**Summary**
• The Lifetime ISA is expected to cause major headaches for schemes, particularly from a communication and advice viewpoint.
• While still too early to determine definite patterns, early indications are that, following the pension freedoms, savers are accessing the tax-free cash part of the pot and leaving the rest invested. This may mean that the trustees will have to start to view drawdown as a more permanent feature in the pensions landscape.
• Tackling scams is a significant challenge, but trustees may struggle to spot scams as they become more sophisticated.
• LGPS trustees face the enormous project of asset pooling within quite a tight timescale.

# Relying on guesswork

**Occupational schemes have had to absorb much change in recent years. But the uncertainty created by fundamental shifts in pension provision are making it harder than ever for trustees to meet changing saving expectations**

Veteran trustees will probably say that they saw it coming. Ever since Maxwell stopped being synonymous with a brand of coffee that they would leisurely dip their biscuits into at quarterly meetings, occupational schemes have slowly become engulfed by regulatory creep.

In the last couple of years, this has been accompanied by full-blown fundamental change. As politicians have progressed from tinkering to tearing down walls, trustees have had to get used to ripping up the rulebook on a regular basis.

"Perpetual change has become part of the pensions landscape," says Aon Hewitt principal consultant Kevin Wesbroom.

"The relentless burden of change places a huge strain on governance structures – specifically the trustee structure and quarterly meeting cycle. And we can expect to see a greater emphasis on delegation of all but the most central duties of trustees."

But even with more delegation, the slow revolution taking place in pensions is leaving trustees with more questions than answers and unsure as to whether what they are doing today will help, or hinder, what will happen tomorrow.

**DC and LISA**

The apparent epicentre of this upheaval can be found in the Lifetime ISA, the last major savings act of George Osborne's Chancellorship.

Wesbroom says that the LISA will challenge the fundamental basis for long-term savings, both for individuals and their employers. "Pensions will be out of its box, and will have to compete with other forms of savings and the heavy presence of property in the minds of UK savers," he says.

"Rather than fight against LISA, we should embrace the extension of savings that it offers and look to build a more rounded savings approach for the future, recognising the very different positions of the components of the workforces."

Consultancy Alpha FMC director John Benson says this could cause major headaches for schemes from a communication and advice viewpoint.

"If you think about how a DC scheme and ISA operate when they become more mature, then they look quite similar," he says.

"But if you can't pay for advice, then as the allowance for LISA goes up and the tax benefits of pensions fall, who is helping people understand how to make best use of that?"

Barnett Waddingham partner Mark

Futcher explains that there has already been a lot of demand from younger people – in the capital in particular – who want to use a LISA to get a house deposit. Barnett Waddingham has been telling some employers to consider carrying on putting their auto-enrolment contributions into pensions, while allowing employees to put theirs into a LISA. This however, lands trustees with further complications.

"How do you invest that LISA money?" he asks. "There's not a definitive time scale, so savers are probably worried about volatility, which immediately puts them into a higher-charged asset class. And timescales? Do they stay invested for two, four or 10 years? You don't know. Fund managers are really scratching their heads over what an appropriate strategy is to invest a LISA into."

**Uncertainty**

LISA is coming at a time when trustees are still feeling their way through the pension freedoms as well.

Newton Investment Management head of DC Pensions UK Catherine Doyle says that trustees have been left in limbo by the reforms.

"We are in unchartered territory here, there's quite limited behavioural data to consider. And we don't actually know what people who are entirely reliant on DC need to sustain them in retirement, and we don't know how they're going to behave. In my view it will take another five to 10 years before we have a full picture of how people will behave."

Having said that, Doyle points out that there have been early indications that rather than taking the whole pot of cash in DC, people are taking the tax-free cash part of the pot and leaving the rest invested. This, says, Doyle, may mean that the trustees will have to start to view drawdown as a more permanent feature in the pensions landscape.

