Trustee Guide 2018:

Moving forward

Featuring:

- The evolution of pension trusteeship
- How to balance short-term challenges with long-term needs
- Assessing administration standards
- The need for industry standards and technology
- The benefits of collaboration
- The role of master trusts
- A multi-asset approach for accumulation and decumulation
- How to assess pensions models

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Summary
• Trustees need to have more technical knowledge than ever before, while being held to higher regulatory standards.
• Communication is a key concern for DC trustees, while their DB counterparts focus on complex investment strategies.
• Pension freedoms have created new challenges for both DC and DB trustees.
• Trustees need the knowledge to quiz their advisers and the self-confidence to ask questions that expose gaps in their own knowledge.
• Advisers will provide free training but trustees should not solely rely on providers employed by their own schemes.

Trustworthy approaches

Stuart Anderson explores how pensions trusteeship has changed over the years to the requirements placed on trustees today

The first trusts emerged in England during the 11th and 12th centuries to protect the rights of landowners who had travelled to fight in the Crusades. Almost a millennium later the role of trustee is still evolving – arguably at a faster pace than ever.

Some characteristics of trusteeship, such as honesty, integrity, diligence and acting in the interests of beneficiaries, date back to the time of the Plantagenets. However, the complexity of the modern pension system means that all trustees of occupational schemes now require a far higher level of knowledge and expertise than their predecessors did even as little as two decades ago.

They are also subject to more stringent legal oversight, including harsher fines than had prevously been the case.

Learning curve

The 1995 Pensions Act, introduced in the wake of the Maxwell scandal, marked the beginning of the movement to professionalise the governance of occupation pension schemes. However, regulation is not the only challenge faced by 21st-century trustees.

Asked how the role has changed since he entered the sector in the late 1980s, PTL managing director Richard Butcher says: "It used to be a lot less formal and more relaxed – wrongly, probably.

"Much more diligence is required now. The quantum of requirements on a trustee is much greater and they need to have more knowledge, so they need to seek this out and, for example, read widely and attend courses and conferences.

"The tools we use have become far more sophisticated. In the 1980s an actuary would come in, tell us he had made his calculations and what they were, and that would be that.

"Now we are expected to understand how the actuaries make their calculations and they might sit down with us and go through them, using their software."

The capacity to develop technical knowledge is vital for the modern trustee. Butcher, who in addition to his day job is also the current chair of the Pensions and Lifetime Savings Association, continues: "What is most often missing from boards is curiosity and a willingness to learn. A lot of trustees that I meet are closed books – they tend to be long in the tooth and set in their ways.

"However, the world is changing so rapidly that if trustees aren't prepared to learn then they will fall behind very quickly and, as a result, become a sub-optimal trustee contributing to sub-optimal decisions."

DB and DC

The trustees of occupational defined benefit schemes have seen their roles develop in different ways to trustees of defined contribution schemes.

In a DB context, demographic change, the relentless trend for companies to close schemes, and an evolving investment management sector all contribute to a much more complex environment. PSIT head of trusteeship James Double explains: "Twenty years ago the vast majority of DB schemes were open to new members and future accrual.

Now I work on one scheme that is open to future accrual.

"In terms of investment, the options that were available two decades ago were more vanilla – equities, bonds and property. Now pension funds have access to much more complicated instruments, including derivatives and illiquid investments, so trustees need much more technical knowledge."

As BHS and British Steel highlight, DB trustees also need to take the financial strength of the sponsor into consideration. This can be a complex balancing act – it is hard to argue that a failed employer is in members' best interests but, at the same time, if the writing is on the wall then trustees need to do all they can to secure members' benefits.

2020 Trustees associate director Bhavna Kumar says: "Negotiation and coaching skills are vital when dealing with sponsors.

"The key is to strike the right balance to secure the interests of members but not jeopardise the future of the sponsor. If the sponsor does well over the medium and long term then they are going to be in a better position to fund a buyout and secure members' benefits in future."

If funding and investment are the key topics for DB trustees to understand, a major priority for DC schemes is communication. As Kumar says: "In DC the members bear the risk so it is important they have a clear understanding of the scheme and all the relevant issues."

It is also vital that DC trustees are able to provide members with an appropriate range of investment strategies. Additionally, they are responsible for overseeing the scheme's administration, to ensure it operates smoothly and does not cause detriment to members.

Freedom and choice

The introduction of the pension freedoms in 2015 has affected both DB and DC trustees. Double says: "DC trustees are having to completely revisit their investment strategies.

"Previously virtually all members would have taken a 25 per cent lump sum and used the rest to buy an annuity when they retired. Those days are long gone and schemes' investment strategies need to match the new reality.

"Trustees also need to ask what the scheme itself should offer in terms of access to the pension freedoms. To offer all of them would be quite costly.

"It might be that they are able to offer one-off lump sums but that providing drawdown would be too costly and complex."

In funded DB schemes, as is well-documented, increasing numbers of members are seeking to transfer out in order to access the pension freedoms.

This creates a communication challenge, to educate members in the dangers of scams and poor advice.

It also potentially threatens schemes' future viability. Double says: "Can your investments cope with significant disinvestments – will the residual investment and expected returns be sufficient to close any funding deficit?"

Questioning advice

Of course, trustees do not face these challenges alone. Schemes employ a host of consultants, actuaries, lawyers, investment managers and other advisers to help them.

