Investment liquidity
How pension funds are adapting their liquid holdings ratio due to changing needs

Product innovation
What needs to be done to offer suitable pension products for today's savers?

Fee transparency
The approaches trustees can take to get a clearer view of costs

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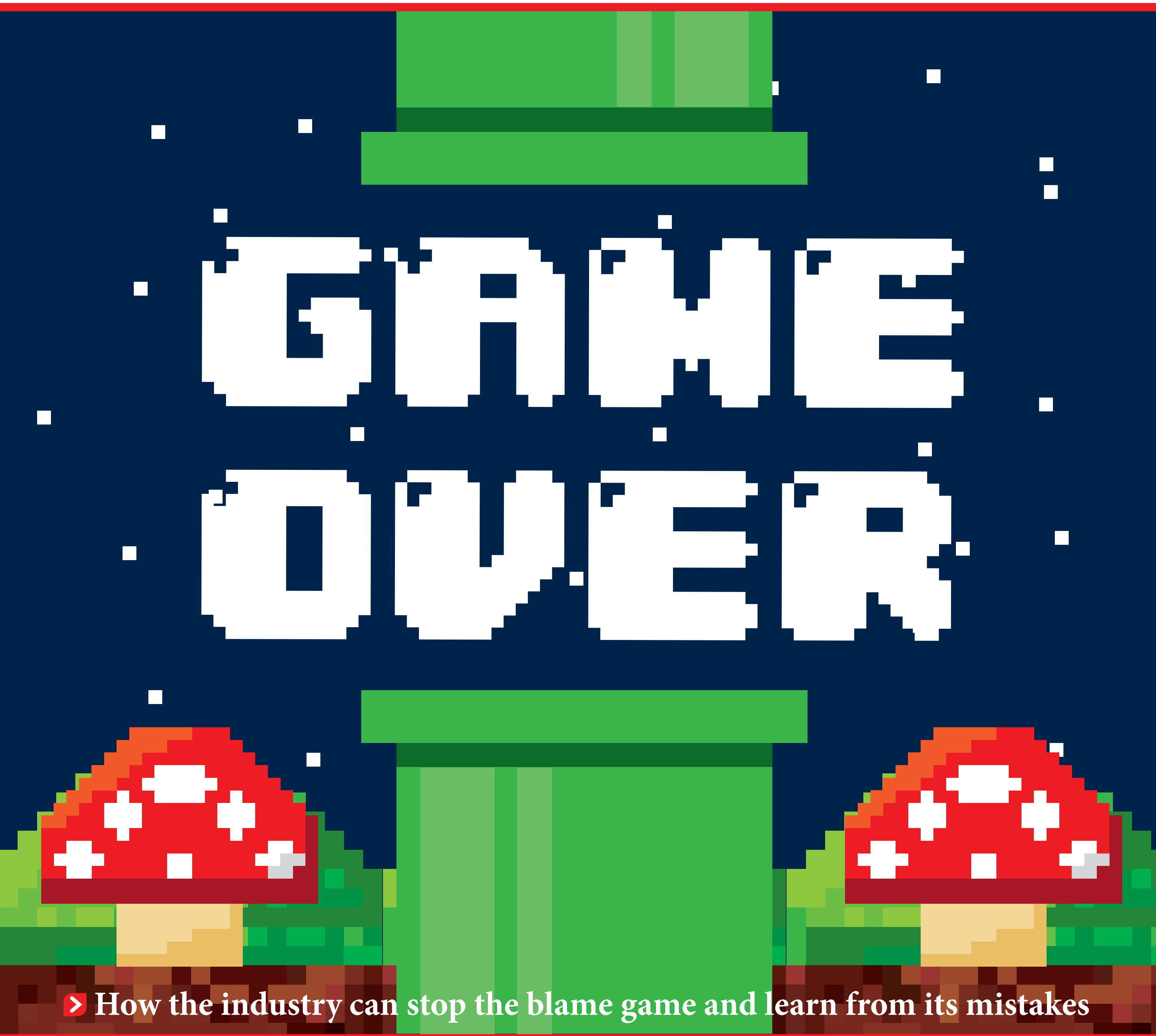
May 2018

PENSIONS Age

The leading pensions magazine

***Industry diversity**: The efforts being made to improve diversity within the pensions sector*

***Key person risk:** How to prevent pension schemes from being overly-reliant on one individual*



How the industry can stop the blame game and learn from its mistakes

Conflicts of interest - how to identify and mitigate conflicts of interest as part of a good governance process

Editorial Comment

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

“Disgraceful”and “incompetence” are just two of the emotive terms the Liberal Democrat’s spokesperson for work and pensions, Stephen Lloyd, recently used to describe the pension overpayments made by the government as a result of public sector workers being contracted out.

Strong words from Lloyd there. Especially as, after all, everyone makes mistakes.

As each government department must decide whether to claw back overpayments, Lloyd has been urging them not to do this and instead write the losses off.

The amounts lost are sure to be significant. For instance, in March, it was revealed that the civil service pension scheme’s annual report in December 2017 found £22 million of overpayments due to its GMP reconciliation exercise conducted as a result of the end of contracting out. The decision was made to write off the historic overpayments as a loss.

Lloyd wants all government departments to follow suit, as he notes that workers in the NHS, armed forces and teachers will be amongst those that may be affected if the government was to claim back the overpayments, which could “plunge the retirement plans of tens of thousands of hard-working people into chaos”.

These groups of people are held in high esteem by the public, and headlines of making these people ‘poorer’ in retirement would hardly be a vote-winner. And while the losses may well be significant, the reputational risk could be greater.

Therefore, I would urge the industry to consider taking the same approach Lloyd is putting to government when weighing up the pros and cons (not just in monetary terms) of claiming back overpayments, and writing them off where possible.

According to the Pensions Ombudsman, as a starting point, the law says that a mistake doesn’t create an entitlement for the future and that money received in error has to be repaid. However, it notes there may be reasons that some or all of it need not be paid back.

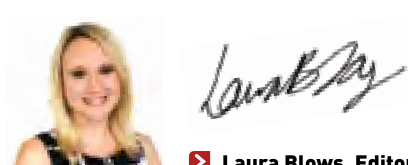
Many running workplace pensions agree with this and decide that the time, effort and reputational risk of chasing members for money is simply not worth the hassle. However, we at *Pensions Age* still receive calls and emails from disgruntled pensioners that have been told the overpayments they received need to be paid back – and sometimes in a shorter time period than which the overpayment occurred, despite the ‘accepted practice’ of spreading the repayments over the same time period in which the overpayment took place.

Repaying back the overpayment from the new, smaller, correct pension in payment may often cause hardship to members. This, combined with the potential distress of potentially having legal proceedings placed against them to reclaim the money, hardly helps improve the reputation of the pensions industry.

And it’s not like the industry’s standing (especially after all the high-profile pension collapse cases recently) is exceptionally strong to withstand knocks against it. The sector, now more than ever, has to show its caring side, as it competes against the variety of options people now have to save for the future and spend those savings at retirement.

Conversations within the sector about how the industry has to start thinking about pension savers as ‘customers’ has increased in recent years. Overpayments is just one example of the ways the industry could put this new approach into practice – by accepting that it made the mistake and overpaid, so minimising the impact of that mistake to the customer and making efforts to minimise the risk of similar mistakes occurring (the increased focus on data quality should also help with this).

It will be quite a mindset shift to think and behave in the same ways as the retail financial sector, with it having ‘customers’. But to help get there, maybe we should all be chanting that old adage: “The customer is always right.”



Laura Blows, Editor

Leading the property funds market. By following it.

Kames Active Beta Property Fund

There are various ways for pension schemes to invest in property. The largest investors can buy physical properties, although most schemes favour pooled funds or multi-manager solutions. These approaches bring risks of underperformance and illiquidity, while the high costs of trading means that schemes rarely switch providers until it is too late.

The unique nature of property as an asset class has limited the development of tracking solutions – until now. The **Kames Active Beta Property Fund** is a pooled pension fund which aims to track the UK commercial property funds market.

By investing across a broad range of balanced property funds we aim to deliver returns with a risk profile that is appropriate for UK pension schemes investing in property as a diversifying asset class.

For more information, please contact **Shaun McWilliam** on **shaun.mcwilliam@kamescapital.com**.

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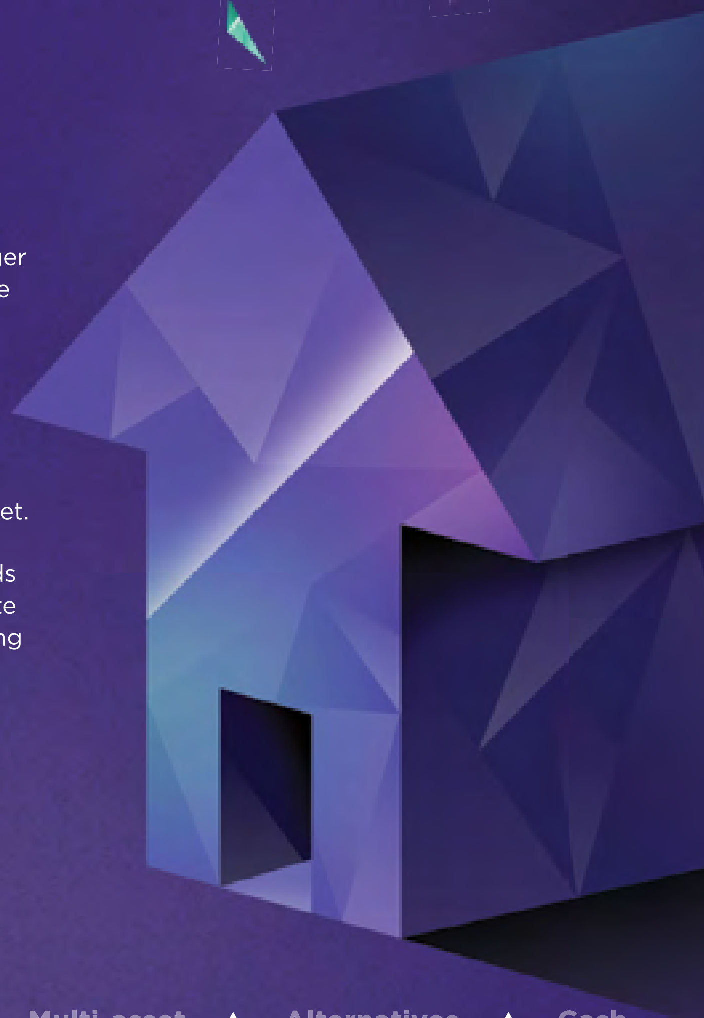

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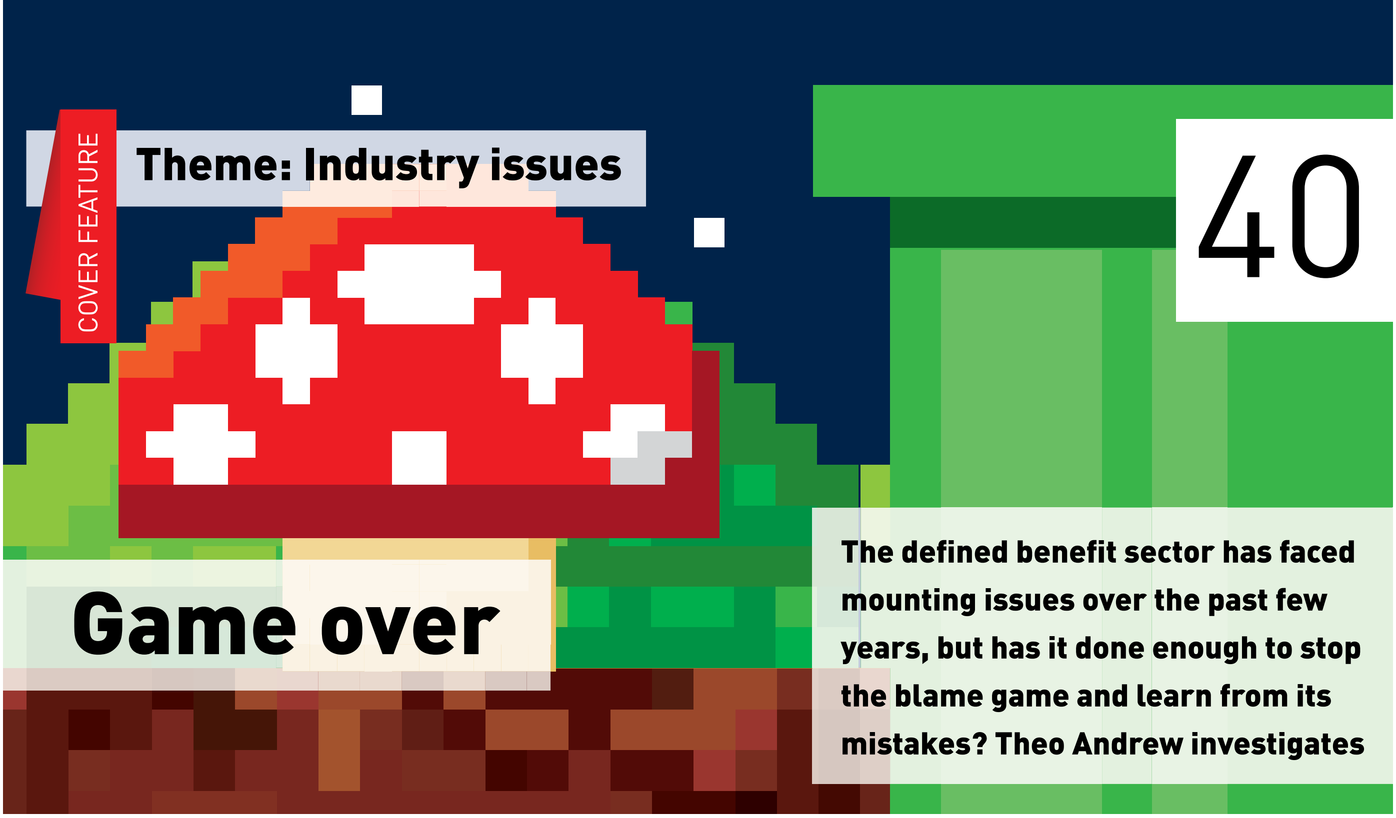
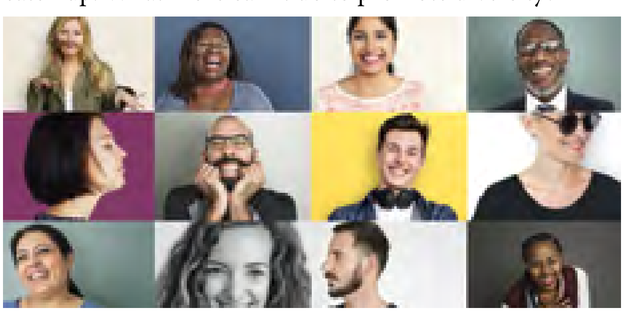


COVER FEATURE

Theme: Industry issues

Game over

The defined benefit sector has faced mounting issues over the past few years, but has it done enough to stop the blame game and learn from its mistakes? Theo Andrew investigates



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NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). This is our BEST EVER circulation audit, and we would like to thank all our readers for their support. The average circulation July 2016 to June 2017 comes in at 15,023 print copies, near treble most of our competitors. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPC, AMNT). (source: ABC, see www.abc.org.uk). Pensions Age is also sent as a Tablet Edition to our 25,000+ online subscribers (source: Publishers Statement September 2017).

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Dateline - April 2018

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

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3 April British Airways confirms it has closed its DB scheme to future accrual, along with its old DC scheme, with both replaced by a new DC scheme. In a statement, International Airlines Group (IAG) says it has closed British Airways' New Airways Pension Scheme to future accrual, and the British Airways Retirement Plan to future contributions, on 31 March 2018. IAG says the schemes have been replaced by a flexible benefits scheme, incorporating a new DC pension scheme.

4 April Six pension and finance companies involved in the operation of occupational pension schemes are placed into provisional liquidation by the **High Court**. Following an investigation by the Insolvency Service, six firms, including Fast Pensions Ltd, which is the sponsoring employer of 15 pension schemes, and FP Scheme Trustees Ltd, which is the trustee of the pension schemes, have been placed into provisional liquidation.

5 April The **Work and Pensions Committee** calls for pension providers to offer default decumulation pathways for its members. According to its pension freedoms report, the Work and Pensions Committee says it supports the Financial Conduct Authority's recommendation that every pension provider offering drawdown should be required to offer a default decumulation pathway for its core customer group.

9 April The **Financial Conduct Authority** reiterates its warning to firms offering "unsuitable pensions advice", saying it will "not hesitate to intervene". In its 2018/19 business plan, the FCA outlines "unsuitable transfer advice" as a "key activity" area, after some firms changed their business model following the introduction of pension freedoms in 2015.

10 April The majority of defined benefit pension schemes have seen between 20-30 per cent of their non-pensioner members aged over 55 transfer out to access greater flexibilities, **Willis Towers Watson** reports. According to its survey, 20 to 30 per cent of non-pensioner members are transferring out of DB schemes to take advantage of freedom and choice options when provided with information and paid-for impartial financial advice.

11 April Tesco reveals its pension deficit dropped by £2.8bn in the year to February 2018, down from £5.5bn to £2.7bn. In its preliminary results for 2017/18, the supermarket says the reduction was partly driven by an increase in yields on corporate bonds, which drive the discount rate used for accounting purposes.

Editorial credit: jax10289 / Shutterstock.com

12 April The **Work and Pensions Committee** launches an inquiry into the defined benefit white paper to "inform and influence" the planned consultation on a white paper's various proposals. The white paper, *Providing defined benefit pension schemes*, which was published on 19 March 2018, announced plans to strengthen The Pensions Regulator's main anti-avoidance powers by permitting the issuance of punitive fines, extending the regulator's investigative and information-gathering powers.

For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

13 April First Group's defined benefit pension scheme has come under scrutiny following a takeover bid for the transport firm by the USA's Apollo Management. First Group revealed that Apollo Management had made a bid. Now First Group's pension scheme is drawing attention; last year it was identified as the company most under pressure from its pension schemes relative to its size because of its £4bn pension liabilities against its £1.2bn market capitalisation. Its half-yearly results, published in November 2017, revealed a UK DB pension deficit of £742.7m, which includes its rail and companies. It has assets of £4504.6m and liabilities of £5247.3m.

17 April United Utilities and Anglian Water must take their defined benefit pension scheme deficits into account when considering dividend policy, the water regulator **Ofwat** says. A letter from Ofwat chief executive Rachel Fletcher, in response to Work and Pensions Committee Chair Frank Field, says that companies should consider pension obligations when making dividend decisions.

18 April Consultants advising pension trustees on environmental investment factors have a "severe lack of understanding or willingness to engage" on the issue. Speaking at the launch of a **Pinsent Masons** and the University of Leeds joint report, *Managing Climate Risk in a Changing Environment,* Institutional Investors Group on Climate Change board member Jennifer Anderson says that it was advisers' responsibility to better understand environmental factors as trustees will be relying on them for guidance.

20 April The government has "no plans" to review its decision regarding the secondary annuity market, **HM Treasury** economic secretary John Glen says. Responding to a parliamentary question from Conservative MP Craig Mackinlay, who asked whether the Chancellor of the Exchequer plans to "extend to the annuity market the freedom that people have to access their pensions", Glen rejected the need to review the already scrapped proposal.

23 April Two men are jailed for their involvement in an "elaborate pensions scam" stealing almost £1m from their victims. According to **Dorset Police**, Anthony Locke and Ray King are jailed for five years and three years respectively for undertaking a 'pension liberation' scam between September 2013 and April 2014, which saw them accrue a pension pot of £971,530.