**"The slow revolution taking place in pensions is leaving trustees with more questions than answers"**

"We may see people remaining invested in strategies like diversified-growth funds, which will be focused on preserving capital for much longer. So you're effectively extending the lifecycle for some of these strategies," she explains.

Despite some early signs of patterns emerging, Futcher says that schemes are still nervous about making decisions based on short-term member behaviour that could have a long-term impact on investment strategy. And who gets to decide when a pattern can start being viewed as reliable?

**Freedoms and the scammers**

The freedoms have also brought a more immediate problem to the fore – that of the scammers. Gowling WLG lawyer

Jane Kola says that trustees have begun to pay more discretionary transfers out of DB schemes.

"And in cases where there is a scam, trustees have struggled as to whether it is a statutory transfer or a discretionary one," she says.

"That's been really difficult where it has risen. Scams seem to be pushed away more at the moment, but scammers could become more sophisticated and push harder."

Members could also be pushing harder before too long on transfer values to make the most of the freedoms. But again, this is more complicated for trustees. Not only do they have to deal with the fact that members can potentially take DC benefits separately to DB ones, but they will also have to make sure that the member has taken appropriate independent advice. What's more, all of this will soon be given yet another layer of complexity with a change in the law to safeguarded benefits, says Kola.

"They are the things that don't usually get caught up in the transfer value calculation, but do have a value, like guaranteed annuity rates and with profits AVCs. Schemes will have to provide a risk warning, probably from next year, if a member has that as part of their benefits."

**LGPS**

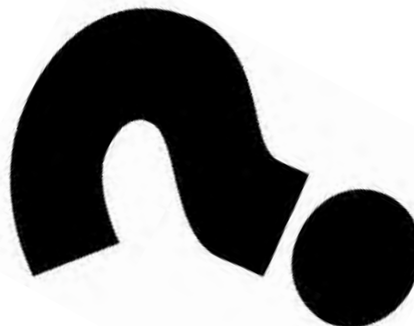
Meanwhile, complications in the public sector abound, particularly in relation to the local government pension scheme (LGPS) pooling of assets. With the Treasury's call for there to be much larger entities with associated cost savings, and the initial pooling required by April 2018, scheme managers in the LGPS face an enormous project, both structurally and in the level of collaboration required, according to Doyle.

**"Trustees are still feeling their way through the pension freedoms"**

"And it all has to be done in quite a tight timetable. So it will take time to iron out the details," says Doyle.

Wesbroom adds that they will need to ensure they have the appropriate resources and support in place to ensure other elements of scheme management are not detrimentally impacted during this implementation period.

Although Doyle says that there has been some positive progress with the pooling concept, particularly in enhanced cost and charge transparency, care must be taken that savings are not pursued just for their own sake.



"The LGPS has definitely been at the forefront of bridging down costs in a more meaningful and detailed fashion. But it's important in this whole initiative that the focus remains firmly on delivering overall value for money rather than just delivering cost savings," she warns.

As if the pooling project in itself was not enough, Benson says that the managers in charge of the LGPS funds have had to deal with MiFID II, the controversial EU directive.

"The MiFID II directive means that the funds are being classed as retail investors *[potentially losing out on using some investment houses]* while the pooling agenda means that you're professionalising the whole investment process that local authorities take part in. But MiFID II overlaps that. So they have to adjust the governance and structures to accommodate MiFID II, which probably wasn't anticipated," he says.

Wesbroom, meanwhile, fears that the LGPS could haemorrhage crucial staff at just the wrong time.

"Scheme managers have barely recovered from the implementation of wholesale changes to the benefits and governance structures over 2014/15 and there is evidence in the LGPS in particular that resourcing is becoming an issue, exacerbated by voluntary severance exercises which tend to lead to the loss of long-serving, experienced staff."

With so much as stake, it's a brain-drain that the LGPS can ill afford. And with so much complicated change occurring in all areas of pensions, who's to say whether further trustee exits may occur?

**Written by Marek Handzel, a freelance journalist**