It is, nonetheless, the trustees' duty to hold these advisers to account. This means they must understand the advice they receive and be willing to challenge it.

This is one of the key duties of professional trustees, who are generally looked to by employer- and member-nominated trustees to provide technical expertise and experience of working with a wide range of other schemes.

However, lay trustees still have a role to play. According to PLSA head of investment and governance Joe Dabrowski, the fact they are not expected to be experts can, in fact, be an advantage.

He says: "It is very good to have a range of views and cognitive styles around the table. A member-nominated trustee, for example, might not be embarrassed to ask a question of an adviser that a professional or corporate trustee would not ask because they worry it might expose a gap in their knowledge."

Training and development

Trustees have more to deal with than ever before but they also have no shortage of sources of information and training.

For new trustees, The Pensions Regulator's website includes a Trustee Toolkit that provides a basic grounding. It also hosts a section on 21st century trusteeship, which sets out its expectations in terms of pension scheme governance.

Organisations including the PLSA and the Pensions Management Institute operate conferences and seminars aimed at trustees. Meanwhile, as Dalriada Trustees senior trustee representative Vassos Vassou explains: "For deeper and more bespoke training that is relevant to the specific scheme the trustee acts for, we find that third-party providers are usually pleased to provide such training, usually for free.

"However, we would recommend that the scheme's advisers are not always used to provide this training as trustees benefit from seeing alternative market viewpoints."

Written by Stuart Anderson, a freelance journalist

How can trustees become more effective?

Aon's Susan Hoare explores the challenge facing many trustees: how to balance delivering day-to-day actions alongside achieving their scheme's long-term objectives

Based on research carried out by Aon, trustees tell us that a lack of time, resources, knowledge and information impede their ability to do a good job. They also worry about their collective ability to make informed and timely decisions and implement them effectively.

So we decided to see how we could help address these concerns. We explored ways that trustees can improve scheme governance by putting in place the right structure, the right processes and the right people to run the scheme.

Step 1 – Behavioural research

We worked alongside behavioural insight agency Behave London to carry out research into how boards work – particularly, the way they make decisions.

Our 'Better Boards' report is based on research with pension scheme trustees and members of the public. The research investigated the cognitive biases that can affect group decision making by posing a series of questions and problems.

Step 2 – Understand how behavioural science can help with decisions

The findings highlight some interesting points and questions for trustees.

• Do you prioritise the priorities?

Eighty-five per cent of those surveyed have a long-term strategy, but 10 per cent of those reported that long-term matters are often deferred on meeting agendas. This creates the risk that important strategic issues are ignored or transient market opportunities missed in favour of progressing more routine/ compliance items.

In the report, we explore the cognitive tendencies that underpin this behaviour.

• Where to start?

As the day wears on, our brains become tired; the theory is we should tackle the most difficult or newer decisions at the start of the day. This feels counter-intuitive and for many, a trustee meeting is like a journey; you start the next meeting where you finished the previous one. High on the agenda tend to be the last meeting's minutes, the matters arising from that meeting, and the usual routine and compliance business. Only once these are completed do many trustees attempt to address newer or more strategic items.

But following the behavioural insight here, we should turn this meeting agenda on its head and start the day with the more strategic items while we have the most brainpower, picking up more routine or comfortable items later.

• Do you allocate enough time for the unexpected?

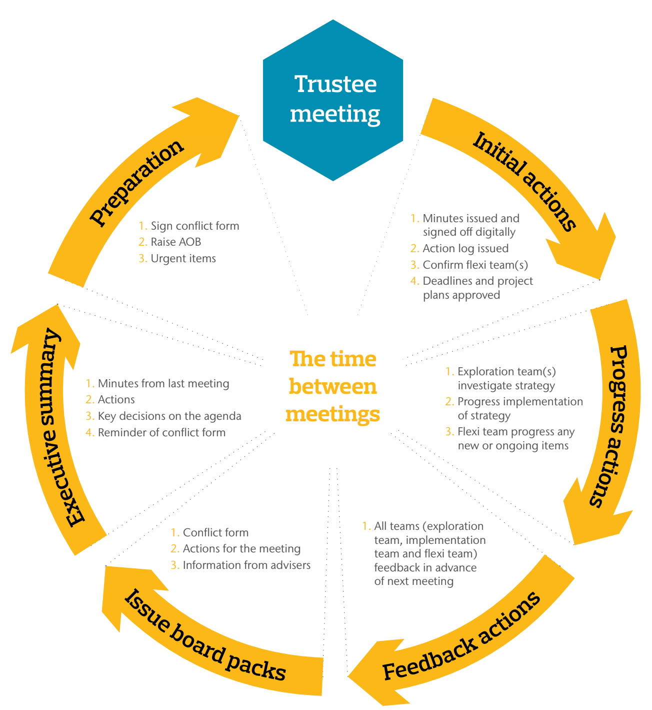
Typically we see people underestimate how long tasks will take, with packed agendas and trustees struggling to make it to the end, reduced lunch breaks, start times brought forward and end times pushed out and still … we regularly carry items forward to the next meeting!

• Do you focus on the quick wins?