24 April Yorkshire's oldest brewery, **Samuel Smith**'s, is to be prosecuted by The Pensions Regulator for failing to hand over financial information required for an ongoing investigation. The regulator asked the company for details of its finances in order to understand the funding position of some of the brewery's pension scheme. However, Samuel Smith Old Brewery in Tadcaster, North Yorkshire, along with its chairman Humphrey Smith, failed to comply.

26 April The **government** instructs public service pension schemes to amend their processes to enable the provision of equal benefits for civil partners and same-sex spouses. This judgement has been made in response to last year's Supreme Court ruling on equal pension benefits for same-sex partners in the event of a scheme member's death.

27 April A new opinion challenging the level of compensation offered by the **Pension Protection Fund** could result in increased payments for members. The case of *Grenville Hampshire v The Board of the PPF* that has been heard at the European Union's Court of Justice, considered the compensation cap on PPF payments. The court was told that the PPF's compensation cap for high earners is too low and that many people receiving compensation from the lifeboat fund are not entitled to inflationary increases as their pension was accrued before April 1997. The ECJ advocate general noted that the cap and lack of indexation suggests that thousands of people in the PPF could be receiving compensation that is too low.

News focus

Work and Pensions Committee calls for default decumulation pathways

The proposed default investment pathways for drawdown are part of a number of proposals made by the committee following its inquiry into the pension freedoms

The Work and Pensions Committee has called for pension drawdown providers to offer default decumulation pathways for its members.

According to its pension freedoms report, the Work and Pensions Committee has supported the Financial Conduct Authority's recommendation that every pension provider offering drawdown should be required to offer a default decumulation pathway, suitable for its core customer group. In its third report relating to the pension freedoms inquiry, the committee said its recommendations follow a "two-pronged approach" whereby it hopes to "protect savers who do not – or cannot – engage with their pension choices," or "empower more consumers to make active decisions".

With its default pathways suggestion, the committee looks to cater to the needs of uninformed savers who do not actively consider their pensions or understand their options. It has called for its recommendation of a default drawdown option to be in place by April 2019 and to be overseen by an existing independent governance committee. In addition, a 0.75 per cent charge cap, like that already in place for auto-enrolment, should be in place for default options. Moreover, in support of this recommendation, the report highlighted that the FCA confirmed that it is considering compelling default pathways "as a means of improving outcomes for drawdown consumers".

"The drawdown market bears many of the hallmarks of the accumulation market prior to auto-enrolment," the report noted. As a result of this, the committee has highlighted that the success of auto-enrolment in embracing consumers' inertia to get more people saving for retirement has provided a "template" for strengthening pension freedoms in the decumulation phase.

"People would still be free to choose to invest and spend their own money as they wished. But if they did not make an active choice, they would move into a suitable and regulated default product," the Work and Pensions Committee confirmed. Despite the committee itself being sure of its proposal, the rest of the pensions industry is divided in its opinion of the proposal. Whilst JLT Employee Benefits head of technical John Wilson believes a pensions pathway is a "better option" than savers being left to navigate retail markets without advice or guidance, Royal London director of policy Steve Webb believes the proposal, if introduced, would "destroy the spirit of pension freedoms".

Wilson, despite being in favour of a default pathway in decumulation, warned that the unwinding of freedom and choice would be a "retrograde step", and so any additional measures need to "stay within the spirit of those reforms". Webb, however, was completely against the idea, and argued that the reason for giving people freedom and choice at retirement is because everyone has different circumstances, needs and objectives.

"The idea of a standard default

makes sense when people are building up pension saving, but not in the diverse circumstances of later life. In particular, people may have built up several different pension arrangements with different providers and schemes. It would be impossible for an individual pension provider or scheme to know what the best option for a saver was when they know nothing about these other pensions," Webb said.

In addition, the committee has called on the government to deliver a single pension dashboard and make the provision of data by providers compulsory. It believes a single, all-inclusive platform and the compulsory provision of information is necessary to deliver the pension dashboard in April 2019. The committee has recommended that a single dashboard should be introduced by the government and hosted by the forthcoming single financial guidance body. To deliver this, it could be funded by the industry levy, the report added.

It noted: "The case for a publicly-hosted pensions dashboard is clear cut. Consumers want simple, impartial and trustworthy information. The case for multiple dashboards hosted by self-interested providers is far less convincing. This would add complexity to a problem crying out for simplicity."

With this, it has been suggested that the regulation of a single dashboard would be easier to maintain, rather than ensuring that multiple dashboards are consistent with one another and do not embark in damaging competition.

"The pension dashboard was conceived as a means of empowering consumers to promote competition in the product market. There is a risk that, in a multiple dashboard system, providers could instead compete on the information provided," the report stated.

The committee has also said that all providers should be required to issue single page pension passports overseen by The Pensions Regulator and the Financial Conduct Authority. The report said the passports increase by 10 per cent the number of people visiting sites such as Pension Wise, while wake-up packs attempt to engage members with decumulation options just four to six months before members retire.

As part of the report, the Financial Conduct Authority has been told to conduct a review that compares the outcomes of automated advice to traditional face-to-face appointments. The committee said "technological innovation has a clear role" in filling the advice gap. However, it recognises that automated advice is not widely accepted by consumers; a recent survey by *Which?* found that 58 per cent of people would not currently want to accept advice recommendations from a computer.

Therefore, it suggests the FCA undertake a review on outcomes from automated advice, with a view to reassuring potential customers that it can be a useful service. It believes that the key to combatting concerns about automated advice is the assurance that a reduction in cost is not at the expense of quality.

"There is a clear role for automated services in providing cheaper advice. Public scepticism as to whether it is reliable and trustworthy must first, however, be addressed. This is best done through empirical evidence. We recommend the FCA conduct and publish a review comparing consumer outcomes from face-to-face and automated advice," the report said.

Written by Natalie Tuck and Talya Misiri

NEWS IN BRIEF

The **Pensions Management Institute** has announced three new insight partners to offer specialist support to its members. Legal & General will serve as an insight partner for pension risk transfer, Squire Patton Boggs as a full-service legal insight partner and P-Solve as insight partner for fiduciary management and investment governance.

Nest has announced plans to trial a new pension savings model that could offer consumers access to some of their pension before retirement. The trial will see Nest pension savings being split into pension contributions and an emergency fund component that customers could withdraw to use as a quick source of cash.

The **Pension Insurance Corporation (PIC)** has invested £60m into Phoenix Community Housing, funding the development of 200 new homes. PIC said the debt investment's maturity profile matched the firm's pensions liabilities in "years where it is difficult to source cashflows in the public bond markets". As well as funding the new homes, the bond will allow the refinancing of existing debt and the removal of restricting covenants.

Policy holders who are "throwing away" guaranteed annuity rates are to be offered an "uplift in the value of their pension pot" as an alternative. The initiative, led by **Royal London**, would offer policy holders with a guaranteed rate an actuarially fair exchange in return for surrendering the guarantee. The firm said feedback had been overwhelmingly positive, with five in six looking to proceed. The Financial Conduct Authority estimated that over half of savers are discarding their guaranteed rate.

VIEW FROM TPR

We welcome the DWP's White Paper, *Protecting Defined Benefit Pension Schemes*, which sets out a suite of measures that will strengthen the funding of DB schemes and improve our powers to act against employers who fail to treat schemes fairly.

One of the key aspects of the new package is to set greater clarity around the existing funding standards. We will now hold discussions with stakeholders about how this might work, including how to review our DB Funding Code of Practice. We plan to kick off this exercise with industry roundtable discussions and set up an industry expert group to provide advice throughout this review and beyond.

In line with the White Paper, our annual funding statement sets out what we expect from trustees and employers, according to the ability of the employer to support the scheme and the scheme's funding strategy. We also outline how we remain concerned about the growing disparity between dividends and deficit-reduction payments: we expect fair treatment between shareholders and trustees. If a scheme is not treated fairly we will act using our existing powers, whilst continuing to work with government on implementing new powers as proposed in the White Paper.

We already have a range of powers and interventions which may be available where we are concerned that a pension scheme is not being treated fairly, or is poorly governed.

Anthony Raymond, interim executive director of regulatory policy, TPR

The Pensions Regulator

TPR publishes cyber security guidance paper for trustees

The paper outlines three key areas that need to be addressed to protect scheme members and assets from cyber risks, such as governance duties, controls in place and incident response plans

The Pensions Regulator has published its cyber security guidance paper to advise trustees on how to ensure cyber resilience, the preparations that need to be in place to secure data and how to respond to a cyber security breach.

TPR's trustee paper, *Cyber security principles for pension schemes*, has outlined three key areas that need to be addressed to protect scheme members and assets from cyber risks. These include: governance duties, controls that should be in place and incident response plans. As trustees and scheme managers are accountable for the security of pensions schemes, TPR noted that "roles and responsibilities should be clearly defined, assigned and understood".

The guidance paper states that trustees should have cyber risk on their risk register and should ensure that sufficient controls are in place to minimise the risk of cyber breaches involving systems, processes and people. In addition to ensuring internal scheme processes are protected, TPR has also stated that trustees should be assured that all third-party suppliers have sufficient controls in place.

TPR's paper advised that controls should also be in place around IT infrastructure. "Multiple layers of security" should be implemented around IT systems "in line with the Information Commissioner's Office's (ICO) guidance on IT security" and data should be regularly backed up, it said. Furthermore, TPR highlighted that trustees must have an incident response plan prepared to enable schemes to "swiftly and safely resume operations". TPR stated that the plan should include the roles and responsibilities of the response team, an understanding of in-crisis communications and how they will be made to trustees and the thresholds and time limits for notifying involved parties.

These include informing the ICO, TPR or FCA as appropriate, as well as law enforcement, third parties and scheme members. "Incidents should be documented and major incidents should be followed up by a post-incident review to update security processes," the paper stated. With this, trustees should also be aware of their third-party suppliers' incident response processes, TPR said.

While welcoming TPR's guidance, Aon retirement business partner Paul McGlone said trustees should not need to become cyber experts but they do need a way of determining how much detail to go into. Revealing TPR's intention to publish a cyber security paper at a *Pensions Age* conference earlier this year, TPR policy lead Lucy Stone highlighted: "Pension schemes are very valuable targets to cyber criminals, personal information are valuable, marketable commodities."

Written by Talya Misiri

DB transfer bill to hit £25bn due to pension freedoms

Despite the popularity of DB transfers, the Financial Conduct Authority has reiterated its warning to firms offering "unsuitable pensions advice", stating that it will "not hesitate to intervene"

Defined benefit transfers could cost companies £25bn due to members transferring out in order to access pension freedoms, according to Xafinity Punter Southall.

Xafinity Punter Southall principal Wayne Segers explained that, following new information released on the number of members leaving pension schemes, along with a slowdown in life expectancy increases, Xafinity Punter Southall decided to look at how this might affect assumptions used in accounting disclosures.

A study by the Office for National Statistics showed an extra £21bn of assets transferred out of UK pension schemes in 2017 compared to 2016. Three areas that impact accounting costs are pension freedoms, life expectancy and alternative discount rates.

However, the survey found that accounting assumptions do not reflect the impact of members leaving DB schemes to take advantage of the new pension freedoms, but these transfers can increase a typical pension scheme's liabilities. On a more positive note, changes to life expectancy could lead to a reduction in pension accounting liabilities.

Segers said that older pension scheme members that are close to retirement are starting to leave their DB scheme in order to access the freedoms. He said that with transfer values high, it is an attractive option for members, but the values are typically worth more than the accounting cost. For a £500m scheme, even a small proportion of members leaving could add £7m to their accounting liabilities, he stated. "The accounting standards provide flexibility, but small changes in approach can substantially change pension scheme deficits and finance directors need to act now," Segers warned.

Despite this, the Financial Conduct Authority has reiterated its warning to firms offering "unsuitable pensions advice", saying it will "not hesitate to intervene". In its 2018/19 business plan, the FCA outlined "unsuitable transfer advice" as a "key activity" area, after some firms changed their business model following the introduction of pension freedoms in 2015.

The FCA said: "Some firms have responded to the pension reforms by changing their business models in ways that potentially cause harm to consumers. We will not hesitate to intervene, where necessary, if we see evidence of firms providing unsuitable pension transfer advice."

Other research by Prudential on the pension freedoms has found that just one in 10 pensioners admit to overspending in retirement since they were introduced. The survey, which questioned over 1,000 adults aged over 55, also found that nearly four out of five say they have used their lump sums wisely, destroying the 'myth' that people are careless with their pension pots. Of those who said they spent their retirement income wisely, 25 per cent used the money to pay off debts, while only 6 per cent said they withdrew more than the tax-free 25 per cent lump sum.

Written by Natalie Tuck and Theo Andrew

VIEW FROM THE AMNT

The new GDPR regulations come into force on 25 May 2018.

Under the regulations the trustee will be a data controller and, your administrator will be a data processor. The data controller decides the purpose for which data is held and the manner in which it should be processed, whilst the data processor simply processes data on behalf of the controller.

There can be more than one data controller, for instance, your actuary will also be a data controller.

The trustee needs to produce and maintain a series of documents as part of the compliance requirements:

1. A register of the data held.
2. A Data Protection Policy.
3. A Privacy Notice, which is required to be provided/made available to members.

1. Register of the data held

This is a list of data items held, which shows where it is held, by whom, purpose, how long it is kept, relevance etc. It is the document which shows that the trustee has completed an audit of the data it controls. It includes data held by external suppliers who have documented their own tables.

All data controllers will be responsible for their own data audit.

2. Data Protection Policy

A Data Protection Policy should be produced with guidance from your legal advisers.

3. Privacy Notice

A Privacy Notice should be produced with guidance from your legal advisers.

James Boyd, member of the Association of Member-Nominated Trustees

AMNT Association of Member Nominated Trustees

VIEW FROM THE PLSA

For anyone who thinks Brexit means the UK engaging less with our friends and colleagues across Europe, the meetings I recently attended in Madrid would have provided serious pause for thought.

The occasion was the twice-yearly get-together of PensionsEurope, where we spent a productive day comparing the pensions challenges in our various countries and the solutions to tackle them.

Although the diversity of national pension systems across Europe is pretty amazing, the underlying challenges are the same – increasing longevity, low interest rates and low coverage among groups such as the self-employed. The solutions, too, have common threads, such as a larger role for workplace schemes and better engagement with savers.

What really struck me was the level of interest when one of my colleagues from the PLSA presented on the UK's experience of auto-enrolment. For a country sometimes portrayed as on the fringe of Europe in so many ways, the UK is widely seen as the shining example to follow when it comes to building up workplace retirement saving. The detailed nature of the questions showed how close an interest many countries are taking and how hard they are thinking about doing something similar.

There is plenty we can learn from our European friends, too. The Swedes, for example, have done great work with their 'Orange Envelope' annual statements on state pensions and their recently developed version of a pensions dashboard.

Whatever form Brexit takes, I am sure we will continue pooling knowledge across Europe.

James Walsh, policy lead: engagement, EU and regulation, PLSA

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

ECJ decision could result in increased PPF pension payments

The ECJ's advocate general suggested that thousands of people in the Pension Protection Fund could have been underpaid as a result of the cap

A new opinion challenging the level of compensation offered by the Pension Protection Fund could result in increased payments for members.

The case of *Grenville Hampshire v The Board of the PPF,* heard at the European Union's Court of Justice, considered the compensation cap on PPF payments. The court was told that the PPF's compensation cap for high earners is too low and that many people receiving compensation from the lifeboat fund are not entitled to inflationary increases as their pension was accrued before April 1997.

As a result, the ECJ advocate general noted that the cap and lack of indexation suggests that thousands of people in the PPF could be receiving compensation that is too low. The advocate general added that PPF members should not be receiving lower than 50 per cent of their entitled pension benefits. Hampshire initially brought the case to the Court of Appeal in July 2016, claiming that his pension was cut by 67 per cent when his company scheme was transferred into the PPF.

A PPF spokesperson said: "We note the advocate general's opinion and await the outcome of this case with close interest. Members are currently receiving benefits from the Turner and Newall scheme at the levels set out in the Pensions Act. They can be reassured that this is the minimum that they will continue to receive."

Prospect national official David Luxton commented: "At first glance this opinion seems like it could be very favourable for many Prospect members who have lost pension entitlement due to the insolvency of their employer and whose compensation

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from the Pension Protection Fund is very low. The cap has left many people facing hardship. Hopefully the court will endorse the minimum level of protection advised by the advocate general so that pensioners who have already lost out significantly maintain a minimum level of compensation."

Lincoln Pensions managing director Alex Hutton-Mills noted that if it stands, this ruling could materially increase the size of the pension liabilities guaranteed by the PPF, and will present big questions over how this should be funded and the broader question of the fairness of the cap not applying to pensioners. ARC Pensions Law senior partner Anna Rogers added: "The ECJ is likely to agree with the preliminary ruling and improve the rights of executives with big pensions that are currently subject to swingeing cut backs. The advocate general has said that it isn't fair that the PPF compensation caps establish a kind of general suspicion in respect of senior executives who have not yet attained the pension age… a general presumption of the existence of abuse is unlawful."

The compensation cap is used to determine the level of compensation payable by PPF to members.

Written by Talya Misiri


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VIEW FROM THE PPI

New PPI research has looked at the evolution of the DC retirement market. Since pension freedoms from April 2015, behaviour has changed. More people access their pension pots earlier and in many cases before retirement. More than half of DC pension pots accessed during this period have been fully withdrawn, while a third have entered drawdown and annuity sales have declined to around 13 per cent of pots accessed.

But there are many aspects of this market that are unknown, such as how multiple pots fit together on a personal and household level, and there is a lack of holistic data to fill in those blanks. We will not be able to evaluate the outcomes of these decisions for some time. The changes observed in the past three years are not necessarily representative of the retirement income decisions people will make in the future.

That is because future retirees are likely to live longer and take their state pension later. As a result of auto-enrolment they are also likely to reach retirement with a greater reliance on DC savings, and because of the decline in defined benefit schemes low levels, if any, of DB entitlement. They will also have near total flexibility in accessing their pension savings.

This suggests that over time there will be an increase in the number of people reaching retirement where DC is the major component of their pension wealth, and who are at risk of making decisions that could have a significant negative impact on their retirement outcomes.

Lauren Wilkinson, policy researcher, PPI

PENSIONS POLICY INSTITUTE PPI

University staff accept revised USS proposals; DB to continue

In other news, the Pension Protection Fund has said it is in "constructive discussions" with Carpetright about its pension scheme, and RBS has committed £3.5bn to its main scheme

Members of the University and College Union have voted to accept Universities UK's revised proposals for the Universities Superannuation Scheme, which will see the continuation of the defined benefit aspect of the scheme.

An update from the union UCU revealed that a second wave of strikes has been suspended, as well as action short of a strike. The result was 64 per cent in favour of UUK's offer, and 36 per cent against, with a turnout of 63.5 per cent.

The accepted offer will see a joint expert panel set up to re-examine the USS valuation and make recommendations. It has also been agreed that the employers do not intend to return to their original proposals to end the guaranteed pension, making a clear commitment to defined benefits and they agreed to discuss a wide range of issues raised by UCU. These will include intergenerational fairness, comparisons with the Teachers' Pension Scheme and the role of government in providing support for USS.

UCU and UUK will now jointly present the plans to the USS board and The Pensions Regulator. The union said it expected the agreement between the fund's two key stakeholders to be welcomed. However, it said that, while all planned strike action is suspended, UCU will keep its strike mandate live as a precaution until this process has taken place. UCU general secretary Sally Hunt said: "Members have participated in record numbers in the consultation, with a clear majority voting to accept the proposals. The union has come a very long way since January when it seemed that the employers' proposals for a defined contribution pension were to be imposed."

