailored investment plans, transparency of cost – all delivered on an app.

Unlike the rest of the pensions industry, Nutmeg's unique selling point is the member's online experience.

Head of financial advice at the firm Lisa Caplan says: "We try to make it very easy for customers to transfer their pensions to us because it can be a real headache and it does not have to be."

Nutmeg, which claims 20,000 users and £500 million in investments, can amalgamate legacy DC pots onto its platform. Caplan describes the user experience of those who use Nutmeg for pensions.

"Our service shows very clearly how much you have contributed, how you have invested, it is also very transparent in terms of setting up; so, compared to the old order it is very refreshing."

Caplan sees the product's usability as the natural home for financial planning for the self-employed, who she hopes will get a better deal from 2017's auto-enrolment review. It is also likely to take advantage of savers looking to amalgamate legacy DC pots through the help of the pensions dashboard, an announcement on which is expected next year.

If that were not enough, the functionality of providers such as Nutmeg and Scalable Capital are likely to make them the natural home of products such as Lifetime ISAs, which are launched in April.

A record year for de-risking

Delo predicts that trustees will be very busy in 2017 because of the high probability of volatility in markets caused by developments on Brexit. This will certainly impact gilt yields resulting in chances to tactically derisk as opportunities arise.

"The nimbleness and alertness of trustees will be all-important, that will lead to more work in trustee meetings and the need to set up more committees to act more quickly to drive more schemes to some fiduciary oversight of their investments," he says.

Such pricing opportunities, if they arise, will be met with increased capacity for buyouts, according to LCP partner Charlie Finch, who was the busiest broker of deals between insurers and pension funds in 2016 *[LCP report says nine deals in 2016 to Aon's three and Mercer's one]*.

He says the addition of Canada Life and Scottish Widows to the market is creating keen pricing for deals and he predicts a record year for buyouts in 2017, with volumes of around £15 billion, which would beat 2014's record of £13.4 billion.

State pension revolution

The other big events of 2017 will be the publication of John Cridland's review of the state pension. This is likely to announce some trade off between a high state pension age, reflecting increasing longevity, and the flexibility for those with enough contributing years to take their pension earlier or for the choice of a smaller state pension at an earlier age. In speeches he has given in 2016, he has said that variations in life expectancy across the UK and differences in social groups meant the one-size-fits-all state pension age was likely to end.

Cridland is likely to be swayed by figures from the Office for National Statistics, which show the wide disparity in the number of years people can live in good health. Research published in October show that a man in Manchester could expect 55.8 years of good health compared to 69.9 in Wokingham, Berkshire.

With so many developments set to occur within the industry – with both instant reform and the beginnings of long-term shifts – 2017 is expected to be another year of change for pensions.

Written by David Rowley, a freelance journalist