We also tend to disproportionately prefer rewards that come sooner

Between Meeting Organiser

Making the best use of the time between meetings



and costs that come later. If we are not careful, this drives our priorities. This is called a 'present bias'; we want to bank the 'quick wins' and this gives us a huge amount of gratification. It is a technique that many busy people use to feel they are making at least some progress. The danger is that we continually prioritise these items and never address the longer-term, more strategic and less immediately gratifying ones.

• How can you ensure all voices are heard?

Survey participants were asked how willing they were to speak up in groups. Trustees were more likely to speak up than the general public even if they were not being encouraged to voice an opinion, or were in disagreement with the consensus.

In practice though, being the lone voice can be daunting. The research states that 'A wise chair would do well to seek dissenting opinions...Social validation that opinions are welcome and sought is a powerful tool for reaching good group decisions'.

Your chair should encourage a range of views to ensure that everyone shares their opinion and the board reaches well-rounded decisions. Equally, you should question your advisers to ensure that the suggestions they make are right for your scheme; our '10 questions to help you challenge your advisers' has advice on this.

• Devil's advocates can help

The value of a devil's advocate is well understood: a person who challenges decisions and forces the group to answer difficult questions, making the decisions more robust. Our concern was that where the devil's advocate did not naturally exist on a board, someone role-playing the devil's advocate would be less impactful. Therefore, we looked to see whether assigning more than one person to the devil's advocate role had an impact.

The research showed clearly that plural dissenting voices have a bigger influence on the other board members than a single one. If trustees are encouraged to break off in pairs to discuss issues and feed back their thoughts, all members of the group can consider their arguments and draw an informed conclusion.

• Beware the status quo

'Status quo bias' leads people to stick with the current position. The research says that 'we tend to be tempted to follow whatever choice someone has laid out... We assume that because it pre-existed, there must be a reason for it'. The best examples of this in action are default investment choices, which tend to hold the majority of members; and automatic enrolment, where far fewer people opted out than was expected.

But the status quo is not always best; you should question the current approach and how it might be improved. A good chair will provide a 'psychologically safe' environment that encourages more trustees to challenge the status quo. Our behavioural checklist for chairs has tips on how to avoid behavioural biases when planning and chairing meetings.

• Too much choice can paralyse

Too many choices can overwhelm people and prevent them making a decision. Breaking complex tasks into smaller ones can help. If exploring potential solutions can be separated from making the ultimate decision, it can deliver better results.

Step 3 – Structure meetings to deliver the best results

The way meetings are run can hugely impact their ability to drive good decisions. Trustee meetings tend to be quarterly – making it all the more important that they are efficient, effective and comprehensive.

Our Trustee Meeting Framework helps trustee boards to get the most from their time. Using lessons from behavioural science, it provides a suggested meeting structure that:

- Sets out the optimal order for items to be covered
- Structures discussions to offset things such as cognitive depletion – the state of mind that leads us to stick to 'default' decisions when we are tired or hungry
- Suggests how to table items for discussion…and how you can still deliver results when time runs out

Step 4 – Make the most of the time between meetings

Trustees have competing demands on their time, and meetings tend to be infrequent – often quarterly at best.

These pressures make it important that trustees optimise the time in between meetings. Scheme progress should not stop just because you are not convening as a trustee board.

Creating sub-teams to move actions along between meetings; reporting back on progress; and preparing for the next meeting – all of these will help to move your scheme forward outside of your regular meeting schedule.

Doing all of these things well enables schemes to manage the risks they face, as well as capitalising on any opportunities. In doing so, they will go a long way towards meeting the regulator's expectations on 21st century trusteeship and governance.

The tools Aon has developed are designed to help trustees balance delivering routine and compliance items with tackling the actions that will deliver their longer-term strategy.

The research, and the trustee tools developed as a result of the findings, are all available at aonhewitt.co.uk/trustee-effectiveness.

Written by Susan Hoare, principal, Aon

What does great pension administration look like?

Girish Menezes explains why today's trustees should not have to put up with poor administration standards

The new freedom and choice legislation introduced by the government has negatively impacted pension administration delivery. There are a growing number of pension administration firms who take weeks, or even months, to turn around member requests. This is aggravated by the fact that some administrators continue to work through member calculations on paper. Even firms with electronic data do not always automate their calculations and have poor or non-existent workflow. Rework rates of over 20 per cent are common. Members can experience abrupt and even rude responses from stressed administrators. Trustees can go for months on end without a Stewardship Report, SLA's can sit in the mid-80s and massive backlogs are prevalent. The increase in transfer-out requests is resulting in transaction fees of between 30-100 per cent of core fees. With such a low bar, what should trustees and pension managers be looking for in their pension administrator?

Consistent SLAs
Trustees are often happy with the industry-standard SLA delivery target of 96 per cent, though there is no reason why SLAs should not be nearer 99 per cent. However, they are far more focused on how often these are met. If your administrator cannot deliver the required SLA standards, they should have clear reasons as to why this is the case and a credible strategy to bring your administration back to agreed benchmarks.

Day zero backlog
A clear marker that identifies the root behind low and inconsistent SLAs is the backlog. Work should start on a case the day it arrives. This ensures that there is sufficient time to plan ahead and it is only the errant case that slips through the cracks. A large backlog needs detailed analysis: the number of cases by type, mapped against appropriate resources available to complete these, over and above the business as usual tasks.