In other news, the Pension Protection Fund is in "constructive discussions" with Carpetright about the company's proposed Company Voluntary Arrangement (CVA). Unlike other British high street brands such as BHS and Toys R Us, which had substantial pension deficits when they proposed restructuring arrangements, Carpetright's most recent information about its defined benefit scheme reveals a deficit of £200,000. The retailer said it had reduced its defined benefit pension deficit by £3m, from £3.2m to £200,000, due to actuarial gains of £2.6m and a contribution of £400,000. As at 28 October, the scheme had assets of £30.1m and liabilities of £30.3m.

Commenting on the CVA, a PPF spokesperson said: "We are in constructive discussions with the company and their advisers about the CVA proposals and their implications for pension schemes associated with the company. Members can be reassured that the PPF is there to protect them."

And finally, the Royal Bank of Scotland Group (RBS) has agreed to pay £3.5bn into the RBS Group Pension Fund's main scheme, as it prepares for new ring-fencing legislation. The taxpayer-owned bank has signed a memorandum of understanding (MoU) with the scheme's trustee, committing to a £2bn payment in H2 2018 and a further £1.5bn in 2020, as it attempts to compensate for the loss of certain RBS entities following the ring-fencing legislation. In addition, the group said that the payments will allow them to facilitate future dividend payments, or share buy-backs for shareholders, but has not said when these will resume.

Written by Natalie Tuck and Theo Andrew

People on the move


Graham Vidler

The Pension and Lifetime Savings Association's director of external affairs Graham Vidler is to depart after four years in the role.

During his service at the association, Vidler integrated the PLSA's policy and communications functions in order to keep up with the sector while the pensions industry saw significant change including the introduction of the freedom and choice reform and the roll-out of auto-enrolment.

Until his successor is confirmed, Vidler's team will report directly into chief executive Julian Mund.

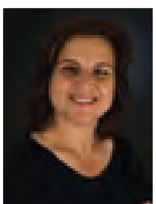
Vidler has had an extensive career in pensions and finance to date and previously served as director of communications at Nest and head of marketing at Aviva. As well as other roles at *Which?* and the Association of British Insurers.

Vidler said: "I've hugely enjoyed my time at the PLSA and it's been a real privilege working with such an expert and committed group of colleagues and members."


Annette Spencer

The Institute and Faculty of Actuaries (IFoA) has named two new directors.

Sarah Sim has been promoted to director of markets development, while Annette Spencer has been appointed to director of public affairs and research. Prior to this role, Spencer has worked at Zurich, RSA Insurance, the Universities Superannuation Scheme and the Financial Conduct Authority. Sim joined the IFoA in December 2016.


Emmy Labovitch

The Pension Protection Fund has appointed two non-executive directors to its board. HSBC Global Asset Management global chief investment officer Chris Cheetham and Organisation for Economic Development senior policy adviser Emmy Labovitch will join the board, as of 1 May 2018 and 1 July 2018 respectively. Labovitch joins following the end of Sharmila Nebrajani's current term in office.


Emma Adair

Aon has appointed Emma Adair as head of client services for UK investment. Adair is rejoining the firm, having previously spent 10 years at Cardano, where she was most recently head of client management and client delivery teams. In her new role, Adair will be focused on the content quality, delivery and communication with clients. Adair is also a fellow of the Institute and Faculty of Acturies.


Sarah McAleer

Clifford Chance has promoted Sarah McAleer to partner. McAleer joined the firm as a trainee in 2008 and has spent eight years post-qualification advising on pensions law and regulation. She has represented banks, financial investors and trustees of occupational pension schemes. McAleer is a full member of the Association of Pensions Lawyers and an associate member of the Pensions Management Institute.


Michael Wray

JLT Employee Benefits has appointed Michael Wray as chief operation officer and director of strategic investment solution. Previously, Wray has held positions at Fidelity, BlackRock, Kempen and Henderson, and has experience working across investment solutions for defined benefit, defined contribution and wealth clients across the UK, Europe, Asia and Australia. In his new role he will be responsible for strategy and innovation.


Robert Branagh

The London Pensions Fund Authority (LPFA) has appointed Robert Branagh as its new managing director.

Branagh, who remains president of the Pensions Management Institute, is replacing Mike Allen, who has been with the LPFA since it began in 1990.

With over 30 years' experience working in UK pensions, Branagh will be responsible for managing key stakeholder relationships and ensuring its obligations are delivered to the highest standard.

LPFA chairman, Sir Merrick Cockell, said: "I am very pleased to welcome Robert Branagh to LPFA. He brings a wealth of knowledge and experience. This is an exciting time to join LPFA and the board and I look forward to working with Robert as LPFA continues to move forward.

"I would like to thank Mike Allen for his contribution and dedication to LPFA; he joined the day we were formed. Mike Allen has been instrumental in driving LPFA's continuing success and will be greatly missed."

Market commentary: Trade wars

President Trump and his Chinese counterpart Xi Jinping have commenced trade talks, with the hope of averting an all-out trade war. But with escalation a possibility, the market still has the jitters. We take a look at what a blow-for-blow trade war would mean for pensions funds.

Kempen Capital Management UK head of investment strategy, Nikesh Patel, thinks escalation would be painful, and worries of the effects on scheme sponsors if the EU was pulled in.

"Markets would be hurt on a global basis. Weakening global growth and rising inflation would ultimately lead to a worsening corporate environment for the sponsors of pension funds.

"If euro interest rates decline as a result, this would further negatively impact funding levels of most Dutch pension funds (which hedge interest rates less than the UK)", Patel says.

Cardano senior investment strategist Annalisa Piazza agrees, and while the effects won't be clear until negotiations are over, believes some immediate impact will be felt.

"Some immediate impact is felt via two channels; firstly, increasing economic uncertainty that feeds into deteriorating sentiment and secondly, increasing market volatility. Rising inflation could also start to emerge, given the effects of the tariffs on (some) commodities."

However, JLT Employee Benefits head of strategy in investment consulting Jignesh Sheth says that the mainstream market expects it will not escalate, but warns of the risk to pension schemes.

"The effect on pension schemes from the inevitable aversion to risk would see liability values rise and a negative impact on assets reliant on risk, in particular equities.

"There could also be a greater adverse impact on emerging-market currencies, affecting emerging-market bonds", he says.

Aviva Investors fixed income portfolio manager Joubeen Hurren agrees that recent foreign and economic issues are being steered towards more benign outcomes.

So what should pension schemes do in the face of a major escalation?

Hurren views it as an opportunity to buy risk and sell bonds on the basis that "recent negative headlines overstate the downside risks from trade wars".

"Once this bout of volatility settles down we expect markets to focus on fundamentals once again, which point towards higher yields", Hurren says.

However, Piazza advocates a diverse portfolio to account for a "variety of plausible economic scenarios" given the pickup in market volatility may not be an isolated incident.

She adds: "A portfolio that aims to diversify on a variety of plausible economic scenarios is incredibly important. A protection against inflation spike may be crucial here."

Patel says: "What can schemes do? We can look back to 2002, when the US last ignited a trade war with the EU over steel tariffs. Tilting portfolios away from market capitalisation and towards companies with a bias to their domestic markets may prove more defensive."

But he points out that 50 per cent of UK pension schemes are cashflow negative, and says that schemes should have a good cashflow strategy in place to see them through the short-term pain.

On the flipside, Sheth says: "Investors wanting to protect against this tail risk could explicitly protect the value of their equities by buying protection, but there is a cost. Strategies relying on illiquidity or an absolute return approach could also provide some protection."

Written by Theo Andrew

VIEW FROM THE ABI

Pension freedoms put more power into the hands of consumers, but with greater flexibility comes increased complexity and of course an increase in the risks that consumers face.

Retirement decisions are now more multifaceted than ever and consumers need help to understand their options, identify goals and how to achieve them.

This is why the ABI recently launched a five-point plan, aimed at promoting active consumer engagement – empowering consumers to make their own, well-informed decisions through improved communications and use of guidance.

"Pension freedoms are revolutionary – but need to be handled properly to ensure that people are making the right decisions"

We're recommending interventions, including a midlife MOT and improved risk warnings, that will transform the way people interact with their pension pots and help people navigate their choices. We're calling on a number of stakeholders to help us to deliver the practical steps needed to make these interventions happen – including regulators, government, industry and the new single financial guidance body.

The ABI is committed to working with the wider industry to establish principles for simpler communications and ways to encourage people to use guidance.

Pension freedoms are revolutionary – but need to be handled properly to ensure that people are making the right decisions, maximising their financial potential and flourishing throughout the entirety of their retirement.

Rob Yuille is head of retirement policy at the Association of British Insurers

VIEW FROM THE SPP

Over this coming summer, trustees of most DC schemes will be considering the new obligations to provide more information about the charges and transaction costs being paid by their members as part of their scheme's annual governance statement. Trustees will now need to provide a 'pound and pence' illustration of the cumulative impact of the costs and charges affecting members' pensions savings and publish this online. The government has introduced this requirement because it wants savers to "have a stronger sense of personal ownership" about their pensions.

No one can really argue against this principle, but it remains to be seen how effective these additional measures will be in practice, for several reasons.

Firstly there will be no centralised collation of the costs so members cannot easily compare their scheme with others to determine if theirs is good value.

Secondly, even if members do conclude that their scheme is 'poor value', what can they realistically do about it apart from leave the scheme to go elsewhere, but this will likely forfeit any employer's contribution.

Members may be able to exert pressure on trustee boards to reduce charges but, arguably, any trustee board worth its salt will already undertake benchmarking exercises as part of its general fiduciary duties, so these requirements may just end up generating additional paperwork. Not to mention that concerns are increasing that the publication of this charge data will simply lead to a 'race to the bottom' without proper consideration of the impact of charges versus outcomes.

Tim Box, deputy chair of the SPP Defined Contribution Committee

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On the impact of the new state pension on the gender pension gap

"Although figures show a continuing gap between men and women in terms of state pension outcomes, this is largely because men who have built up larger entitlements under the old rules are having them honoured in the transition to the new system. But there should be no doubt that the new state pension system has already reduced inequalities and will progressively bring male and female outcomes into line."

Royal London director of policy Steve Webb

On the secondary annuity market

"Consumer protection is a top priority for the government and it would not have been acceptable to allow a market to develop something which could produce poor outcomes for consumers. There are no plans to review the decision not to continue with proposals for a secondary market in annuities at this time."

HM Treasury economic secretary John Glen

On consultants' ESG engagement

"We keep talking about the lack of understanding and knowledge within trustees, but we rely on advisers and lawyers, and actually there is a severe lack of understanding or willingness to engage on the topic *[ESG]* by investment advisers, investment consultants, fiduciary managers and the legal profession."

Institutional Investors Group board member Jennifer Anderson

Expectations for the pensions dashboard

"It is imperative that the industry is able to deliver and maintain all the underlying services and data in a way that is secure, robust and scalable to handle 15 million consumers. Whether the decision is to start with a single government-backed dashboard, or with multiple dashboards, it is imperative that the underlying infrastructure – the plumbing – be developed with an eye to future demand and requirements."

Origo managing director Anthony Rafferty

On DB scheme LDI levels peaking

"Since its emergence around 15-20 years ago, LDI has grown incredibly rapidly, but we believe that we are nearing the age of peak LDI. We are close to a point in the UK where DB schemes will only increase rate hedging at the margin in an opportunistic manner."

Hymans Robertson partner Jon Hatchett

On pension freedoms withdrawals' over-taxation

"Tens of thousands of people using the pension freedoms every month risk falling into this tax trap. On average, the level of over-taxation runs into thousands of pounds and for some it could be tens of thousands of pounds... Many will have specific plans for their withdrawal, such as to pay down debt or fund long-term care for an elderly relative. For people like this, getting thousands of pounds too little will present a serious financial challenge."

AJ Bell senior analyst Tom Selby

Soapbox: The rise of the forgotten stakeholder

With such a big focus on corporate social responsibility, many companies operate under the stakeholder style of management, but have pension schemes been forgotten?

An old argument amongst business academics is the shareholder versus stakeholder theory. Economist Milton Friedman argued that a company's only social responsibility is to maximise profits for its shareholders, whereas stakeholder theory asserts that a company must give due regard to all interested parties, even if it reduces company profitability. In the modern world, the stakeholder theory is a popular choice, but there is a line of thought that paying due regard to all stakeholders can help increase profits. Companies want to be seen as climate friendly, charitable, good employers and customer centric; it is de rigeur.

Take for example Starbucks, which will close thousands of US stores on the afternoon of 29 May to carry out training "geared towards preventing discrimination" following several incidents. Doing so will affect its profits for the afternoon the stores are closed, but in the long term, will showing that management cares about the way employees treat customers have a positive impact on profits?

For companies with pension schemes, their members are of course stakeholders. But, do they hold the same value as the company's shareholders, customers, suppliers or government? Of course, they dual up as employees, or former employees, but being a member of its pension scheme is separate to that. High-profile cases from the past few years, such as BHS, Toys R Us, Bernard Matthews, Hoover, Tata Steel and Carillion would suggest not. The pension schemes were the forgotten stakeholders, seen as a drain on profits, hidden away, until the companies were forced to reveal their actions. The examples listed above may be the catalyst pensions need, however, as it seems there's been a change in the way this unassuming stakeholder is seen. Not by the companies themselves, but by its fellow stakeholders. The takeover of GKN by Melrose, for example, saw huge pressure from the government, the pension trustees, unions and the media. It led to Melrose committing to a package of £1bn for the pension scheme.

Last month, First Group revealed the American firm Apollo Management had made a bid for it, which it instantly rejected. Nonetheless, media attention focused in on the transport company's pension scheme. Last year it was identified as the company most under pressure from its pension scheme relative to its size because of its £4bn pension liabilities against its £1.2bn market capitalisation.

Carpetright, which has proposed a Company Voluntary Arrangement (CVA), led to British Property Federation assistant director of real estate policy, Stephanie Pollitt, advising that landlords and shareholders voting "need to take into consideration the impact on their investors, including those protecting pensioners' savings". This, an example of a stakeholder acting in the interests of opposing stakeholders – the landlords – speaking out for pension scheme members. It may be optimistic, but it looks like this once-forgotten stakeholder is on the rise.

Written by Natalie Tuck

VIEW FROM THE PMI

Royal Mail is on the verge of launching the UK's first collective defined contribution (CDC) scheme. Already well established on the continent, this type of scheme would represent a new departure for pension provision in this country. CDC presents a significant challenge for the established pensions culture in the UK and has proved a particularly controversial concept.

CDC's proponents point to the design's successful track record in the Netherlands and Denmark. They note that, unlike existing UK scheme designs, CDC offers effective risk sharing between members and the scheme sponsor. CDC also offers the prospect of higher post-retirement incomes than those achieved by conventional DC arrangements. The potential for CDC to offer the perfect end-to-end auto-enrolment vehicle is particularly attractive, as members can be presented with a default retirement income without having to make difficult and potentially irreversible decisions.

However, detractors remain unconvinced. Many are concerned that CDC is incompatible with freedom and choice as scope for individual decisions could be compromised. The collective approach to investment removes the individual member's scope for selecting different funds. Some argue that that the collectivised concept contradicts a culture where individualism plays a central role.

For an ageing society, the pursuit of a more effective system for retirement provision is becoming increasingly urgent. It is crucial that we continue to consider new alternatives and challenge established ideas. CDC may prove to play a vital role in providing answers to the problems that have plagued pensions since the decline of defined benefit schemes. We should consider its potential carefully.

Tim Middleton, technical consultant, Pensions Management Institute

The happy actuary

Talya Misiri speaks to the Society of Pension Professionals' newly-elected president Paul McGlone about what motivates his career choices, moments that make him cringe and what keeps him busy out of the office

What is your pensions career CV?
I started work with an actuarial consultancy, Clay & Partners, in September 1991, and have remained there through multiple mergers, takeovers and acquisitions. One of the first things I was taught in 1991 is how to use a timesheet. Since then, I've diligently recorded around 60,000 hours of work, mostly on pension issues. Given the 10,000 hour rule proposed by Malcolm Gladwell to master a skill, I hope that I can genuinely call myself a pensions expert. Although that certainly doesn't mean I know about everything.

What other areas have you worked in prior to joining the pensions industry?
Although I've spent my career primarily in pensions, I've been fortunate enough to experience a range of other areas. I've spent time working in areas such as web development, long-term incentive plans, equal pay, cyber risk, and a year working in Toronto.

Before starting work in pensions, my work experience was limited to stacking shelves for Tesco in Yorkshire, which financed my evenings at the local pub.

What is your greatest work achievement so far?
I'm not someone who tends to focus on specific achievements or goals. My aims are to have a role that is interesting and which excites me, working for an organisation that gives me opportunities and inspiration, with people (both colleagues and clients) whom I respect and enjoy working with, and allowing me a work-life balance. I have all of that, and in a world where so many people grow bored of their jobs or employers, I think that's an achievement.

What do you still wish to achieve?
More of the same – if I can spend another 15 years enjoying what I do then I'm happy.

What is your biggest regret within your career?
I don't have any major regrets, although I have plenty of moments that I would rather have done differently.
• The time I stood up at a conference and spoke on a topic that honestly I wasn't prepared to talk about – it was a car crash.
• The time as a junior consultant that I tried to bluff an answer in a client meeting, only to be called out for it in front of everyone.
• The time that I sent out an email to a client and forgot to delete the chain of internal discussions about them before pressing 'send'; and plenty more.

None of them keep me awake at night, but I still cringe at the thought of some of them.

Excluding your current role, what would be your dream (in or out of pensions) job?
There are lots of things that I'd enjoy doing, but I'm not sure that I'd want to do them as a full time job. My 10 year old son wants to be a model designer for Lego. I think I'd enjoy that too.

What was your dream job as a child?
I always wanted to be an actuary.

What do you like to do in your spare time?
Not much of my time is 'spare' – it's always filled with something, such as chairing the governors at a local school, volunteer work for the Pensions Ombudsman, or just general chores. When I do have spare time I fill it with DIY round the house, playing piano, running and occasional 5-a-side football.

Any particular skills or party tricks?
Not really. I'd love to be able to do a few magic tricks, so if anyone out there is offering lessons then let me know!

Who would be your ideal dinner party guests?
My ideal guests would be some old school friends. We get together infrequently, but when we do the years disappear, we're transported back to a time when everything was fun and exciting, and we inevitably end up creased up with laughter, having a fantastic time.

Do you have a particular phrase or quote that inspires you?
No, I don't. But a colleague of mine years ago told me that his was from Matthew 7:12 : "Do to others what you would have them do to you". It's always stuck with me, and I think it's a pretty good way of looking at things.

Written by Talya Misiri

Using ESG to help improve investment outcomes

Risk-adjusted returns mean as much to ESG investors – those that consider environmental, social and governance criteria in their investment process – as the sustainable impact they seek to attain. SSGA global head of ESG business Chris McKnett discusses how ESG integration and its alignment with factor investing has the potential to improve investment outcomes

Is a consensus forming around a concrete definition of ESG investing?
McKnett: ESG is an investment strategy that considers environmental, social and governance credentials in addition to traditional financial metrics. There is no true standard, but the financial industry is beginning to agree on the metrics and data to measure it. ESG is not an asset class or even a distinct investment style, but a variety of strategies that target desired outcomes. Some investors may seek to create a specific impact, such as increasing gender diversity in the workforce or promoting a low-carbon economy. Others may seek to integrate ESG insights into the investment process in order to outperform.

How is ESG best integrated into the investment process?
McKnett: The traditional socially responsible investing portfolio is constrained and tends to limit the investment universe. Some clients want that, but the shift we see is that ESG is a structure to be integrated – along with financial rigour into the investment process as a wider lens that can enhance decision making. In this way, ESG is an opportunity to harness additive insights. These insights can potentially improve returns by selecting better investments or manage volatility by avoiding those investments for which there isn't adequate compensation for ESG risk.