The average administrator has no incentive to work late and on weekends, even if they are paid overtime. They have families to go home to, vacations to take and celebrations to attend. Contract staff take time to be on-boarded, they are premium priced and require comprehensive training. Backlogs are notoriously difficult to reverse by an incumbent administrator.

Low rework rates
Rework rates are easy to audit and speak volumes about resourcing levels, automation and training. Poor quality administrators can have rework levels of anything between 20 per cent and 30 per cent. There can be a lag of months or even years between the original issues emerging and being hit by the complaints caused by the errors. Rework rates must be tracked, root-cause-analysis carried out and action taken to consistently push these rates down to zero.

High quality client experience
What gets measured gets done. Good administrators measure both client and member satisfaction on an ongoing basis and this is a key governance metric. This should not just be an internal measure, but one that is audited independently.

Member satisfaction should be at all key touch points, such as at retirement and during transfers. All complaints and compliments should be relayed back to the client transparently and comprehensively. Trustee satisfaction surveys should be conducted formally.

Client experience must be embedded within administrators' business. The most accurate and speedy retirement quote is damaged by a poor member experience.

Conclusion
In 2018 it is unacceptable for pension administrators to continue to deliver poor quality service. Administration continues to be on paper in many cases, transfers taking months, backlogs growing and SLAs sitting in the mid 80s. There are a number of key metrics that can be used to benchmark pension administrators. There are options in the market if their current administrators do not make the grade.

Written by Girish Menezes, head of administration, Premier

In association with premier

Managing the DB transfer demand

Paul Pettitt explains how industry-agreed standards and technology can help improve the transfer process

Demand for DB pensions transfers has increased exponentially since the introduction of pensions freedoms, and 2017 saw more pressure put on third-party administrators (TPAs), employee benefit consultants (EBCs), advisers and trustees than ever before.

FCA figures from its 2016 paper FCA survey of firms providing financial advice[1], show that advisers experienced a 123 per cent increase in demand from existing clients and a 246 per cent increase in approaches from potential new clients and its clear there has been no let-up in this demand.

Interest in transfers has been driven by several well documented factors:

- Legislative changes.
- Higher transfer values.
- Lower interest rates and (historically) low gilt yields.
- Further inflated by employers attempting to manage risks and scheme deficits.

This 'tsunami' of demand has been causing significant issues across the industry. Financial advisers are dealing with an unprecedented volume of member requests for reviews and transfers. TPAs and EBCs are subsequently seeing significant increases (135 per cent) in requests for cash equivalent transfer values and so pension transfer volumes of up to 100 per cent. These increases are setting historical highs[2]; placing a strain on the industry.

The challenges

It is no surprise that regulators have put their spotlight on DB transfers. Origo recently published a white paper[3], entitled *The troubles with DB transfers* based on research with 16 TPAs and EBCs. The white paper maps out the complexities that are impeding the current DB transfer process and explores the barriers to smoother transfers. Six challenges identified were:

1. **A disconnect** between what financial advisers and TPAs/EBCs see as necessary in the collation and provision of information required to enable an informed transfer decision.
2. **Lack of specialist resource** to carry out TVA combined with unprecedented volumes.
3. **Mismatch of regulatory requirements** of the various transfer parties.
4. **Due diligence responsibilities** and the time these take to complete.
5. **Paperwork** being passed back and forth.
6. **Member expectations and knowledge** – The Pensions Regulator maps out a nine-month transfer process whereas members expect it to be as simple as moving cash between bank accounts.

In order to deal with these challenges, the research revealed that some TPAs and EBCs are adopting coping mechanisms as possible short-term solutions. Unfortunately, this comes with inherent risks, particularly in manual processes already creaking under the strain. Other mechanisms could pave the way for possible solutions. Ensuring the member is at the forefront of any solutions is of paramount importance if the industry is to deliver improved outcomes.

Next steps

A relatively simple, proven and effective way to immediately create a better transfer experience across the board, is to work collaboratively towards the development and adoption of industry-agreed standards and technology.

The white paper explores several possible solutions to support a smoother transfer process. For example, having a standard form that sets out the required information for the transfer, to help remove the disconnect between EBCs/TPAs. Establishing a standard at this stage of the transfer process, would help cut costs, reduce errors and help ensure timely transfer requests, and so reduce the possibility of missing deadlines.

Another key solution is the moving from a manual to an automated industry transfers system. The benefits of an automated service comes not only from the increased control around the transfer process, and security of the data transfer between schemes, but it also enables the parties involved to have a clear eye on where the transfer is at any one time – giving TPAs and EBCs more control.

More information

Industry agreed standards and technology can go a considerable way to improving the transfers process. With proven solutions such as Origo's Options Transfers service, administrators can rest assured that there are quick wins available. To find out more, request your copy of the white paper at www.origo.com/whitepaper

Written by Paul Pettitt, managing director, Origo

References:
[1] https://www.fca.org.uk/publication/research/financial-advice-firms-survey.pdf
[2 & 3] Request a copy of the White Paper: www.origo.com/WhitePaper

Collaboration throughout

David Poulton explains how collaborative early engagement makes for a good member experience

I have spent nearly 20 years in the buy-in and buyout market and have had the privilege of working with many trustees in my career. I am always glad to see that they put their members' interests at the heart of what they do. At Legal & General we are similarly concerned with making sure our policyholders are treated fairly and well. We have found that the best way to achieve these common goals is to take a collaborative approach across the stake-holders involved in what will typically be the most significant transaction in a pension scheme's lifetime.

To enable trustees to make an informed decision when facing the choice of purchasing a buy-in or buyout, we believe in providing an understanding of the activities involved not only in the run-up to purchasing the insurance policy but also in the months following the transfer of premium. The trustee and member experience will benefit from following certain lessons I have learned while helping to put in place the insurance arrangements for (the humbling number of) thousands of pension schemes.

1. Build a team that thinks beyond the date of signing the transaction documents

Each pension scheme benefits from dedicated members of my team working with them well before the transaction is signed and these individuals continue to work for the scheme until individual member policies have been issued. They will collaborate not only with the new business team within Legal & General but with the advisers and administrators working for the trustees. Early engagement of the individuals responsible for the ongoing operation of the insurance policies means there is strong institutional knowledge of the scheme within Legal & General and the trustees have a single point of contact throughout the process when it comes to how their members will be looked after.

2. Build up a full picture of the benefit promises

The core requirement for us as insurer is to pay the right benefits to the right individuals on time, every time. For us to know what the right benefits are, it is important for us to understand the scheme benefits not just as set out in the rules (or summaries of the rules provided to us) but also in how they are administered in practice. Achieving a smooth process for all involved, in particular for schemes with a history of mergers and transfers, rests on developing this understanding early, often before a scheme approaches the market for a formal pricing exercise. My team has supported a number of schemes at early stages of their decision-making process to allow them to carry out investigations on these matters that have led to a better trustee experience when they decided to approach the market for a transaction and a better experience for all when their members became our policyholders.

3. Understand and plan for the full process

Amongst my team are a number of dedicated project managers who will ensure that all stakeholders involved in the process up until transfer of payroll and issuing individual policies understand their roles and responsibilities. They will track the milestones and the crucial inputs and decisions required from trustees, scheme administrators, advisers and Legal & General. While it may appear daunting to have a project plan spanning multiple months in front of you, we find that having a holistic understanding of everything that is required and breaking it down into its component parts means all steps in the process can be completed with efficiency and to the complete satisfaction of the trustees and scheme members.

At Legal & General, we know that member administration and payroll is critical and that is why we carry out all scheme implementation and administration in-house within the UK. This means we have complete end-to-end control and can offer all scheme members the same high quality of service.

Choosing a provider that not only has the right experience and knowledge but also shares the same values as the trustees is paramount in my view. After all, we will be the ones looking after your scheme members for years to come.

If you would like further information on how we look after members or how we can provide early support to a pension scheme considering the purchase of a buy-in or buyout, please contact me at derisking@landg.com.

Written by David Poulton, head of client services, pension risk transfer, Legal & General Retirement

In association with Legal & General

With you all the way

Are you considering a buy-in or a buyout?

We will work with you at every stage from developing the right pension risk transfer solution through to successful on-going administration of your buy-in, buyout or longevity insurance. Our experience and expertise means you can be assured that the transfer of any membership data, payroll or administration will be managed seamlessly by our dedicated in-house teams of experts.

1. PREPARATION

We will work with you from the earliest opportunity to prepare for a successful scheme transfer. From identifying data constraints to potential legal and regulatory requirements, our team is on hand to ensure there is a joined-up and successful process in place.

2. PLANNING

Our Prince II qualified Transition Managers and Installation Consultants will work with you to develop a bespoke project plan for your scheme and members. They will provide you with regular updates and will help you and your advisers through the end-to-end scheme on-boarding.

3. PAYROLL

Our payroll team manages the transfer of members to our payroll system ensuring a seamless experience for trustees and members during the transition.

4. DATA VALIDATION

Our expert data analytics team have the capabilities to offer data reconciliation, cleansing and validation, which ensures that any payments we make are accurate and reflect the benefits that members are entitled to.

5. MEMBER SERVICES

Our UK-based customer services team offers support for member queries and provides pension administration services. Your members are able to connect directly to one of our staff who will take ownership of resolving the queries raised.

Helping trustees to secure and protect their members' benefits for over 30 years.

CONTACT US

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Brave new world

Darren Philp explores how master trusts best meet the challenges of a changing DC environment

Auto-enrolment (AE) has just reached the nine million workers mark. From zero in 2012 to nine million in 2017 is a remarkable achievement by all accounts. But it doesn't end there, and recent government announcements to extend the scope of AE are welcome.

Good member outcomes. That's what we're ultimately striving for isn't it? And whether it's through a single employer scheme or a master trust, putting the interests of members first is key to a successful, and crucially a sustainable, defined contribution landscape that really delivers.

But this brave new world of DC doesn't come without its challenges. There has been constant legislative change, and the introduction of pensions freedoms turned DC pensions on its head, leaving many schemes struggling to keep up with the pace of change.

The Pensions Regulator is certainly committed to the cause, with its focus on raising quality and improving governance of DC schemes. This is largely through the creation of the DC Code of Practice that has given trustees a clear guide to ensure they stay on the right side of the law and serve their members well.

But the fact is, it's becoming more onerous to run DC schemes. Good governance and investment in the proposition comes at a cost, both in terms of time and money.

There's no denying that master trusts have played a crucial role in the introduction of AE since 2012, with many being created to meet the demand for pension provision from employers who couldn't or didn't want to set up an in-house scheme. They offered an easy vehicle for employers with new pension duties to become compliant and get their staff saving.