How does ESG work with factor investing and how do they intersect?
McKnett: We have done substantial research on the intersection of ESG and factor investing, and how ESG relates to established factor risk premia: namely value, low volatility, small size, momentum and quality. Thinking about ESG through the frame of existing factors marks an innovative confluence of these two powerful trends in the market. We have found that equities with high ESG ratings might not have desired factor characteristics, and companies with desired factor characteristics might not have the appropriate ESG profile. For example, highly rated ESG stocks can typically give an investor exposure to value – relatively cheap stocks – as well as low volatility, and higher quality, but they do not expose an investor to momentum or small size. The challenge is to include highly rated ESG companies into the portfolio while delivering positive momentum and small-cap exposure. We use a variety of tools to balance and align these competing objectives to capture them all. Our research shows that investors can incorporate their views on ESG as they tilt their portfolios toward long-term, durable-factor premia designed to enhance return, mitigate risk and provide diversification.

What about ESG and other investment strategies?
McKnett: We've seen some performance benefits – especially in lowering volatility – in the active quantitative strategies that we manage by including ESG scores, alongside traditional alpha factors, in the stock selection process. ESG has been helpful in markets where investors are defensive; it tends to add a quality bias, which can benefit the portfolio in those market regimes. And our active fundamental teams implicitly consider ESG as an input related to a company's long-term earnings power and sustainability. There's a tendency to view ESG investing as an active proposition, but most of the portfolios we manage are index based. We optimise index-based portfolios to track a benchmark as closely as possible to deliver precise ESG exposure. Accordingly, investors with an active view can often implement it through a rules-based index approach. We're also starting to see more adoption of ESG benchmarks.

Written by Christopher McKnett, head ESG strategist, SSGA
Christopher_McKnett@ssga.com

VIEW FROM THE ACA

I was disappointed that the recent DB White Paper gave no indication that the government was minded to introduce measures to help ease pressures on DB sponsors. In my view, having a sustainable level of benefits, securely funded, is preferable to having a higher level of headline benefits underpinned by risky investment strategies; long recovery plans and stressed employers.

In the private sector, most employers have chosen to replace their DB schemes with DC schemes as the only viable alternative. However, I was heartened to see that Royal Mail is working with DWP on a collective defined contribution scheme. Such an arrangement, whilst not matching the previous DB provision, has the potential to provide more attractive benefits than the pure DC alternative that had been first proposed.

CDC has wider application too – for example as a decumulation product in DC schemes. Traditional drawdown means either running out of money or spending too slowly so that many pensioners leave large amounts behind when they die.

Collective provision can bring undoubted benefits here – the flexibility of CDC enables less stringent capital reserving than for deferred annuities; and exposure to growth assets can bring the possibility of higher benefits for the collective group. But, most of all, pooling of longevity experience means that people can plan their retirement spending without concern about spending too fast or too slow.

Bob Scott is chairman of the ACA

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Diary: May 2018 and beyond

Xafinity Punter Southall Funding, Covenant and Integrated Risk Management
15 May 2018
11 Strand, London

This half-day course takes trustees through the key steps that they will need to take as part of their triennial scheme funding valuation, looking particularly at the assessment of the employer covenant, the setting of key assumptions and the development and monitoring of an integrated risk management plan; useful for both new and experienced trustees.

For more information, visit:
puntersouthall.com/pension-events/

Pensions and Lifetime Savings Association Local Authority Conference
21-23 May 2018
De Vere Cotswold Water Park Hotel, Gloucestershire

The event is the largest of its kind dedicated to the Local Government Pension Scheme that has over 13,000 employers, over five million members and assets of over £225 billion. Attracting local authority officers, councillors and their advisers, the programme features senior government policymakers and influencers, high-profile industry figures and people from outside the pensions sector.

For more information, visit:
Plsa.co.uk/Events-Local-Authority-Conference

Pensions Age Northern Conference
14 June 2018
Leeds Marriott Hotel

Now in its third successful year, this one-day conference, which is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes to the absolute best of their ability, and give them the tools they need to help them carry out their duties, whether this is in relation to DB, DC or to schemes on a path to de-risk.

For more information, visit:
Pensionsage.com/northernconference/

European Pensions Awards 2018
21 June 2018
London Marriott Hotel, Grosvenor Square

Now in its 11th year, the European Pensions Awards celebrate excellence in European pension provision, by honouring the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds in these increasingly-challenging times. The winners will be announced at the awards ceremony and gala dinner, with the shortlist revealed beforehand.

For more information, visit:
europeanpensions.net/awards/

Visit www.pensionsage.com for more diary listings

Month in numbers

15 million users

The upcoming pensions dashboard could be used by up to 15 million consumers, Origo has calculated.

Origo has advised that the infrastructure underpinning the platform must be crafted to "support significant volumes of consumers from day one", scaled to target 15 million consumers.

Origo managing director Anthony Rafferty stated: "It is imperative that the industry is able to deliver and maintain all the underlying services and data."

£25 billion

Defined benefit transfers could cost companies £25bn due to members transferring out in order to access pension freedoms, according to Xafinity Punter Southall.

3 out of 17

Only three of the top 17 master trusts (Nest, TPP and L&G) offer pension tax relief to their lowest paid members, Hymans Robertson has revealed.

Missing a trick?

Aon's Paul McGlone takes a look at the recent DWP White Paper, *Protecting defined benefit pension schemes*, to see what the future might hold for defined benefit (DB) governance requirements

For some months the expectation has been that a DB Chair's Statement would soon be forthcoming, to complement the defined contribution (DC) statement that was introduced in 2017. The White Paper, issued in March, confirmed this. But the content is rather different to what many expected, focusing almost exclusively on funding rather than wider governance issues.

The impact of the DC statement was material, and was not just about communication to members. Governance standards improved, almost overnight. Many schemes finally took action in areas that had been overlooked or postponed for too long. In other cases the statement was a catalyst for DC consolidation. I know of many schemes, and at least one professional trustee, who have treated the DC Chair's Statement as the final straw in the ever-increasing DC burden, and decided to transfer their DC assets into a master trust.

The DB statement looks to be very different. The legislation introducing it is not likely to arrive until 2019/20, so the content could change a lot between now and then. But sections 109 to 116 of the White Paper give some fairly heavy clues on what to expect, and it is not related to governance. Three themes are highlighted: funding decisions, long-term planning and managing risk. Section 113 does leave the door ajar to wider content, but the clear message is that the statement really is there to be an integral part of the 'clearer funding standards'. The fact that it needs to be submitted triennially, at the same time as the valuation, strengthens this message.

In some ways the difference in focus is reassuring and helpful. It shows an ability and willingness to tailor the DB requirements to meet the challenges that schemes face, rather than just replicating the DC requirements. When the DC statement was introduced there was a clear need to improve how DC schemes ran. Mandatory comments on financial transactions, trustee training and wider governance issues meant that practice in those areas changed. The focus of the DB statement on funding suggests that policymakers consider DB governance be sufficiently addressed by The Pensions Regulator's 21st Century Trusteeship campaign and the step up in regulatory and enforcement activities.

However, I do think DB trustees would benefit from having to explain their approach to running the scheme, in the way that DC trustees do. Many members will see both types of statement, possibly side by side, and wonder why they are so different. It is also ironic that the same White Paper has a long section on DB consolidation as a way of improving governance and reducing costs, but then does not take the opportunity to include those issues in the chair's statement. It seems as though the left hand and right hand are not completely joined up.

So what next for the DB statement? I will be looking out for two things.

First, as the idea develops, it will be interesting to see how the document interacts with other requirements. DB trustees are already required to prepare a Statement of Funding Principles and a Statement of Investment Principles. Increasingly, they are also preparing Integrated Risk Management documents, with input from actuarial, investment and covenant advisers. Add a fourth document to that list and we are at serious risk of duplication.

But second, I will wait to see whether broader governance requirements are introduced. On the one hand I am not a fan of putting greater requirements on trustees. But I do think that if we end up with a statement focused solely on the clearer funding standards then we will have missed a trick.

Written by Aon partner Paul McGlone

Musings of a MNT

The long and winding road

The Beatles released the song *The long and winding road* in May 1970. In September 1970 I joined the recently-established National Westminster Bank.

I received an annual salary of £510, which even then was below market rate for white collar work. However sitting alongside the pay were extra benefits including automatic enrolment in a final salary pension scheme, of which, at 17, I was blissfully unaware; I was just glad to get a job and have money in my pocket.

Final salary pension or defined benefit schemes were the norm then, with employers seeking to retain workers for life. However there was a clear gender bias with women legally discriminated against, particularly in respect of pensions.

I had taken my first step on my employment road, which proved long and winding; with the rise of technology, decimalisation, joining the EU, the fall of Keynesianism, Reganomics, the Big Bang, New Labour, flexible working and the financial crash.

These social and economic changes also effected a pensions 'revolution'; Maxwell's pension plunder, mis-selling scandals, the siphoning of pension surplus to enhance balance sheets, establishment of The Pensions Regulator and Pension Protection Fund. A bumpy as well as long and winding road, but I got through with 'a little help from my friends'.

I retired from the bank in June 2013 with a final salary pension scheme, believing, 'yesterday all my troubles seemed so far away'. I was then elected as a pensioner member-nominated trustee of the Royal Bank of Scotland Pension Fund (having served previously as an employed member); so just the payment of pensions to worry about. Apart from the 'magical mystery tour', consisting of the Scottish independence referendum, pension liberation and Brexit.

Four years later I am about to complete my final term of office as a trustee and as I will no longer be a member-nominated trustee, this will be my last 'musings' for *Pensions Age* magazine. I hope you the readers, have had as much pleasure from reading these utterances, as I have had in writing them.

So a time for reflection but also looking forward as I take up a new role with the Association of Member Nominated Trustees; so what is in store? 'A hard day's night' or 'here comes the sun'?

The fundamental social changes that happened during my time as an employee are still impacting today and have consequences for the future: the move away from a job for life and the move from a nation of savers to one of debtors.

Workers can no longer rely on a 'final salary pensions' as the need for employers to provide them has ended. Thus the rise of defined contribution schemes with the financial risk moving from the employer to employee.

The state pension, though at present having the guarantee of the 'triple lock', is moving into the distance with the government announcing plans to increase pension age to 68 between 2037 and 2039. I suspect the starting age will increase further.

The steeply increasing house prices with subsequent increase in deposit sizes, coupled with student debt and the cost of living outpacing wages has seen significant pressure on millennials, including my daughters, on their ability to save for retirement. Auto-enrolment has helped, but contribution rates compared to final salary schemes are inadequate.

I have painted a pessimistic picture. As John Maynard Keynes said: 'This long run is a misleading guide to current affairs. In the long run we are all dead." However I prefer the philosophy of the Beatles: "Ob la di, ob la da, life goes on!"

Written by Stephen Fallowell, member-nominated trustee, Royal Bank of Scotland Group Pension Fund, writing in a personal capacity

Shrinking the gap

Jonathan Watts-Lay explains how low levels of workplace support are leaving employees at risk of shortfalls in retirement income

The introduction of freedom and choice in pensions has redefined how individuals take income in retirement. But are employees and members equipped with the knowledge to create a sufficient retirement income and what support is available to help with this?

With this is mind, WEALTH at work conducted a survey to investigate what workplace support is available to help employees understand how to make the most of their finances throughout their career in order to optimise income at-retirement.

WEALTH at work director Jonathan Watts-Lay explains the key findings.

Time to wake up to the importance of saving for retirement

Our results show that despite the vast majority (80 per cent) of employers believing that employees are not saving enough for retirement, over half (51 per cent) are still failing to provide any form of financial education in the workplace during pension accumulation.

Whilst auto-enrolment has come some way in helping employees save for retirement, it's generally accepted that current contribution levels are not enough to create a sufficient retirement income.

Financial education is key in raising the importance of putting something aside for later life in order for employees to have adequate savings to maintain a reasonable standard of living in their retirement.

Gliding in the wrong direction

It's encouraging that the majority of employers (69 per cent) now offer employees a choice in glidepath in the years leading up to retirement. However, a third (33 per cent) of employers will still default employees to an annuity-tracked glide path if no active investment choice is made.

When we consider that there has been a significant fall in annuity purchase since the pension freedoms took effect, defaulting employees on an annuity glide path appears to be an ill-considered strategy.

Lack of support at-retirement leaving employees at immense risk

With less than a quarter (22 per cent) of employers believing that employees are aware of their income options at-retirement and the majority (61 per cent) believing that employees are unaware of the risks surrounding accessing their retirement income, it's hard to see how employees can secure a good outcome.

The survey also found that 71 per cent of employers do not provide a full retirement income service for employees at-retirement. Without the right support many could be at immense risk of making costly mistakes such as paying too much tax, buying inappropriate products or even falling for a scam.

However, this doesn't have to be the way as employers are perfectly placed to tackle this problem. Much can be learnt from forward-thinking employers and trustees who are now bringing in specialist retirement providers to deliver the support employees require to achieve financial security in retirement. This includes the provision of financial education, guidance and advice to ensure employees are fully informed when facing life changing decisions about their pensions and lifetime savings.

I cannot stress enough the importance of employers and trustees doing everything in their power to ensure that the right level of support is provided.

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

All statistics quoted are from WEALTH at work's 'Focus on Retirement Income Matters survey results 2018'.

About the survey
The Focus on Retirement Income Matters survey was carried out by WEALTH at work, a leading provider of financial education, guidance and advice in the workplace. The survey targeted key HR, Rewards & Benefits and Pension professionals. In total, the research received 85 responses which were completed online and via paper over 6 months from June to December 2017. All figures have been rounded to the nearest whole number.

A new era

Pensions Age speaks to ITM's leadership team as the company embarks on an exciting next stage of development

***Pensions Age*: It's been a busy time at ITM, what's been happening?**

Duncan Howorth (DCH): Well, the big news of course is that the existing management team have concluded a buyout with the founders, which has been carefully planned for some time and entered its final stages in recent months. This means that the ITM baton is passed from Guy Ridley, Grant Stanley and Dan Hockley, to the existing management team, with support from our partners Inflexion Private Equity.

PA: So what does the management buyout mean for ITM? Is it all change?

DCH: No. The key to all this is that ITM can continue to do what it does for all its clients, and to continue to deliver exceptional service. The leadership team will continue to run the business day to day, led by Darran *[Blount]* as CEO. As you'd expect with ITM, this has been planned down to the last detail and delivered on time! Continuity was always extremely important and that remains with an experienced team of directors with over 30 years ITM service under our belts, as well as an exceptional senior management team supporting us in the day to day running of the company. It was enormously important to us all that ITM remained independent – we know independence is important to our clients, and a key strength that enables us to add value to every engagement, so we are thrilled that we've maintained that.

PA: Why is this happening? And why is now good timing?

DCH: The opportunities for ITM to add value are significant – we are increasingly being asked if we can assist clients within our core service offering, as well as being approached to develop solutions for bigger or adjacent challenges within the markets that we cover. So it was a natural time to introduce a financial investor to help ITM on the next stage of its journey to ensure we can satisfy demand and we make the most of the opportunities that present themselves. The founders have worked tirelessly for 15 years to create a unique company with a fantastic standing in the market, and they leave the future of ITM in safe hands and with enormous potential for further growth and development.

PA: You mentioned your core services – what do you class those as?

Darran Blount (DB): ITM remains the leading independent pensions data and systems expert, and our tech-enabled consulting, analysis and system solutions are at the heart of that. We continue to provide unique pensions administration and data management software, helping clients better manage their data and the inherent risks associated, and delivering complex legacy data and system change programmes. We are seen as the 'go to' partner for clients seeking to reach objectives via a greater understanding of their data. Ultimately that is what ITM has always been about and that will not change – with innovation, quality and delivery ever-present.

PA: And can you explain what ITM has been doing more recently?

DB: Traditionally ITM focused on corporate pension schemes, but we have diversified our client base by building our presence within both local and central government. This has meant developing our solutions to work in slightly different environments, listening to clients and delivering what they need, and ultimately learning as much as we can about the challenges that they face so that we are well placed to help. It's a journey that has so far been enjoyable and rewarding. The most exciting part is that there is still much more that we can do, not just in the public sector, but in other areas.

PA: And in those other areas, what changes are you seeing in the landscape that lead to opportunities for ITM?

DB: Master trusts is an area where the drive for consolidation and the challenges that it brings are increasing almost daily, particularly following the DWP's White Paper. Dependency on robust systems, operational processes and data integrity remain a key focus, and we have seen a significant increase in engagements in this area.

Matt Dodds (MD): I would say the increase in liability management – and the value of data to achieve strategic goals such as buyout has never been greater. Schemes engage with ITM earlier, making the most of our independence and technology.

DB: Absolutely, and the focus on data continues within the public sector, in response to increasing regulatory demands. I also think the work that we do with financial institutions is probably overlooked by many.

Colin Hamilton: Yet moving to a new platform is totally dependent on understanding existing data. ITM apply our knowledge of how to cleanse and transform data and use our technology to do so in a controlled, efficient way. Simplifying operating models and system consolidation is high on many strategic plans, and the ITM team is one of the best in the business, bringing all our commitment, energy and expertise to the delivery. It's a really exciting time and we have a unique proposition for the market.

PA: What change will ITM clients see under the new leadership team?

Maurice Titley (MT): As Darran said, our core values and services remain the same, so it is very much business as usual; the culture of ITM and the foundation of all our success being built on the excellence of our people remains. We are though excited about the opportunity to approach certain things in a slightly different way. We can invest in resources to make sure that we can satisfy demand when it arrives, as well as investing in technology and new services to enable us to offer a more complete and wider offering to all our clients. We know that our clients love the work that we do for them, but we need to ensure that they also understand all the other services and solutions that we offer – an area that we know ITM can improve in.

PA: So what are the new opportunities and services that you see ahead?

MD: There are so many, that's why I am so excited! In general, as we've said, people are really placing value in the importance of data accuracy, integrity and portability, so the demand is definitely on the rise across all our markets. Regulatory pressure, GDPR, efficiency objectives and cost savings all help to raise the profile of data. Added to this, consolidation is not only likely for master trusts, but DB schemes too – and data integrity will be key for that to occur efficiently. We have the chance to invest in our people and the technology that underpins so much of ITM's good work, to ensure we continue to meet and exceed expectations. There is also a tangible shift in the landscape –not just pensions but long-term savings. ITM have been heavily involved in the pensions dashboard, and we see that as one step towards the alignment of health, wealth and benefits. So managing and working with data across multiple channels and industries will become the norm to support the relentless drive for digital.

MT: Because there are so many reasons to improve and maintain data quality, we are seeing more and more clients take a more efficient approach, allowing ITM to offer broader, longer-term solutions to both our core markets and in adjacent areas where we already know we can add value.

PA: What is the vision of ITM in the future? How do you see the next phase of the ITM journey?

DB: I see a great opportunity for ITM to become a broader-based technology and services provider across all of the markets in which we operate. This can be achieved through three key objectives. First, our service offering will be enhanced to provide a fully comprehensive suite of data, technology and administration support solutions. Second, these solutions will be developed to meet the needs of our core and new and adjacent markets. As Matt mentioned, this now includes public sector clients, local and central government, insurers and master trusts, as well as pension funds and EBCs. Finally, and most importantly, we intend to deliver this broader-based offering without compromising our 'Solution Delivered' ethos, providing innovative, cost-effective and professional tech-enabled solutions that challenge the accepted 'norm' and consistently add value for our clients.

sponsors

Pensions Age Spring Conference 2018

Our annual spring conference did not disappoint, with delegates enjoying presentations from a wide variety of speakers from asset management firms, consultants and master trusts, to regulators, research bodies and unions

This year's spring conference took place against a backdrop of relative calm, considering the previous two years' happened during the run up to Theresa May's snap General Election of 2017, and the Brexit vote in 2016.

Gathering together at a new venue, the De Vere Grand Connaught Rooms, delegates from across the industry heard from a range of speakers. It quickly became clear that for the pensions industry, there is no rest, as markets face a period of volatility and policy makers, influencers, and implementers still have a long way to go in achieving their goals.

Industry bodies

The day began with an update from The Pensions Regulator's head of policy Fiona Frobisher, who focused on the regulator's 21st Century Trustee campaign and its strive for good governance among trustee boards. "Governance is notoriously hard to describe, you know what good governance is when you see it but when you try to break it down into a series of processes it is very difficult," she said.

She explained that the regulator is trying to make its expectations clearer: "We are in the middle of rolling out a campaign we call '21st Century Trustee', which is breaking down different components of governance and provides some clear expectations, and some tools and examples that can show you what good governance in practice in those areas looks like."

Delegates also heard from the Pension Protection Fund's director of restructuring and insolvency, Malcolm Weir, who revealed the PPF has reached a "wide ranging deal" with Carpetright, following the approval of the retailer's Company Voluntary Arrangement (CVA). Speaking more generally about insolvencies and restructurings, Weir said that the PPF only gets involved with an insolvency when an insolvency administrator has been appointed. With a CVA, however, the PPF becomes involved the moment it is launched in court, as that is what starts an assessment period.

The Pensions Policy Institute's director Chris Curry gave an update on auto-enrolment, and told attendees that inertia will still be the policy's biggest driver. With regards to the minimum contributions increase, Curry criticised the fact that more attention has been placed on the employee contributions rising, rather than focusing on both

employee and employer contributions.

"What hasn't been noticed is that in effect, this April, everybody has had a pay increase…if you do stop saving it will now cost you more, because instead of giving up a 1 per cent employer contribution, which you won't get back, if you opt out, you are now giving up a 2 per cent contribution," Curry said.

Trades Union Congress policy officer, economics and social affairs department, Tim Sharp, also touched on auto-enrolment. He thinks it has been a positive development in pensions, but it is being rolled out at a "snail's pace". In particular, he criticised the lack of discussion on how higher contribution rates can be achieved.

Defined benefit

Painting a bleak picture, Charles Stanley CEO Paul Abberley spoke to delegates on delivering pension benefits in an age of eroded trust and macroeconomic uncertainty, highlighting that there has been a "steady erosion" of trust in financial services. Investment consultants' trust has also been thrown into question, he said, due to issues of conflicts of interest and whether they can choose good investment managers.

Unfortunately, he doesn't think that the trust can be rebuilt: "I think trustees have to accept that they are going to be operating in very complex relationships with all the various different actors," he said.

Moving on, M&G fund manager Steve Andrew asked the question of whether income investing has had its day in the sun. He explained that we all think about generating income because we are living longer. "The income challenge is an investment challenge, it's about constructing portfolios to deliver something sustainable, to deliver not just a coupon, or an interest payment, but it's to deliver sustainable income over a long period of time," he explained.

However, he said that it has got a lot harder to generate income. For example, with UK gilts, 10 years ago a 2-year gilt would generate a return of 3.7 per cent, whereas now that figure is 0.8 per cent. Andrew highlighted that when you take into account the Bank of England's 2 per cent inflation target, you would be lending money to the UK government. Talking delegates through M&G's current Episode Income Fund, he noted that the fund hasn't held any gilts since the middle of 2014. Instead, it is made up of a variety of other asset classes, such as US bonds, equities, property, cash and credit.

With fiduciary management services now well embedded

within the UK pensions space, questions have been raised on the transparency of fees. JLT DB investment director Ian Burns spoke to delegates on testing the transparency of fiduciary management. He said that fiduciary managers should be setting out clearly, in percentage and cash terms, the level of fees.

One particular area that Burns touched on was that of bulk buying discounts. Fiduciary management fees can sometimes negotiate bulk-buying discounts, which Burn said some pass on to the schemes, whilst others don't. "Most fiduciary managers will reference in their marketing material that they can achieve bulk buying discounts by aggregating clients' assets together," he noted. Therefore, where there is a discount secured, trustees need to challenge their fiduciary manager on the split of the discount.

In addition, SEI client director Brian McCauley looked at the issue of fiduciary management in a challenging return environment. The current investment challenge for DB trustees is to reach a fully-funded position on a technical provisions basis, self-sufficiency and lastly, moving on to buyout.

He noted that asset returns have been an issue recently, and funding levels will have had a setback in the past 12 months. There are also investment challenge headwinds such as tensions between Russia and the West, central bank tightening of the loose monetary policy, Brexit worries, and where we

are in the bull market cycle. However, he said fiduciary management can help trustees can rise to the challenge. In terms of active and passive management he noted that most trustees are aware of the limitations, but one area in particular where active is of benefit is in dynamic asset allocation.

Aon senior consultant Matthew Fletcher spoke to delegates about longevity, highlighting that since 2015 there has been an increase in the number of deaths in England and Wales. There has also been a decline in mortality improvements over the past few years. Presenting delegates with results of an Aon insurer/reinsurer longevity survey, Fletcher revealed that many insurers believe a reduction in government spending on health and social care has had a high impact on mortality improvements, along with the levelling off of improvements in cardiovascular diseases as well as other diseases.

However, he also noted that 40 per cent of trustees differentiate the mortality improvements between members of DB schemes and the rest of the population of England and Wales; within DB schemes he said there is a significant bias towards wealth and health. With regards to bulk annuity pricing Fletcher said he expects 2018 pricing to continue at the levels we saw in 2017. "We think it is absolutely necessary for people to be transaction ready before you approach the market… if you are serious about this you can get some good deals."

Defined contribution

Focusing on defined contribution investment, Schroders head of portfolio solutions group Andy Connell looked at whether older savers can acquire enough to avoid the retirement bust. He had three key messages, the first being successful retirement is only possible if you have effective saving and investment. On this, he said savers need to take enough risk and rewarded risk. For example multi-asset portfolios can offer sufficient returns and lower retirement at risk.

The second key message that Connell stressed was that investment strategies should work throughout the journey. Savings need to last a lifetime, so why at the age of 65 would you de-risk, when you are only two thirds of the way through, he said. He stated that when you get to retirement, you need to set the drawdown level at the right amount. The final message was, "averages are not outcomes", a phrase he said is just as true in accumulation as in retirement.

In a panel discussion hosted by State Street Global Advisers, head of European DC investment strategy Alistair Byrne, on environmental, social and governance (ESG) investing, Redington head of DC and financial wellbeing Lydia Fearn said it is something that clients are talking about more and more.

"We've seen a lot more interest in how we get ESG principles into default. It's not always clear cut or easy but conversations are starting. Some of the work we have been doing is starting to train and educate trustees to get to a place where they can start talking about integrating ESG within investment," she said.

Also speaking on the panel was B&CE/The People's Pension chief investment officer Nico Aspinall who explained that the company has a responsible investment policy. He explained that the first filter he puts ESG through is whether he can do something to shape the portfolio and benefit members.

Looking at good member outcomes in retirement was Wealth at Work director Jonathan Watts-Lay. He noted that there is an increasing focus on good member outcomes coming from the government and regulators, citing examples such as the Work and Pension Committee's inquiry in the pension freedoms, the FCA review of DB transfers, the creation of the pensions dashboard, and a single financial guidance body.

However, he noted that pensions are still confusing for the employee, in terms of the tax treatment and pension scams with the lack of financial advice uptake not helping the situation. Watts-Lay outlined four steps to making the right decision: education, advice, implementation and ongoing support.

With regards to robo-advice, he said that it doesn't really work in the retirement stage unless you have got a really simple situation. However, he does believe that it can work in the accumulation phase.

"It goes back to that whole issue about being holistic, you've got to think about all the different assets, the tax treatments, changing income needs, and whether people want to align with their partner, because they might wish to retire at the same time. It's not that you can't build algorithms to do that but there is no way that people will actually get through them because there is so much input data that is required."



Social infrastructure: One asset class, multiple returns

Investing in social infrastructure such as schools and hospitals can deliver steady returns to investors and many benefits to communities. With governments increasingly relying on the private sector to plug the social infrastructure gap, opportunities for investing in this asset class have never been greater, writes Raymond Jacobs

Social infrastructure holds communities together and determines our quality of life. But governments across Europe have for many years been struggling to meet the growing demand for the building blocks of strong communities, such as affordable housing, schools and sports facilities, libraries and fire stations, hospitals and nursing homes.

Now this gap between need and supply is providing a double opportunity for institutional investors: by participating in new financing models they have the chance to both strengthen their portfolios and their reputations.

Mind the gap

After the financial crisis, government cutbacks opened an investment gap in social infrastructure estimated at €150 billion a year by the European Investment Bank. That is more than 40 per cent of the estimated annual €350 billion required to keep up with demand. The funding gap is particularly acute in healthcare, housing and education. We all know about the consequences of this shortfall: health systems in crisis, unaffordable housing, run-down schools, not enough nursing homes for our elderly.

Increasingly, the private sector is stepping in to bridge the investment gap. Between 2009 and 2016, private investment in social infrastructure grew to $247 billion, according to Preqin data and McKinsey. Of the 1,264 deals completed globally, 71 per cent were in Europe – the top region for this growing asset class.

With public finances still under strain, expectations for partnerships between public and private sectors in social infrastructure are soaring. This in turn will improve the liquidity of social infrastructure assets, and, in our view, deliver a steady stream of investment opportunities for fund managers.

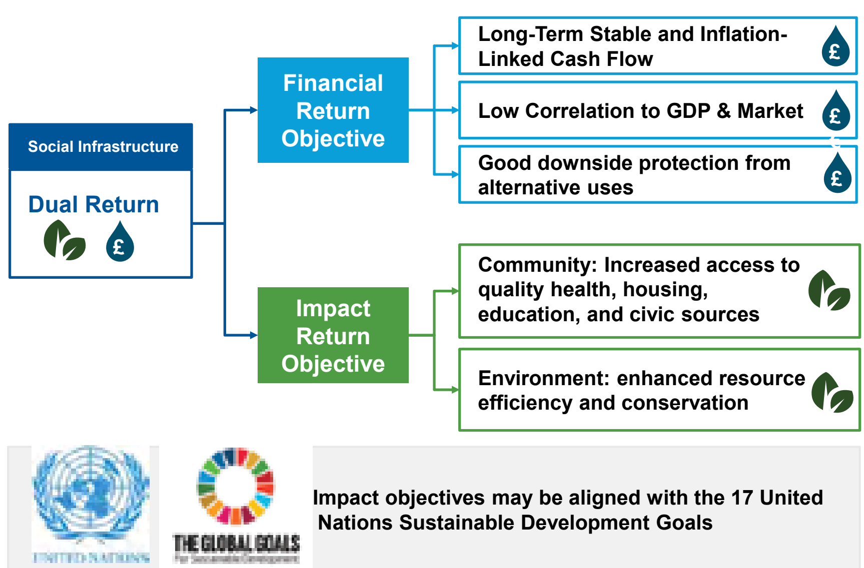
Investing for financial and social impact

In addition to stable, long-term returns, social infrastructure assets offer a second opportunity to institutional investors – the chance to make a positive contribution to local communities.

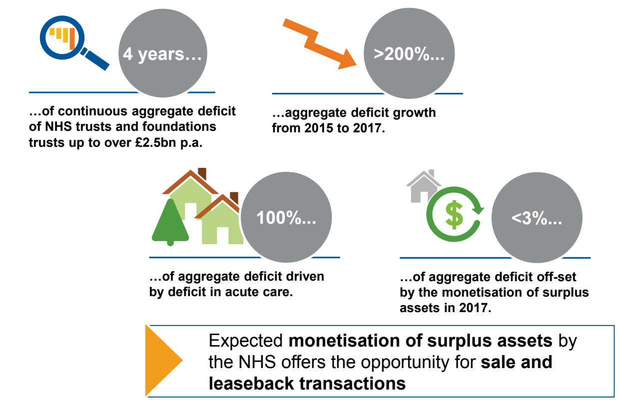
In many instances, social infrastructure investments are naturally aligned with both financial return and the social and environmental impact on the local community. Each reinforces the other. Investments that directly improve the utility of the space for occupiers and visitors can both improve the quality of social services being provided and increase the value of the social infrastructure asset.

Local partnerships can be created that enhance the experience of stakeholders. For example, working with a local

Financial Return…and Social Impact Return



Privatisation of Healthcare Assets in the UK



Source: NHS Improvement (2016-17, 2017-18)..

"The NHS should monetise its surplus property and pare its holding in older properties whose maintenance expenses are high." - Sir Robert Naylor [1]

school to have students volunteer time at a nursing home facility can create a more enjoyable experience for the elderly, thereby increasing demand for that facility in the community. Another example of a win-win involves making energy efficiency upgrades. These improvements can cut service costs while reducing greenhouse gas emissions.

Investing in social infrastructure with a focus on impact can deliver not only market-rate returns, it can also create financial resiliency that improves financial results.

Growing opportunities in Europe

In the coming years, private and institutional investors are likely to play a growing role in building and managing social infrastructure assets in Europe, due to continued public investment constraints, government divestments and policies to encourage private sector participation.

In the UK, for example, a recent independent review[1] recommended the sale of surplus land and properties belonging to the National Health Service to raise additional funding for acute care, where costs far outpace allocated resources. The review estimated the NHS could raise as much as £5.7 billion from the sale of land and properties, in addition to saving on the maintenance of buildings. The proposal appears to open new opportunities for property asset managers, including the sale and leaseback of healthcare assets.

Other countries in Europe, including Spain, Ireland, Greece and Portugal, already use public private partnerships to supply a large proportion of new healthcare infrastructure such as hospitals.

The sale of NHS land in the UK might also deliver collateral social benefits: it could be used to build much needed affordable housing and begin a virtuous cycle as, in the long run, better housing nurtures healthier families, which results in lower healthcare costs.

Across Europe, the private sector is likely to become more involved in filling the significant vacuum in low-cost housing investments, opening up new opportunities for social impact investors.

Risks and challenges

Social infrastructure investments, however, are not without their challenges. They face specific risks related to political and regulatory exposure. For example, governments can modify the standards of service expected from privatised facilities, the length of their leases or concessions, or the level of risk-weighted returns on capital outlays. Also, when the public and private sector share risks, the responsibility for future liabilities is sometimes blurred.

The social infrastructure opportunity

Even with these risks in mind, it is clear that social infrastructure as an asset class will continue to grow in size and relevance for investors aiming at both a financial and an impact return. The need for more and better social infrastructure is clear, as are government efforts to encourage private investment in its delivery. This growing asset class will allow property funds to diversify their portfolios while pursuing a dual investment objective: to earn steady, non-cyclical returns and to make a positive impact by helping to build stronger communities.

Find out more:

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Written by Franklin Real Asset Advisors managing director Raymond Jacobs

In association with

FRANKLIN TEMPLETON INVESTMENTS

[1] Sir Robert Naylor, "NHS Property and Estates: Why the Estate Matters for Patients" March 2017

Industry overseers – agenda update

The bodies that oversee the pensions industry are pivotal in the development and evolution of the industry. Natalie Tuck takes a look at the current areas of focus for some of the sector's biggest overseers

The Pensions Regulator
Having just published its corporate plan, outlining its priorities for the next three years, The Pensions Regulator has a broad range of work to undertake. One area in particular is the master trust authorisation regime, which comes into affect in October 2018. "A top priority will be implementing this regime to make this market, which has significantly grown as a result of automatic enrolment, safe and secure," a spokesperson says.

There is also pressure on the regulator to ensure the continued success of auto-enrolment, especially as the minimum contributions increased to 5 per cent last month. The regulator ensures that employers meet their duties, including re-enrolling staff every three years and complying with recent contribution increase. In the past six months, TPR has clamped down on companies that avoid auto-enrolment duties, with bus company Stotts Tours the first to be prosecuted.

Despite it being busy with the regulation of defined contribution pensions, the regulator can't forget about defined benefit pensions. A spokesperson says it is working with the government to implement the proposals set out in the recent defined benefit white paper. These will see the regulator given more powers; it will be able to allocate punitive fines for those who have deliberately put their scheme at risk and will see the introduction of legislation to introduce greater information-gathering powers including the power to compel any person to submit to an interview, the power to issue civil sanctions for non-compliance and an inspection power.

Other areas that it will be prioritising include: maintaining the fight against pension scams; improving governance and administration in pension schemes, including through its 21st Century Trusteeship work; and responding appropriately to risks and challenges arising from Brexit. "We need to ensure that we remain effective, efficient and able to respond to the challenges we face. Our upcoming corporate plan will expand on our drive to be clearer, quicker and tougher via our TPR Future programme," a spokesperson states.

Financial Conduct Authority
The Financial Conduct Authority published its business plan for the next year at the beginning of April, revealing a number of areas concerning pensions and retirement. This year it wants to produce a 'clear strategy' to make it easier for stakeholders to understand its role within the pensions sector. It is working with The Pensions Regulator to produce a joint strategy, which will set out how they will work together to tackle the key regulatory risks facing pensions over the next five to ten years.

Following the saga relating to the British Steel Pension Scheme, where some members were given inappropriate advice to transfer out of the scheme, the FCA faced criticism from the Work and Pensions Committee. As a result, it scrapped plans to remove the 'unsuitable' starting point for advisers with clients seeking a defined benefit transfer. It has also said it will be collecting details of practices across the entire pensions transfer market, in order to build a national picture to assess potential and actual harm, and identify the most effective way to reduce it.

The FCA launched the *Retirement Outcomes Review* in 2016, publishing its interim report in 2017, and is expected to release the final report, along with a consultation paper, later this year. Since the interim report, the FCA has undertaken further analysis on the types and level of consumer harm that drawdown charges and investment choice may cause. Keeping busy, it is also undertaking a piece of research looking at the levels of undersaving for retirement. As part of this project, it is investigating which consumer groups are most at risk of experiencing a shortfall in their expected retirement provision.

In addition, the FCA is conducting wider policy work on independent governance committees (IGCs) for workplace pension schemes to look at the possibility of extending their remit. This wider work includes possible changes to the rules for IGCs to improve governance and value for money for consumers, following recommendations on social investing from the Law Commission.

Work and Pensions Committee

There's no slowing down for The Work and Pensions Committee as 2018 has already seen it complete an inquiry into the pension freedoms, which resulted in it making a number of proposals. For example, the committee supports the Financial Conduct Authority's recommendation that every pension provider offering drawdown should be required to offer a default decumulation pathway, suitable for its core customer group. The committee is still awaiting the government's response on the proposals, so we haven't heard the last of it yet.

Currently it is looking into the defined benefit White Paper, which came out earlier this year. It hopes that its inquiry can "inform and influence" the planned consultation on the White Paper's proposals, which include The Pensions Regulator's powers, corporate transactions that could affect schemes, defined benefit consolidation, and criminalising wilful pension neglect, among others.

Following renewed enthusiasm for the creation of collective defined contribution (CDC) schemes, namely from Royal Mail, the committee launched its own inquiry into this type of scheme in November 2017, which is still ongoing. Committee chair Frank Field said the aim is to "retain some of the best features of company schemes in a different age when employers are no longer willing or able to sustain the burden of final salary promises to employees, who could club together and pool the risk themselves".