But there's more to master trusts then just a compliance vehicle for auto-enrolment. Well-run master trusts can offer economies of scale, robust, trust-based governance and an investment in sound systems and processes. Increasingly they are becoming an option well worth considering for single-employer schemes that may no longer want to operate at employer level, but care about their members and want them to be in that trust-based environment.

Yet even in the master trust space, up until recently regulation has been woefully inadequate. We found ourselves in a strange situation where industry participants themselves were asking for the government to intervene and regulate this fledgling sector.

How does the saying go? Ask and you shall receive. And we did (eventually), in the form of the Pension Schemes Act 2017, which requires master trusts to have regulatory authorisation; pass tests to confirm that the people running them are fit and proper; and fulfil requirements on capital adequacy. All good stuff and totally appropriate for large scale multi-employer schemes.

The draft master trust regulations for consultation were published on 1 December, with regulation coming into force from 1 October 2018. These regulations are an important milestone in achieving proper regulation and authorisation of master trusts, and a positive step to ensure members are appropriately protected. The Department for Work and Pensions and the regulator are taking a consultative approach in introducing the new authorisation regime, and I look forward to seeing how the regulator will implement some of the finer detail in their forthcoming code of practice.

As noted earlier, freedom and choice shook up the decumulation process. So DC schemes should be looking at their membership and thinking about what the appropriate at-retirement solutions should be for them. And then the question becomes whether they have the resources to develop those solutions for a scheme of their size. The issue may be that there is little point offering a sophisticated drawdown product when average member's pot sizes and numbers of members in the scheme are small.

Economies of scale mean that master trusts are already well placed to take the lead when it comes to innovation in the decumulation space and I'm sure schemes have some exciting innovations planned. And as pot sizes grow, so too will innovation.

So while big isn't always beautiful, master trusts have an ever-more important role to play in providing pensions, but not just in the auto-enrolment space. Increasingly they will become pot consolidators and will be at the forefront in providing at-retirement solutions for members. Done well, and with the right resources and governance, smaller schemes can provide great pensions to their members. But it needs to be done properly. If employers and schemes can't or don't want to invest, then a master trust could give the employer the best of both worlds in delivering quality pensions for their workers.

Written by Darren Philp, director of policy and market engagement, The People's Pension

In association with the people's pension

Multi-asset income: A pre and post-retirement solution

Paul Flood considers the potential benefits of a multi-asset approach for both the accumulation and decumulation phases of retirement saving

All pension schemes share one overriding objective: to be sufficiently funded to pay their members' benefits on time and in full. But as with individuals when they approach and move into retirement, they face two key risks on the path to maturity which can make achieving this objective more challenging.

The first of these risks is longevity and the second is inflation, both of which can increase the value of schemes' liabilities. Meanwhile, the task of meeting these cashflow requirements has been exacerbated over the past few years by almost a decade of central bank-led loose monetary policy, which has pushed up the price of most assets, while reducing the yields from conventional assets such as bonds and equities.

In our view, the potential for further rises in interest rates, combined with equity valuations close to historic highs, and prevailing low (and in the case of some government bonds often negative) bond yields, makes it all the more important to embrace a more flexible approach to investing.

We believe the evolution of the multi-asset investment universe that looks beyond the traditional 60/40 equity/bond split is a useful way of doing so; by broadening and diversifying the investment universe, we think the chances of withstanding the negative impact of the economic vagaries of a still uncertain world can be boosted.

Put simply, multi-asset investing means having the flexibility to invest in what we deem to be the most attractive investment opportunities, across a diverse range of asset classes, duration and geographies. To us currently, that means going beyond the traditional asset classes of bonds and equities to also invest in 'alternative' assets such as infrastructure, renewables and property. By doing so, investors have the chance not only to diversify their potential sources of capital return and income by reducing concentration risk, but also to build in a reasonable level of protection against inflation.

We regard assets such as infrastructure and renewables as a useful component of a multi-asset portfolio. For example, assets such as toll roads, ports and airports can often offer government-backed contractual obligations over a fixed longer-term timeframe, thus helping to provide visibility over the future income stream. As well as frequently offering a linkage of an income stream to changes in inflation, assets such as infrastructure and renewables can often be less susceptible to changes in the market cycle than conventional assets, thus potentially reducing schemes' volatility.

We believe that by having the flexibility to avoid unattractive asset classes while allocating capital to attractive ones, selected via rigorous fundamental top-down and bottom-up analysis, a multi-asset approach might offer schemes a better chance of securing a sustainable income stream as well as a meaningful capital return. Moreover, by harnessing a diverse range of assets within a multi-asset portfolio unconstrained by the benchmarks that characterise the more rigid and traditional 60/40 approach, concentration risk can be reduced.

We believe that multi-asset strategies can help pension schemes to mitigate some of the risks posed by the twin threats of longevity and future rises in inflation. In our view, by investing in idiosyncratic assets such as infrastructure and renewables, which are often less correlated with the economic cycle and typically held with long time horizons, alongside carefully selected conventional assets, schemes may be able to increase their chances of meeting their growth and income requirements.

Those chances may also be bolstered by the flexibility afforded by a multi-asset approach, which allows the opportunity to reallocate capital quickly and efficiently should valuations and prospects for asset classes change over time.