The committee has also teamed up with the Business, Energy and Industrial Strategy Committee to investigate the collapse of Carillion. In particular, the Work and Pensions Committee's focus has been on the company's pension scheme and its deficit. Oral evidence is still ongoing but currently the committee has heard that Carillion's finance director Richard Adam thought funding the pension scheme was a "waste of money". Field has also raised questions over the leadership of TPR as a result of its evidence hearings. He told TPR's chief executive Lesley Titcomb that her "defensive and under-prepared performance…gave me no assurance that the TPR leadership is equipped to bring about the necessary cultural change".

Pensions and Lifetime Savings Association

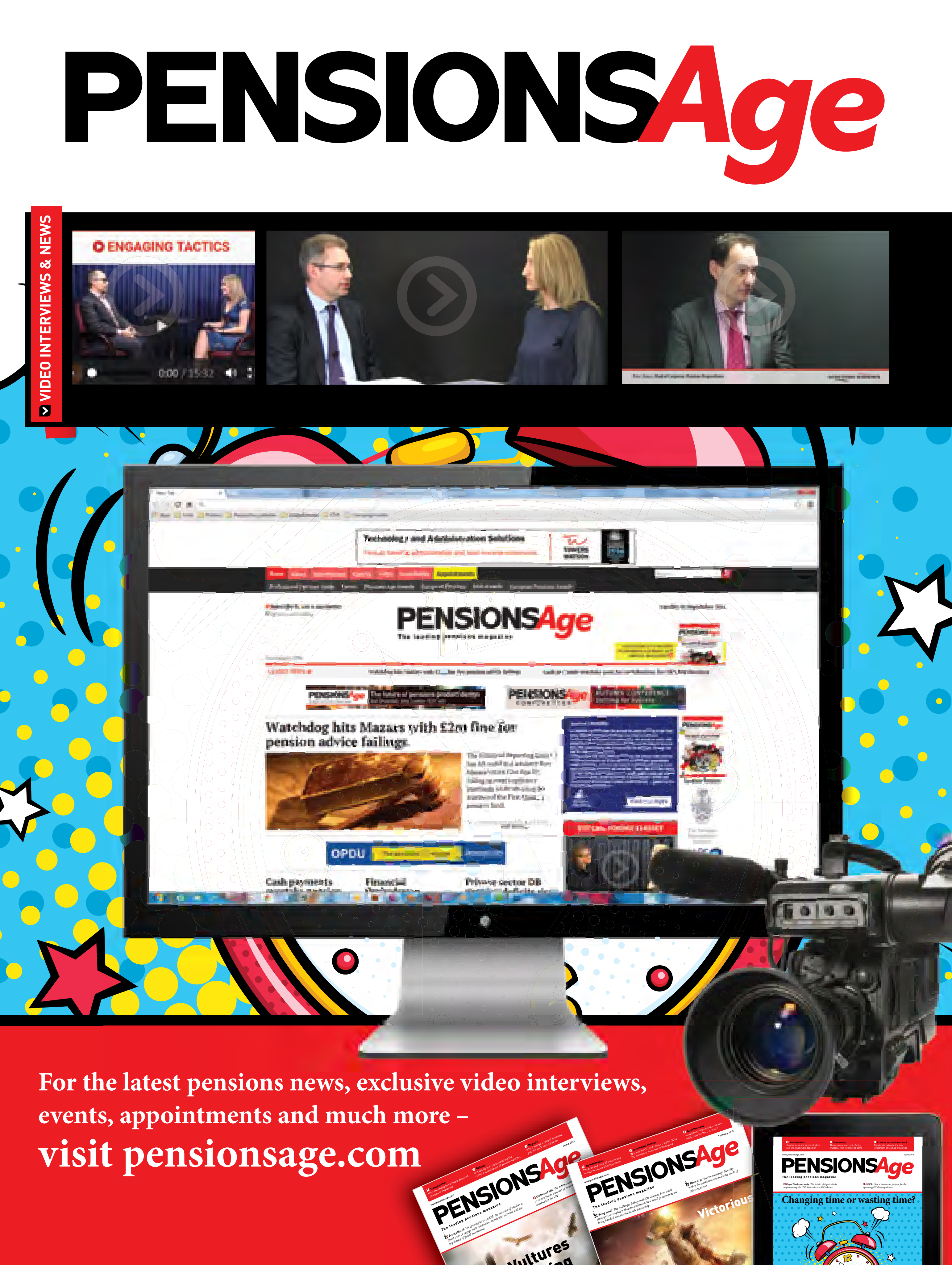
With over 1,300 pension schemes that look after 20 million members, the Pensions and Lifetime Savings Association (PLSA) plays an important role in shaping the pensions industry. A spokesperson for the association says that its ongoing goal is to achieve a better income in retirement for all savers. "Currently one of our key focuses is our Hitting the Target project, which aims to help savers through the creation of retirement targets, improving automatic enrolment contributions, and reviewing decumulation in the new pensions landscape," a spokesperson notes.

One of the proposals to come out of the project is the idea of National Retirement Income Targets, which are currently used in Australia. The PLSA's initial research also found that when asked about what levels should be used for income targets, savers between 55 and 64 suggested that for a single person targets may be: a minimum £10,000 to £15,000, modest – £15,000 to £25,000 and comfortable – more than £25,000.

The PLSA is also focused on the defined benefit White Paper and how best to ensure more people get their full defined benefit benefits in retirement. As part of this, the former chair of its DB Taskforce recently appeared at the Work and Pensions Select Committee hearing to discuss the taskforce's recommendations. In the DB Taskforce's final report, it proposed three key recommendations to help DB schemes protect themselves. One included the appointment of a DB chair, which has since been proposed in the White Paper.

The PLSA has also taken a keen interest in the development of the pensions dashboard to ensure that members' views are represented. It was a member of the initial project group responsible for the creation of the prototype, and two PLSA members are represented on the HMT led steering group. "Other areas of focus for the PLSA include cost transparency in all parts of the investment chain; the ongoing Competition and Markets Authority investment consultancy market investigation; master trust authorisation following the Pension Schemes Act 2017, and continuing the successes achieved so far in regards to LGPS pooling," a spokesperson adds.

Written by Natalie Tuck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Changing time or wasting time?

Out in the wash

Nigel Jones talks through the latest anti-money laundering legislation and the responsibilities it places on pension fund trustees

In the fight against organised crime and terrorist financing, money laundering has changed significantly since the Proceeds of Crime Act 2002 came into force as the UK's primary anti-money laundering (AML) legislation. As part of the continuous evolution of AML, new money laundering regulations came into effect last June, which implement the EU's Fourth Money Laundering Directive (4MLD) and replaced the Money Laundering Regulations 2007.

As a result of new duties imposed by these regulations, trustees of occupational pension schemes are required to maintain accurate, up-to-date records in writing of all the 'beneficial owners' of the trust. There are a variety of circumstances where they may have to disclose this information: upon request when entering into a transaction or a business relationship with third parties that are required to perform anti-money laundering checks, or where required by a UK law enforcement authority such as the National Crime Agency or the Serious Fraud Office.

There is a further obligation introduced by the regulations on trustees in relation to pension schemes that are 'taxable relevant trusts'. In general terms, these are schemes that invest directly in real property or in shares and incur liability for various taxes, including income tax, capital gains tax and stamp duty land tax. Affected trusts have to register with HMRC and are required to supply information for inclusion in its new trust register.

How far the duties placed on trustees would extend remained unclear until guidance (in the form of FAQs) was published by HMRC in November 2017. In updating earlier guidance, the FAQs offer some good news in that they appear to confirm that for schemes that have more than 10 beneficiaries (members), trustees are only required to maintain individual records of beneficiaries, and not those of potential beneficiaries such as a member's spouse, until such time as they stand to benefit from the trust. Furthermore, when they provide beneficial ownership information to HMRC (just like the current obligation when transacting with third parties), trustees only have to identify the class of beneficiaries as opposed to providing the details of individual beneficiaries.

In view of the possible penalties that are attached to non-compliance (a hefty fine and potentially up to two years' imprisonment), trustees should make themselves familiar with all aspects of the new record-keeping requirements. In addition, they must ensure that member information is kept up to date and complete in so far as it is possible and practicable to do so. Where necessary, they should approach their investment advisers for guidance in order to identify whether a particular scheme would be treated as a 'taxable relevant trust'. Should this be the case, they will then be subject to registration and reporting requirements imposed by HMRC – either now or at some point in the future.

Although the new requirements appear to be proportionate in response to the legitimate objectives of disrupting money laundering and terrorist financing, trustees are unlikely to have heard the last word on the subject when it comes to new regulations: EU processes for the Fifth Money Laundering Directive (5MLD) are already underway. This seems set to break fresh ground. For the first time in UK law, where a 'legitimate interest' test is met, there will be a requirement on HMRC to release into the public domain the relevant information on the beneficial ownership of trusts. Just how 5MLD will apply to occupational pension schemes remains unknown, but there is presently no exemption for such schemes. Almost certainly, this will be transposed into UK law as part of any forthcoming post-Brexit transitional arrangement.

Written by ARC Pensions Law senior associate Nigel Jones

Summary
• Recent disasters mean the industry has been criticised for having a closed mindset and failing to learn from its mistakes.
• An open-loop approach has been advocated in a report by the Pensions Institute and Cass Business School, which offers a damning review of the industry, accusing it of playing a 'blame game' when things go wrong.
• The extent to which lessons are learnt from mistakes is debatable, but it is unanimous that more can be done to make the most of these lessons.
• Ideas around changing the culture of the industry include a standing pensions committee, harnessing the open-loop approach around environmental, social and governance practices and pre-mortem exercises.

The defined benefit sector has faced mounting issues over the past few years, but has it done enough to stop the blame game and learn from its mistakes? Theo Andrew investigates

Mistakes must be celebrated. Perhaps not in the literal sense, but they can certainly be seen as an opportunity. An opportunity to learn, as the uber successful will tell you, should never be passed up, so why is the defined benefit pensions sector so bad at it?

While it may not be revolutionary to say, but might well be impossible for some to admit, the pensions industry can sometimes suffer from a closed mindset. Perhaps this is through no fault of its own; as a complex business it can often be at the mercy of many conflicting factors, and it is hard for anyone managing a pension scheme to predict what is going to happen at any given time.

Former Pension Protection Fund chief executive Alan Rubenstein hinted recently, with an air of inevitability, that the pensions lifeboat will see £12 billion of claims between now and 2030, saying "you would expect more cases like Carillion in any scenario". But the onus must be on how we can stop this happening for good.

The Department for Work and Pensions DB White Paper, *Protecting Defined Benefit Pension Schemes*,

published in March, identified some important points to increase transparency and accountability in order to stop this scenario, but for many it lacked a bite.

In February, the Pensions Institute and Cass Business School released a joint report, *Bringing Black Box Thinking to the Pensions Industry*. The report is an attempt to understand the strategic decision making of the UK's 6,000 DB pension schemes and advocates an 'open-loop' approach to learning from mistakes.

In a damning review of the DB sector, the report said: "Less fortunate schemes exhibit typical behaviour of a closed-loop mindset, including not setting strong measurable targets, inertia in decision making, herding behavior shifting goal post failing to take ownership of mistakes and blaming others" – sentiments that could arguably be used to describe many others across the industry.

Failing to learn

While the industry is on a constant journey to improve, it is still surprising that more hasn't been learnt from headline cases.

Of course each case is different. Whether it's a BHS implementing an overly-aggressive investment strategy, or a Carillion dishing out a generous dividend policy, each gives the industry scope for improvement.

JLT Employee Benefits director Charles Cowling says: "There isn't a complete failure to learn … but I still think we haven't learnt enough. We haven't looked through a Carillion-type situation to see what should have been done at a much earlier stage to make sure this didn't happen."

This is an attitude that BESTrustees chairman Alan Pickering also believes to be true.

He says: "Too much of the pension legislation and regulatory rules are a direct response to individual blemishes without giving sufficient time to think through these blemishes, and the result is a set of circumstances that are unlikely to occur in exactly the way it hit us last time round."

While Pickering is all for learning from the lessons of the past, he believes that it has to be the right lessons, and not "by means of a knee-jerk reaction that forces politicians to take steps in a hurry", creating "too many loops in the legislative chain".

On the other side of the fence, Lombard Odier Investment Managers head of pensions and insurance solutions Ritesh Bamania believes that actions speak louder than words, and that there has been a great improvement in the quality of advice given over the past few years.

He comments: "I have been a consultant over the past few years, moving to fund management last year, and the kind of advice given to clients has been improving. The questions we are asked are becoming increasingly technical and this is requiring increased transparency, which is great."

Bamania picks up on an interesting point. Transparency is fundamental when trying to learn from mistakes. However, when things do go wrong with pension schemes, the industry has an incredible knack of attributing the blame elsewhere.

Pointing the finger

Dissect the aftermath of Carillon and you begin to see something a bit more troubling at work; a distinct lack of accountability.

There was a tremendous back and forth between trustees, finance directors, chief executives, advisers and even the regulator, who all laid the blame at somebody else's door and played it all out in the public eye. Society of Pensions Professionals president Hugh Nolan feels that trustees are at times at the mercy of their advisers.

He says: "Having sat on both the adviser's and trustee's side of the fence, I'm aware there are quite often concerns that advisers are the true power behind running schemes and that trustees are not able to challenge that particularly well. An adviser who has made a mistake will blind the trustees with science … rather than saying hands up we got this wrong."

This, Cowling says, rings particularly true when considering the investment principles of schemes: "Ultimately pension schemes need to be better funded and less risky. The lessons from all that have gone wrong is that they have invested too riskily, and they didn't have enough money."

One of the challenges that arises from this, Cowling believes, is conflict of interest and self-interest.

"The asset management industry is not going to say, don't invest in all our wonderful equity products, when the reality is the case for equity is low, so why are such risks being taken?"

Bamania elaborates on this point and emphasises that it is simply impossible to be an expert in all areas. Whether you're a consultant, fund manager, or trustee, collaboration is key.

"It is through people working together and communicating, whereby we will help identify what can, and what did, go wrong. All the aspects need to come together … and using complementary skillsets that combine positively is essential."

Opening the loop

An area that some feel can pave the way and really harness the essence of open-loop thinking, and to an extent is already actively sharing data sets in search of better solutions, is environmental, social and governance (ESG) investment considerations.

Cardano senior client manager Helen Prior believes it is the sharing of information on ESG that really sets it apart from other investment-related topics, and that makes it particularly useful when practicing an open-loop approach.

She says: "We have seen some progress already because it is an open loop. In the past ESG was synonymous with taking an ethical stance and somewhat divorced from financial returns. More recently we've seen that ESG factors are indicators of long-term stability and part of prudent risk management, which trustees should logically want to engage with."

Investing with an ESG mantra requires the sharing of data like never before, which allows you to create a holistic approach to investing, and ultimately greater ownership over impact management and risk analysis.

An aspect of ESG that could help break the groupthink is diversification of the trustee board.

According to the Institute and Faculty of Actuaries (IFoA), 77 per cent of board level and 86 per cent of executive committees were held by men in 2017, but there are efforts in place to help change this.

Last year the PLSA, with the support of the regulator, launched the *Breaking the Mirror Image* campaign, encouraging greater diversity on trustee boards by "putting diversity at the top of the agenda".

"You talk about groupthink and consensus and that's where diversity might help you, when everybody comes in from a finance background saying we know our numbers you don't get the same breath of judgement. The more diverse your trustee group is the better", Nolan says.

Despite being one of the more innovative ways to encourage open-loop thinking, this solution again places the onus of trustees. However, another solution is the idea of a standing pensions commission.

Such a body would build up a store of experience, a dedicated pensions corporate memory, which would allow the industry to learn, instead of setting up "adhoc review committees" and relying on the "media-greedy tendencies of politicians in public", Pickering says.

"I can't think of anywhere better to store the corporate memory so that the regulator's virtual library and actual experience can help protect politicians from the 'somebody must do something about it' syndrome."

Pickering suggests this would hit the open-loop nail on the head, getting to the crux of the problem of not learning from mistakes by creating a commission that bypasses the government nature of discarding expertise once legislation has gone through.

Cardano director Stefan Lundbergh agrees: "A standing pension commission is a great idea. I would go even further and say they should look at problems and try to come up with and analyse what is the common theme.

"As soon as a pension fund above a certain size enters the PPF, there must be an investigation like when an airplane has crashed, to ask what went wrong? How did it end up here? To find out what we can learn and then share it, without pointing a finger."

In 2015 the PLSA called on the government to implement an independent retirement savings commission, a non-legislative body to make recommendations on the direction of future policy, to "create greater stability and certainty around the big issues on the horizon for pensions". However since then calls for a commission have been muted.

With the idea of a standing pensions committee some way in the distance, Lundburgh suggests a more simple tool that trustees can use now to avoid falling into a groupthink scenario.

"Pre-mortem is the easiest, just to say, 'five years from now we have to hand in our keys to the pension protection fund and what event, given our current strategy, what could have caused us to end up in this situation?'.

"That forces you away from your standard thinking; you need to find the things that could have killed you, play devil's advocate to break the groupthink."

The PLSA advocates this approach. Its head of governance and investment Joe Dabrowski says that if airline-style black box thinking were to be implemented in the pensions industry, a focus on building the right culture, with the right people and resources to support would be needed, as laid out in in its *Good Governance – how to get there paper*.

So, do we accept it as inevitable the PPF's predictions that up to £12 billion of members' defined benefit money will fall into the lifeboat over the next 12 years, or do we open the loop and learn, properly, from the mistakes industry has made now? I know which one I think we should be aiming for.

Written by Theo Andrew

Managing member complaints

Geraldine Brassett reveals the best ways to manage member complaints and the importance of learning lessons from them

When managing complaints there are three important points to remember. Firstly, members are unlikely to want to complain; they want to be receiving a level of service that doesn't warrant complaint. Secondly, regardless of whose 'fault' it is, an unhappy member should feel they are being taken seriously and are a valued customer. Finally…for pensions administrators some complaints are inevitable – meeting an SLA does not mean that information is correct or meets the needs and expectations of the member.

One golden rule of complaint management is to maintain open, honest communication. For me, it is also one of the golden rules of complaint avoidance, and why I address this first. Acknowledging correspondence, providing realistic timescales, updating on progress and managing expectations are all material to preventing a complaint in the first place. Time consuming as this may be, it is likely less so than having to deal with a particularly thorny complaint.

Let's put ourselves in the position of a scheme member who's had a bad experience with a tricky annual allowance query.

Their email requesting figures was received by the administrator three weeks ago but, quite frankly, no one wants to touch it. They phone up to check the status. At this stage they are annoyed but not angry.

Firstly they want someone to listen and understand what they need, why

they need it and when they need it by. Frustratingly, the person answering the call doesn't try to find out this information. They look at the member's workflow record, realise the case is complex and, seeing that no one has touched it, tell the member someone will call them back – anything to get them off the phone.

The member is understandably not cool with that, after all they have waited three weeks already. But as long as someone takes ownership they are ok. It is only upon hanging up they realise they have been speaking to a commitment-phobe who didn't say when they would call back.

Twenty-four hours later the member is still waiting and they are now, of course, angry. They phone again, go through the whole sorry tale and the person they speak to doesn't even apologise. Despite what many believe, saying sorry is not an admission of any liability, but it is polite and courteous – people appreciate it. An apology well delivered can diffuse a situation.

But back to our member. They are transferred to someone who transfers them elsewhere and, joy of joys, the middle-transferee has fully appraised the experienced administrator of the case so they don't have to repeat themselves again. This experience couldn't be more different. The person they are speaking to lets them vent, listens, repeats the key points back, summarises and then sends email confirmation of the conversation along with the timescale in which they will receive a response.

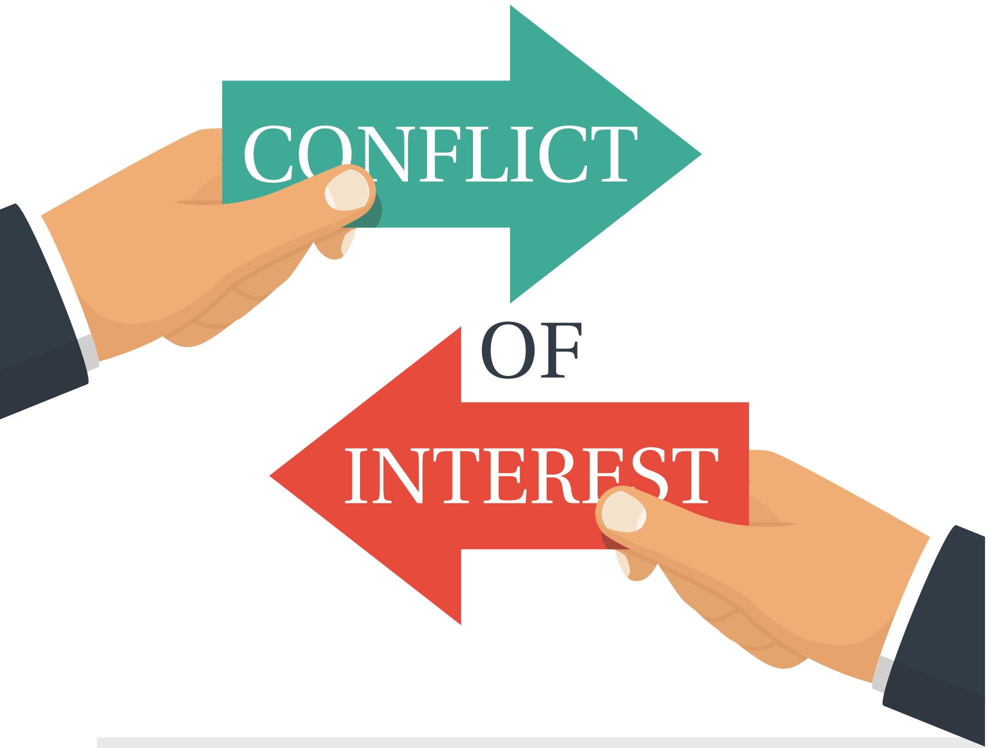
Imagine the disappointment when said date comes and goes without a response or update. So, guess what, the member calls again, only to be told the case was delayed because it is so complex it had to be referred to another team. This is not what they want to hear. Annoyance has now reached stratospheric levels.

This case is a perfect example of why communication is key. All the member needed here was for someone to explain that the clock had been stopped and why. They may not have been happy, but this would have given them opportunity to let the scheme know if they had a date they really needed the requested information by and, as such, what is now a serious case of member dissatisfaction could have been avoided.

Perhaps I appear light-hearted about what is a serious subject in the above example but, for me, it illustrates much of what is wrong in complaint handling. This age-old case demonstrates how making a couple of small changes can make a huge difference to the member experience – be it through handling a complaint in a positive way, or avoiding one altogether.

In summary, ownership, communication, empathy and management of expectations are key in managing complaints. Do not forget however the importance of compliance and good governance – keep phone notes (if you don't have call recording), capture details of each complaint, look for trends, evaluate outcomes and, most importantly, learn from them.

Written by Pensions Administration Standards Association (PASA) industry policy committee chair Geraldine Brassett



Summary
• Conflicts of interest are inherent in all schemes and must be identified and managed effectively.
• Member-nominated and professional trustees could have conflicts of interest through their relationship with the sponsor.
• Providers offering multiple services can create conflicts.

Expression of interest

Conflicts of interest are inherent in any pension scheme. Identifying and managing them are part of good governance, says Maggie Williams

Conflicts of interest exist in any line of business, and pension schemes are no exception. Personal conflicts – in which an individual feels torn by the demands of multiple roles; commercial conflicts – affecting the services a scheme buys and where it buys them from; and member conflicts – deciding what actions will be in a member's best interests – are all a part of the challenge of running a scheme.

As such, conflicts of interest shouldn't pose a threat. However, the approach that a scheme takes to identify and manage them – and the way their advisers support them in doing so – can have long-term ramifications for scheme governance and members' pension savings.

Personal conflicts

Member-nominated trustees (MNTs) arguably always have a conflict of interests. They are ultimately employees of the company that provides the pension scheme and as such, decisions that affect the scheme may have repercussions for their day jobs. MNTs with financial responsibilities both for the sponsor and the scheme, such as a finance director who is also a trustee, are an obvious example, but other MNTs may also feel under pressure when it comes to negotiating with the sponsor over defined benefit (DB) scheme funding. This can be particularly sensitive in stressed schemes with weak covenants, where the viability of the sponsor's whole business could be at risk.

But The Pensions Regulator (TPR) is adamant that trustees must overcome this. "We want trustees to negotiate robustly with employers, and especially so if *[the scheme is underfunded]* and the sponsor is paying big dividends to shareholders," says TPR executive director of frontline regulation Nicola Parish. And, with TPR set to have more robust powers as a result of the Department for Work and Pensions' recent White Paper Protecting Defined Benefit Pension Schemes, trustees' negotiating skills will be brought into even greater focus. "We will be quicker and tougher in the use of our powers where we see this type of disparity," adds Parish.

For trustee boards struggling to negotiate with their sponsor, an independent trustee can add a degree of much-needed objectivity. But professional trustees must deal with conflicts of their own. "Professional trustees are almost always paid by the sponsor of the scheme, so there could be a temptation to give them an easy ride," says PTL managing director and independent trustee Richard Butcher. "There might be a consideration of, 'this is a comfortable revenue stream for me, how much do I want to challenge it?'"

Commercial conflicts

Professional trustees, and other employees of service providers, may find themselves faced with commercial conflicts if they are part of a company that also offers other services to pension schemes, such as legal or actuarial advice. Says Butcher: "Individuals may be motivated by their company to bring in additional revenue by selling extra services. They may also be directly incentivised for that, in the form of a bonus. Then, do you deliver what's right for your client – or what's right for your employer?"

While the two parts of that dilemma may be aligned, often they are not. Nowhere has this been more evident than in the Financial Conduct Authority's (FCA) decision to refer investment consultants offering fiduciary management services to the Competitions and Markets Authority (CMA). "Fiduciary management has been seen by some consultants as a way of getting another income stream," says Barnett Waddingham partner Paul Jayson. "That can lead to conflicts if you are proposing and delivering a solution." Pensions and Lifetime Savings Authority policy lead for investment and defined benefit Caroline Escott adds that concerns over the "potential for misalignments of incentives" in the sector has also been a concern. "It is vital that every part of the investment chain works effectively and that the interests of intermediaries are aligned with those of pension schemes and their members," she says.

Speculation remains rife as to whether or not investment consultants will be required to separate out their fiduciary management arms from their consulting businesses, with the CMA's final report due in 2019. Whatever the outcome, Jayson believes there are issues to address that go beyond simple conflicts of interest. "The key points are education for trustees and disclosure from the providers. Sometimes buyers haven't known what they are buying into – and the sellers weren't open about what they were selling."

The consultancy sector has also seen significant consolidation over the past decade. With both sponsors and trustees requiring advisers, could those changes in the market also drive conflicts of interest, with the same firm potentially advising both sides?

Jayson believes it is not a concern. "There have been mergers and shrinkages, but there are plenty of providers out there," he says. His views are backed up by findings from the CMA, released in April this year. The watchdog's working paper into concentration in the consultancy (and fiduciary management) markets showed little current cause for concern. The three largest providers, Aon, Mercer and Willis Towers Watson, collectively make up less than 50 per cent of market share, and 10 firms cover 75 per cent of the investment consultancy market.

It also found that there were few barriers to entry into the market. "There are also new providers starting up and offering new types of service," adds Jayson. "Traditional models are changing and addressing different gaps in the market."

Member conflicts

Since the 2015 pension reforms, creating the right balance between supporting members' freedom and ensuring their best interest has introduced new types of conflict for scheme trustees of both DB and defined contribution (DC) schemes.

All DB scheme members considering a pension transfer must take advice – but should that be through an adviser recommended by the scheme, or sourced by the members themselves? Wealth at Work director Jonathan Watts-Lay is adamant that the scheme should be involved. "We've seen the factory gating in South Wales *[relating to the British Steel Pension Scheme (BSPS)]* and some of the extortionate charges being made," he says. "If schemes and employers found advisers that could deliver financial advice, did due diligence and compliance checks on them, and agreed a price that employees would ultimately pay, that would make the process more robust."

For advisers themselves, there is also a clear conflict of interest when it comes to contingent charging models for pension transfers (where a fee is only paid if the transfer goes ahead). The Financial Conduct Authority identified this in its March 2018 report on DB to DC transfers, as did the Work and Pensions Committee (WPC) in its report into the BSPS, released in February this year. "Genuine independence is not compatible with a charging model that only rewards advisers for recommending a particular course of action," concluded the WPC.

"It may well be necessary for this to be banned from pension transfer advice," adds Barnett Waddingham senior consultant Malcolm McLean. "If there is evidence to show that contingent charging is contributing to the level of unsuitable advice being dispensed… the FCA should probably intervene and bring the practice to an end."

DC trustees (and others with responsibility for DC schemes) have similar conflicts over access to advice around pension freedoms. Recent research by Zurich found 41 per cent of those opting for drawdown had received no guidance or advice in advance – and that 44 per cent of those in drawdown said that there was nothing that would prompt them to seek guidance. While, ultimately, that is a member's personal choice, trustees may feel they should be more robust in sourcing and offering advice, to ensure that their members make appropriate choices and don't run out of money in retirement. Zurich pensions expert Alistair Wilson believes that government needs to go even further, saying that it should enforce mandatory guidance for drawdown, or at least require individuals to opt in or out of guidance before getting access to their pension savings.

There will always be areas of pensions where opposing priorities and individual judgement play a part in decision making. Ensuring that trustees and others are equipped with strong negotiating skills, empowered to ask appropriate questions and able to act objectively on the answers they receive, will always be at the heart of protecting a scheme and its members' best interests.

Written by Maggie Williams, a freelance journalist

Governing contracts

With the roll-out of auto-enrolment, greater numbers of the population have taken to saving through contract-based pension schemes. Talya Misiri looks at how these schemes have evolved

With the roll-out of auto-enrolment in full swing, greater numbers of the population have taken to saving through contract-based workplace pensions. Because of this, the structure of contract-based schemes has evolved in the last few years.

Commenting on the changing nature of these schemes, Standard Life head of pensions strategy Jamie Jenkins highlights that: "Contract-based pensions are very similar now to their trust-based counterparts. Following simplification in 2006, many of the legal differences in benefits and allowances were removed and, more recently, automatic enrolment has brought the two even closer in terms of how they are used for workplace retirement saving."

According to the most recent figures from the Financial Conduct Authority and The Pensions Regulator, the size of assets held or invested in contract-based defined contribution workplace pensions totals £168 billion.

With this upsurge in contract-based schemes, the pensions industry largely agrees that cost regulation and governance has become increasingly important.

Independent governance committees, which were introduced by the FCA for this type of scheme in 2015 to take on a similar role to trustees, are "championing value for money for customers and demonstrating more transparency in the world of contract-based providers," Aegon head of pensions Kate Smith says.

"While contract-based pensions usually don't have trustees, most of them now benefit from independent governance committees (IGCs), whose duties are similar in focusing on value for money and good member outcomes," Jenkins agrees.

In addition, the FCA's most recent *Sector Views* paper states that: "When it comes to costs, the data shows that the charge cap and the work done by providers' independent governance committees have been effective at controlling costs in the workplace pensions market."

Smith shares a similar view that although "IGCs have only been in place for three years, they are already working very effectively". She explains that regulating contract-based schemes in this way has aided in bridging the gap regarding "providers' responsibility to look out for the interest of consumers, a strength of occupational pension schemes".

With this regulatory success, Smith continues to suggest that contract-based and occupational pension schemes "can learn from each other" as IGCs have "strengthened" contract-based schemes.

Moreover, the upcoming General Data Protection Regulation, to be introduced on 25 May this year, is also an area that contract-based schemes need to be fully prepared for, says Stevens & Bolton law firm partner Gabrielle Holgate.

"Top of the agenda…is handling the implications of the GDPR", she notes, adding that schemes will need to review their contracts with suppliers such as actuaries and administrators. In addition, these schemes will need to allocate communications to members and put "appropriate data protection policies" in place.

It appears however, that there is still a "marginal difference in the balance of power *[between contract and trust-based schemes]* when it comes to dealing with changes and updates," Jenkins says. He highlights that for trust-based schemes, "trustees can usually make changes for multiple members if they feel it is in their interests," whereas for contract-based schemes it is essential that the individual consent of members is gained before any widespread changes are made.

Holgate also mentions that, added to this, The Pensions Regulator's recently issued guidance on cybersecurity is an area that schemes will need to "focus on more closely" in order to ensure that members' data is protected.

Written by Talya Misiri

Heavy shoulders

It appears that change for the better in the trust-based pensions landscape is in sight. With clearer guidelines from The Pensions Regulator on scheme valuations and risk management, IRM policies, de-risking and scheme transfers, the market is evolving at a dizzying pace

Change in the trust-based pensions landscape is taking place at a dizzying pace. With clearer guidelines from The Pensions Regulator on scheme valuations and risk management, and improved scheme funding levels, these schemes seem to be in a stronger position to secure better member outcomes.

Commenting on the current climate, Willis Towers Watson head of trustee clients Peter Routledge notes: "After a lost decade of seemingly bottomless deficits and funding, levels appear to be improving. This is against the unpromising backdrop of schemes maturing and press coverage of high-profile corporate failures."

TPR's recently published annual statement reiterated that trustees and sponsoring employers of defined benefit schemes must do more to protect members' benefits. For companies in a weaker position, TPR highlighted that pension scheme liabilities should take greater priority than shareholder returns.

"The latest from the Pensions Regulator, namely its annual statement, should be high on trustees' agendas. This state of union address is a trove of information and informs how trustees should be thinking about their schemes in order that they might meet the regulator's expectations," Broadstone technical director David Brooks says.

With this, Brooks notes that the statement is also a "timely reminder to ensure that good progress has been made on integrated risk management (IRM)."

This area, Brooks says, is "crucial in informing trustees on how they should be assessing and controlling the risks in their schemes."

However, Lincoln Pensions managing director Alex Hutton-Mills states: "Many schemes are struggling to implement IRM into practice effectively." This, he notes, is due to the fact that these schemes "lack the time and resources to develop their approach, or because there has been limited practical guidance on how trustees can link covenant and their investment and funding strategies".

Nonetheless, while "adopting a more joined-up mindset when addressing risk can be quite a challenge, for those that are able to crack that nut, the benefits can be manifold," Hutton-Mills says.

To further hedge the risks facing these schemes, some trustees are considering their insurance options. Routledge comments: "Many schemes are considering whether now is a good time to buy-in or commit to a run-off strategy. For some schemes the stars have aligned to let them lock in to a higher funding level than they expected while taking risk off the table.

He also mentions that the industry is also experiencing "higher than usual transfer activity". With the pension freedoms reform, greater numbers of DB members are keen to transfer to DC schemes to utilise their decumulation options.

In the past few years, it has been estimated that around 200,000 DB members have transferred out into a DC scheme, with thousands more expected to follow.

Royal London director of policy Steve Webb notes that despite the fact that "it is certainly true that regulators continue to take the view that staying in a DB scheme will be the right answer for most," trustees must act in the best interests of their members to enable them to make sustainable choices.

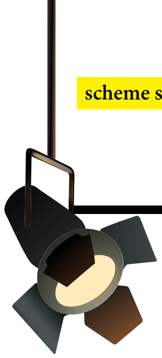
"In my view, if trustees want to act in the best interests of their members they should be supporting them in accessing impartial financial advice, and ideally contributing to the cost. That way, each individual member can secure the outcome that is right in their unique circumstances," Webb advises.

In order to ensure the overall and continued success of trust-based schemes, however, TPR highlights that good governance is key. A spokesperson for the regulator details that through its 21st Century Trusteeship agenda, it is looking to drive up standards in the sector. "We want to see those running pension schemes being a knowledgeable, empowered first line of defence for scheme members. We are making our expectations clearer, taking action against poor governance and encouraging consolidation where appropriate.

"Good governance is the bedrock of a well-run scheme and is key for trustees to achieve good member outcomes."

Brooks concludes: "There is a lot on the trustees' plate at the moment and it must feel like shifting sands with more change coming. I would urge trustees to play the cards they are dealt and not worry unduly about the way the regulations and the regulator may change until we know more. Of course this is easier said than done."

Written by Talya Misiri



Mastering the market

Talya Misiri looks at how the master trust market is set to evolve, the impact of more stringent regulations, protecting member interests and innovation in the decumulation market

Master trusts have grown to represent over 35 per cent of the workplace pensions market and account for the savings of more than seven million defined contribution members in the UK.

"Once a small part of the pensions industry, master trusts have become a force to be reckoned with," Now: Pensions interim CEO Troy Clutterbuck notes.

With the multi-employer savings part of the DC pensions market rapidly evolving and growing in number, it has been decided that more stringent rules are required to ensure master trusts are effectively regulated.

"With seven million savers to look after, tightening regulation and supervision of the master trust sector is vital and well overdue," says Clutterbuck.

Earlier this year, The Pensions Regulator launched for consultation its code of practice for master trust authorisation, which ran until 8 May 2018. The consultation outlines what is expected of master trusts applying for authorisation, and confirms that new schemes will be subject to tighter supervision once authorised.

TPR acting director of regulatory policy Anthony Raymond explains: "As the master-trust market grew we had concerns about the lack of regulation for these schemes and so we lobbied the government for stricter rules.

"The publication of our code of practice marks another important step towards establishing a market with stronger safeguards and which pension savers can have confidence in."

Furthermore, the government is to introduce a two-tiered fee structure for schemes applying to become master trusts, it has said.

While regulation of these schemes is necessary, Clutterbuck argues that: "One side effect of enhanced regulation could be consolidation in the sector."

JLT Employee Benefits head of technical John Wilson agrees: "Recent developments, such as the Pension Schemes Act 2017, introducing an authorisation and supervision regime for master trusts, are however, expected to lead to some consolidation."

Nonetheless, Clutterbuck states that: "Trusts with less sustainable business models may choose to exit, or find themselves under huge pressure to exit because of the burden imposed by the new reigime."

"While this is not necessarily a bad thing, any consolidation needs to be well managed so savers remain fully protected,."

Also considering member interests, a recent report by Hymans Robertson found that only three of the UK's top 17 master trusts offer pensions tax relief to their lowest-paid members. Hymans Robertson head of scheme design and provider evaluation, Jesal Mistry highlights the fact that only three schemes surveyed offer tax relief at source is "not just surprising but a major concern as it could mean thousands of auto-enrolled individuals are not receiving the tax relief they were promised".

Aon senior partner Kevin Wesbroom suggests: "One 'easy' way for HMRC to solve the dilemma between low earners (who are better suited to RAS) and higher earners (better suited to net pay) is to move everybody to a RAS basis – forcing millions to complete tax returns to claim their higher rate relief. The danger is that HMRC decide to simplify the RAS process by just abandoning the reclaim of higher rate relief."

Moreover, both Wilson and Nest Insight executive director Will Sandbrook share the view that master trusts have the potential to shape pensions decumulation options. Wilson comments: "Master trusts will remain a prominent feature of the DC pensions landscape and they are well placed to take the lead when it comes to innovation in areas such as decumulation."