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Is your choice of pension model weakening the effectiveness of your pension strategy?

While pensions management strategy becomes increasingly sophisticated and high-profile, the quality of the foundation of these decisions – the pension management information – can vary widely. Neil Wharmby explains what to look for when assessing what models to use when developing and implementing your company's pensions strategy

The management of defined benefit schemes has never been more complex or as important to a sponsor company's finances, as it is today.

In particular, the low-yield environment has increased the relative size of liabilities compared to the assets for schemes that are not yet fully hedged. Many companies and trustees are increasing the sophistication of the models used to develop and implement their pension management strategies. But beware, the wrong choice of pension model may weaken the effectiveness of your pension strategy!

The models employed embed subjectivity in both their approach (methodologies) and their inputs (assumptions and data) that can skew the outcome of your chosen strategy. This can result in inefficient use of scarce resources such as cash and management time.

If we assume that the model being considered is technically robust (the model can do what it claims to do) then how do you determine which model is best for your needs?

Our four top tips to help you assess

the suitability of pension scheme models can be found below:

1. Data - are you trying to crack a nut with a sledgehammer?

A lot has been said in pension circles about the benefits of an on-demand 'full valuation' versus what are commonly referred to as 'roll-forward models'. The distinction is between the data used: in the roll-forward approach, the starting point is the data from the previous actuarial valuation, often (but not always) adjusted to allow for material changes, while the full valuation requires a fresh extract of the underlying pensions data 'from scratch'. The on-demand full valuation may seem like the better option, but is it really?

We have found that instead of increasing accuracy, new data extracts can sometimes lead to greater error than the experience they otherwise reveal.

Extracts, particularly for large schemes, are not always robust and time is needed to ensure that the data is complete and fit for purpose.

But, the real issues arise when assessing how much experience this new data brings, and how many of your previous assumptions it replaces? Let's look at emerging inflation experience as an example. Does the data reflect the last annual increase, or have allowances been made for subsequent known inflation changes? Has a salary increase date passed, and how much of this increase was already incorporated into the previous results through already known market inflation data and assumptions? Is the inflation built into the liabilities consistent with the inflation information inherent in the asset pricing? Failure to adjust for points like these could easily have left you looking at a funding position with an error of 5 per cent or more over the past few years.

In contrast, the impact of, say, basic membership experience – retirements, deaths, commutation profits – the very sort of experience that the new extract is aiming to capture, might only be worth around 1 per cent or so over a three-year period for many stable schemes.

Taking all of this into account, rolling forward robust results might actually be more accurate than the potential errors of mixing new or incomplete data with past assumptions and models.

2. Dynamic assumption modelling is now a 'must-have'

A dynamic approach to modelling assumptions is now a must-have. By this we mean that you should be looking for a model that can accommodate term-dependent assumptions, has the ability to track these over time in conjunction with changing yield curves and can provide term-dependent asset return expectations.

Many schemes have already moved to valuing their liabilities in this way in order to better align with investment strategy decisions and more transparently assess the effectiveness of both liability hedging and return-seeking strategies. For those that haven't yet moved, there is a clear trend in this direction as schemes mature close to future accrual, or adopt more closely-hedged investment strategies.

If you're thinking – "I use a yield-curve approach already, this doesn't apply to me" – then we would challenge you to consider whether the modelling of that approach over time is truly dynamic. The common shortcut of modelling using 'mean term' adjustments can lead to errors in excess of tolerances for many purposes when yields move materially, as they have over the past 18 months. In addition, if your modelling assumes constant margins over gilt yields then are you confident that this a reasonable reflection of changing corporate spread and movements in equity pricing?

On a more detailed note, a truly dynamic model should be able to automatically adjust for caps and floors as the inflation curve changes, allowing you to model the increases in assumptions that are used to measure your liabilities consistently with any Limited Price Indexation assets held (or to provide more transparency about the effect of holding such assets).

The use of dynamic assumption models automates the assumption-setting process as well as reduces the cost of configuration and recalibration. This approach also provides the ability to track objectives over a longer period by making a clearer distinction between market changes and assumption changes which are made as a result of changes in actuarial approach. There is no longer the need to worry about the darkness of the actuary's 'black box'.

3. Transparency

If you are using the results from these models to set your strategy or implement key changes then it should go without saying that the approach used to derive those results should be transparent and accessible.

If you've read the preceding paragraphs and realised that you're not sure how the assumptions in your models are set, then now might be a good time to ask a few questions. In particular, are the assumptions and modelling parameters clear and appropriate for the purpose for which they are being used? Indeed, do you know what purpose the figures and assumptions have been designed for?

Actuaries required to comply with technical actuarial standards issued by the Financial Reporting Council (FRC) must satisfy themselves that the models they are using to inform their decisions are fit for purpose and appropriately documented. Would the key decision-makers on your board expect any less of you? (This latter point is particularly relevant given the application of the FRC's new technical actuarial standards to all technical actuarial work from 1 July 2017. We expect that all companies would seek consistency of compliance with FRC standards in all aspects of their financial governance – pensions disclosures included, whether or not prepared by an actuary.)

4. Value for money

Full valuation and asset liability modelling systems certainly have their place but they come with a reasonable price tag. It is important to not only consider the cost in terms of licensing fees, but to also look at the resource needed to construct and maintain the models and assumptions, as well as to provide appropriate professional review of any figures used. So how can you reduce your costs of pension scheme monitoring?

The first stage is to identify the objectives of your modelling and consider what the key drivers are for achieving those objectives. For example, do you really need the risks and costs associated with regular data extracts if you are only looking at compliance reporting? Would incomplete or inaccurate asset feeds lead to misleading results and potentially damage investment decision making? Do you really need to know how many retirements have taken place if you are making decisions around asset allocation? Without this thought process, there is a danger of purchasing a model that is either very expensive, not fit for purpose or, in some cases, both!

So what model should I use?

Easy. One that's fit for purpose and affordable. Pension schemes are complex, but that doesn't mean that your life needs to be too! Well-constructed models are often more accurate than badly parameterised or unchecked full valuation systems. Which would you rather?

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In association with Willis Towers Watson

Company Profiles

Aon Hewitt

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Faster, safer transfers through Origo's Options Transfers service. The Options Transfers service from Origo is the industry's only complete transfers service. Options Transfers enables scheme administrators to; remove paperwork (including discharge forms), significantly reduce transfer times from months to a handful of days and analyse performance through on-demand Management Information including full tracking of transfers from start to finish. The Options Transfers service supports a full range of transfer needs as well as facilitating both individual for DB to DC and DC to DC transfers and multiple (bulk) member transfers.

Options Transfers is a tried, tested and trusted industry service that has been successfully operating since 2008. Enabling over 90 leading UK brands including names such as; JLT and The People's Pension, to provide their members with a safe and faster transfer experience, the Options Transfers service has securely transferred over £120 billion in pension funds since its launch.

For further information please visit: origo.com/options

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Legal & General

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Company Profiles

TPP

The People's Pension is the UK's largest private sector DC master trust with more than 3.2 million members and over 70,000 employers of all sizes from a wide variety of sectors signed up. It's a flexible and portable workplace pension, designed for people, not profit. With no shareholders, any surpluses are used for the benefit of our members.

Run by not-for-profit provider B&CE, which recently celebrated its 75th year, our values of creating simplicity, showing compassion and keeping promises drive everything we do.

The People's Pension is a multi-employer scheme with independent trustees and it's a hassle-free, flexible and portable workplace pension suitable for any organisation, large or small, in any sector.

Pension Quality Mark (PQM) READY is designed to help employers identify a good multi-employer pension scheme or master trust and aims to promote best practice around charges and scheme governance.

The People's Pension has gained the PQM READY standard in recognition of its low charges, clear communications and strong governance.

The People's Pension was the first master trust to report on its governance and administration arrangements in accordance with the Institute of Chartered Accountants of England and Wales' (ICAEW) new assurance framework for master trusts.

Earlier this year, we also led the way in public disclosure of the underlying transaction costs of our investment funds. Transparency in transaction costs is crucial in helping consumers assess value for money, and it's important to us that this information is scrutinised as part of effective scheme governance.

And we're striving to achieve excellence in our communications. We've become a corporate member of the Plain Language Commission and are extremely pleased that some of our member- and employer-facing publications have achieved their Clear English Standard accreditation. We pride ourselves on the simple, stripped back language we use to communicate to our clients and members – pensions shouldn't be complicated.

the people's pension

Newton Investment Management

Founded in 1978, Newton is an active investment management firm, using big thematic ideas about the investment landscape to create and manage strategies that can help to secure its clients' futures. Our global investment themes are vital in providing perspective, identifying key long-term forces of change, and providing a framework for research and debate. We use these themes in each of our strategies alongside rigorous bottom-up analysis in order to help identify areas of opportunity and risk. We think on a global basis, with our single London-based investment team working collaboratively across asset classes and regions. We build bold solutions, designed to meet the real-world challenges our clients face, and we manage them responsibly in the broadest sense – through embedding environmental, social and governance considerations, and engaging on issues that affect our clients. Those clients are based around the world, and include pension funds, corporations and charities and, via our parent company BNY Mellon, individuals.

With offices in London and New York, Newton has £55 billion of assets under management (as at 30 September 2017), including assets managed by Newton Investment Management Limited as dual officers of Newton Capital Management Limited and The Bank of New York Mellon. Newton is registered in England No. 01371973.

To find out more about us, visit our website at newtonim.com

NEWTON Investment Management

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We are the leading provider of actuarial services to today's global organisations, providing services to most of the world's top 300 pension funds. We serve 75 per cent of the Fortune 500 and are the actuary to 40 of the 100 largest corporate pension funds in the UK. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential.

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Pensions Age is the leading title targeting UK pension funds and their consultants. Published monthly in print since 1996, and daily online, we invest heavily in our circulation and content to ensure we are the clear market leading title. Our in-house editorial team of Francesca Fabrizi (Editor in Chief), Laura Blows (Editor), Natalie Tuck (News Editor) Talya Misiri (Senior Reporter) and Theo Andrew (Reporter) ensure we cover the latest news and topical industry issues to help our readers make the best informed decisions.

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Pensions Age also runs highly successful conferences, and the Pensions Age Awards.

We also publish *European Pensions*, which targets pensions funds across Europe, as well as running the European Pensions Awards, Irish Pensions Awards, and Pensioni & Welfare Italia Awards. We also run an Italian language e-newsletter and website, and run an annual Nordics roundtable.