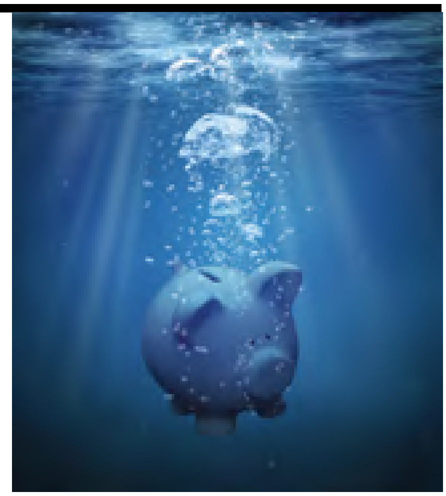
He explains that innovation in the space will be "welcome" as the pensions decumulation market on the DC side continues to evolve in response to the freedom and choice reforms.

Alongside the Aspen Institute, Nest has also proposed a new hybrid approach to workplace pensions and savings in the form of a sidecar savings account. This would involve the dividing of pension contributions into the locked retirement savings account and a 'rainy-day' account for members, the scheme has explained.

Sandbrook outlines that hybrid products like this "could offer a solution by creating an optimal balance of liquid and illiquid savings for each saver. By volunteering to contribute over and above the minimum level set for auto-enrolment, this approach would allow a worker's pension pot to remain locked up, and invested for the long term, while creating an emergency buffer of liquid savings to help them build short-term resilience".

Written by Talya Misiri

Murky waters



At a time of increasing change for personal pensions, Talya Misiri questions what the current climate and future holds for SIPPs and SASSs

With the personal pension market being thrust under the microscope in the past 12 months, increasing levels of uncertainty has clouded the market.

Considering the current personal pensions climate, Xafinity SIPP & SSAS director of self invested pensions Andy Bowsher states: "Cloudy, definitely some dark clouds, and yes, the odd crack of distant 'toxic asset/class action' thunder."

More specifically, many industry commentators have highlighted the potential effect that ongoing court cases could have to the personal pensions sector as a whole. Both Dentons Pension Management director of technical services Martin Tilley and Bowsher agree that the impact could be significant.

Cases that are currently undergoing scrutiny include the investigation of personal pension provider Sippchoice regarding in-specie contributions, which is awaiting HMRC verdict; Carey Pensions SIPP misselling and allegations against provider Berkeley Burke for investments in risky schemes and the losses incurred from these.

Tilley notes: "There is a high expectation the SIPP market will change dramatically over the year, with the pending court case results having a huge impact on the whole industry. It is clear that not only are regulators cracking down on the use of non-regulated intermediaries, it is also being widely criticised by the industry."

Bowsher adds: "There are legal cases underway against certain SIPP providers, the results of which could be seminal moments for the industry." If providers are found guilty of allowing non-advised assets that are inappropriate for SIPPs, "the fall out could be serious", he notes.

"FCA statements in those legal cases, coupled with the FSCS approach to certain assets are no doubt adding to the pressures being faced by SIPP providers."

Change is also occurring among personal pension providers, with predictions that the market could see an uplift in consolidation.

According to a recent survey by Dentons, 85 per cent of advisers say they believe the number of SIPP operators in the market will contract. Tilley comments: "The results of the survey show that there is a high expectation the SIPP market will change dramatically over the year."

Dentons notes that advisers believe that the personal pensions market is due to contract, with a potential five or more providers being consolidated.

Nonetheless, as flexible pension products, SIPPs are still increasingly "well placed to play a key role in the post pension freedoms retirement market," says Curtis Banks pension technical manager Jessica List.

With £403 billion assets held or invested in personal pensions savings market, as noted by the Financial Conduct Authority's most recent *Sector Views 2018* publication, a wide range of investment options are available to members.

"SIPPs are most likely to offer the widest range of investment choices for people whose pension funds may now stay invested long past their retirement," List adds.

This has created an environment where SIPPs are "more popular than ever," List opines, although as a result of this increase in uptake, advisers and providers are expected to be more cautious, "using increased due diligence checks to help protect clients," she says.

However, Tilley comments: "There is a belief that SIPP providers will have to take more responsibility for the investments being made by clients, especially where they are deemed to be 'high risk'. To support this, SIPP providers are going to need to invest in more resources, which will in turn increase costs and this is something not all providers will have the capability to absorb.

"Therefore, it is possible we could see more consolidation in the market or for those whom it is not core to their business, stepping away from SIPPs altogether."

Considering the future of personal pension products, Dentons director of sales and marketing David Fox summarises: "With a number of regulatory changes being put in place causing added pressures, there has been a level of uncertainty for a number of SIPP operators. We do not believe this is likely to change in the near future and we will continue to face challenges throughout 2018."

Bowsher concludes: "The clouds may pass, or it may pour."

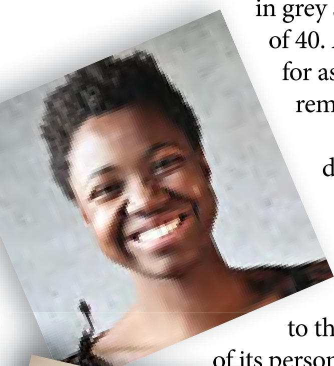
Written by Talya Misiri

Summary
- Eighty-three per cent of private sector pension governance bodies are male.
- McKinsey has found that companies with the highest number of female boardroom members perform up to 27 per cent better in terms of value creation over the long term, while those with a diverse ethnic make-up are 35 per cent more likely to have financial returns that are above their respective national industry medians.
- The pensions sector has taken large strides to try and improve diversity, but more needs to be done.

Diverse thinking

Strong evidence suggests that a more varied workforce is a better performing one. But the pensions sector is playing catch up. What more can it do to promote diversity?

Charles Stanley's senior portfolio manager, Bob Campion, puts it this way: "You only have to look around the room at any pensions conference to see that it is dominated by white males in grey suits over the age of 40. And it has been for as long as I can remember."



There's little doubt that the pensions sector is one of the most uniform when it comes to the composition of its personnel. Men have traditionally monopolised the financial services jobs market due to a number of socio-economic factors, while DB trustee boards tend to be mostly made up of older scheme members, partly because a lot of them won't have many younger ones to draw upon in any case.

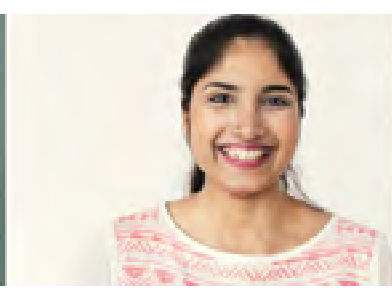
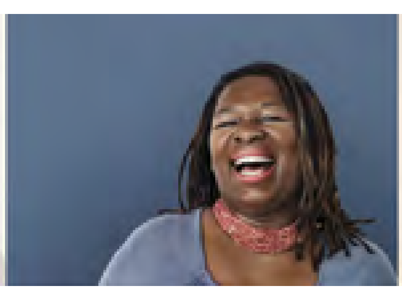
Current figures from the PLSA show that 83 per cent of the governance bodies of private sector pension funds are male, and the Office for National Statistics reported last year that just 30 per cent of investment analysts or advisers are women.

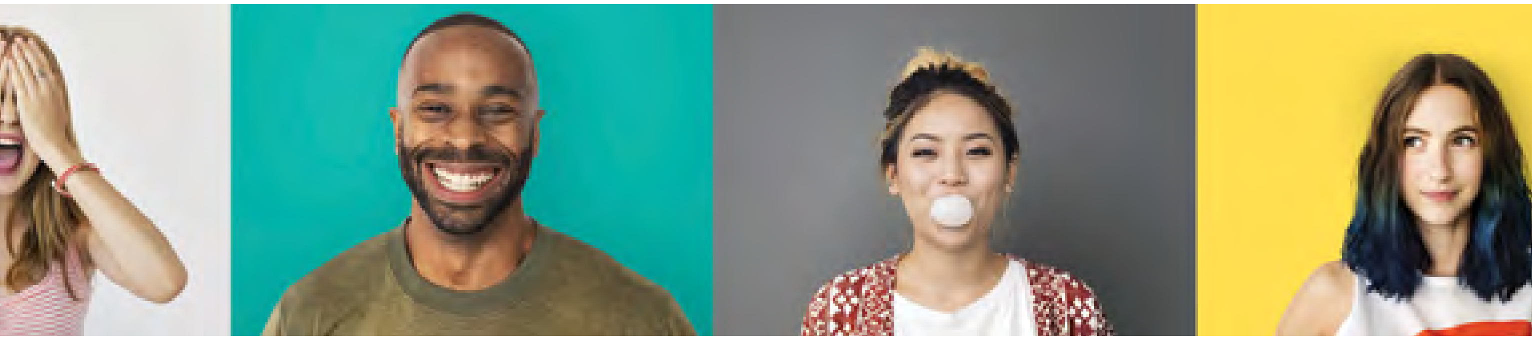
Aside from the fact that this opens up the industry to accusations of being a closed shop and not being a reflection of 21st century Britain, it could also be putting it at a distinct disadvantage. Various studies into the benefits of heterogeneity in the workplace have all drawn the same conclusion – a more diverse workforce is a better performing workforce.

McKinsey released an updated report of its original 2015 *Delivering through diversity* report at the start of 2018 that shares this inference. The consultancy has found that organisations with a greater proportion of women, and a more mixed ethnic and cultural composition in their leadership, usually outperform companies that are less diverse. Its statistics are revealing. Companies who have a top quartile representation of women in executive committees outperform their fourth-quartile industry peers by 21 per cent on an EBIT margin, and by 27 per cent in terms of longer-term value creation.

Diversity isn't just about gender, however. As ARC Pensions Law senior partner Anna Rogers explains, it encompasses factors such as social backgrounds, education, age, race and even political stance or whether an individual is introverted or extroverted. And the McKinsey report also shows that companies in the top quartile for ethnic diversity are 35 per cent more likely to have financial returns that are above their respective national industry medians.

"There seems to be evidence that diversity is correlated with good decision

making, though there is less evidence to suggest that it is causatively connected," says Rogers. "Perhaps organisations with strong evidence of success are more confident about taking what seems to be a risk with the mix on their boards, but it makes sense that embracing difference will reduce the risk of group-think and contribute to better outcomes."

Improving the picture

Opening up the various professional strands within pensions is not a straightforward task however. The Chartered Insurance Institute's people engagement director, Tali Shlomo, believes that gender parity, a perceived problem across almost all industries is one of the keys to improving diversity.

"To give women parity with their male colleagues in future, we need to attract more women into the profession and encourage, support and develop them to reach their full potential through professional qualifications and dedicated leadership programmes," says Shlomo.

The mean pay gap between the sexes currently sits at about 30 per cent, she says, which is mainly down to the disparity between men and women in the boardroom.

"We must also stop instinctively pigeonholing women and begin creating opportunities for women in areas that they are not traditionally associated with," argues Shlomo. "Life events such as maternity and childcare must not continue to prove barriers to progress too."

Reassuringly, most companies who have disclosed their gender pay gaps have put plans in place to include inclusive recruitment policies and to challenge existing processes or behaviours that may create barriers to gender parity.

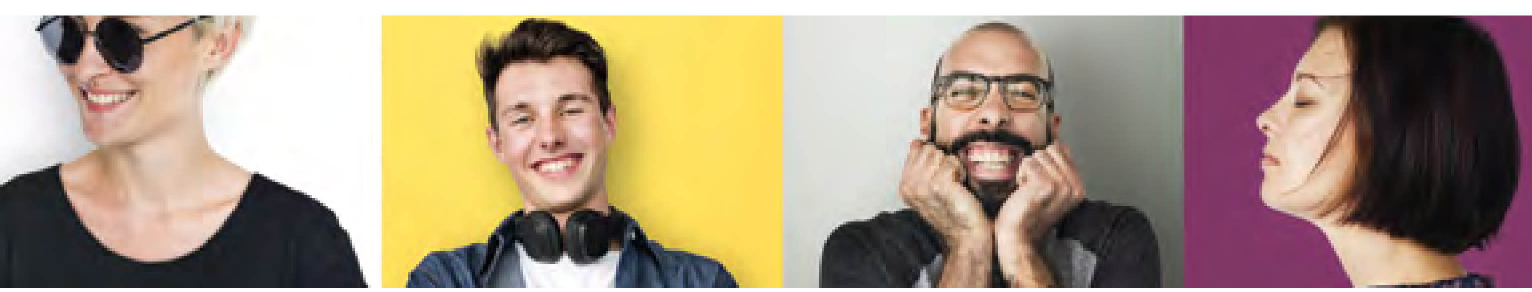
When it comes to governing pension schemes, 20:20 Trustees director Naomi L'Estrange says that the number of women trustees is slowly increasing, but that there has been barely any shift in relation to other diversity characteristics.

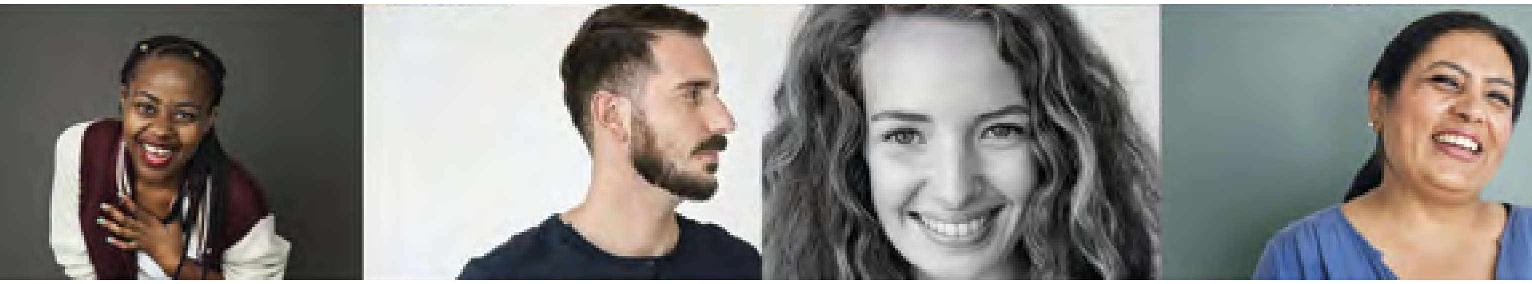
One tactic that may help, she says, is to change the focus of trusteeship into an occupation for retirement. As an example, one of the outliers in the diversity debate is the legal profession and the majority of younger pension lawyers are now female. They could provide a potential source of future trustees.

The make up of professional trustees is expected to change as pension fund service providers gradually change theirs, but member-nominated ones pose a difference challenge.

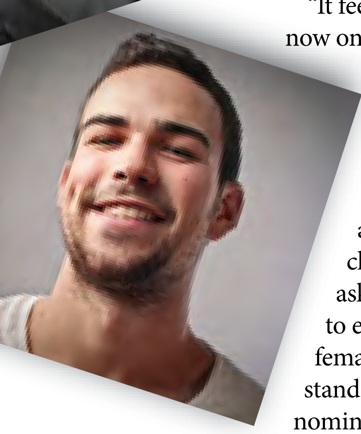
"For the member route, getting people of any background to stand at all is a huge issue," says L'Estrange. "Greater diversity is only likely to be achieved for open schemes where sponsors actively see the benefit of a broader board and actively support a wider recruitment, emphasising the development opportunities and that willingness to learn is more important than specific knowledge, and directly approaching potential candidates.

"It's a worthwhile effort for





sponsors as evidence grows by the day of the benefits of more diverse boards – and given the huge financial impact of their pension schemes they should be grabbing this opportunity with both hands."



Change is coming, slowly

It may not be long however before significant steps are taken to improve diversity on trustee boards says Rogers.

"It feels like we are now on the verge of a step change when it comes to gender," she says. "I've seen a number of clients recently asking people to encourage female members to stand as member-nominated trustees (MNTs) or actively seeking a female independent trustee."

This change in attitude may be partly down to the work carried out by the PLSA with the its *Breaking the mirror image* campaign. Launched last year, it aims to encourage a more inclusive culture within pension funds and the wider industry. As part of the campaign, and in collaboration with the think tank New Financial, the PLSA has examined how some of the more forward-looking asset owners within pensions are addressing diversity.

In October, the two organisations published research that found the top three reasons for greater diversity were to improve decision making, attract and retain talent, and better innovate and compete. They also discovered however, that there is a still a large cohort of people even within forward-thinking companies that are unconvinced and believe that a focus on diversity compromises financial performance.

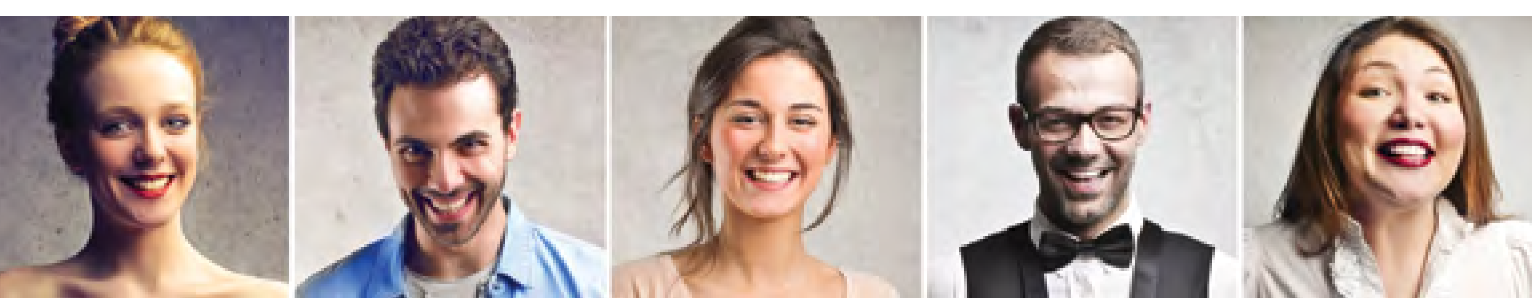
It is clear therefore, that if the pensions sector is to benefit from society's wide talent pool, then more needs to be done. For its part, the Investment Association (IA) joined forces with careers provider Investment20/20 in April, to raise awareness of career opportunities within investment management. Their work will include the development of in-depth programmes in schools and universities to encourage students from all backgrounds to apply for jobs in the profession and projects to encourage those thinking of undergoing a career change.

Commenting on the merger at the time, IA CEO Chris Cummings said that both organisations wanted to ensure that greater diversity was "at the heart" of the investment industry. In their view, he added, this would create a strong pipeline of talent that would bring new ideas to the sector.

Similar initiatives are also in place across the pensions world. Campion says that his work with The Society of Pension Professionals will involve setting up networking events for younger members of the sector to them as broad an exposure as possible to a range of their counterparts.

"The fact that we have to do these things suggests that creating diversity within pensions isn't a natural phenomenon," he says. "But these ventures can work. And I believe they will."

Written by Marek Handzel, a freelance journalist



Summary
• Key person risk could potentially be reduced if the UK followed countries such as the Netherlands, where the number of pension schemes has reduced through consolidation.
• The risk is particularly prevalent among employers with DB schemes as a large number are closed to accrual.
• Having a succession plan in place should be a priority for the pension scheme managers or sponsoring employer, who can determine potential risks and identify suitable individuals for training.

Eggs in one basket

Key person risk – over-reliance on individuals within a company pension scheme who know how it is managed – continues to be a particular problem for the UK. Graham Buck examines whether there is a solution

Denmark, the Netherlands and Australia regularly receive kudos for the sustainability of their retirement schemes. The three countries share common features, such as a relatively small number of large pension funds that enable them to strengthen their governance and achieve economies of scale.

For the Netherlands, these benefits have been achieved largely through scheme consolidation. Last August, the Dutch central bank reported that the number had fallen by 75 per cent over the past 20 years, with the 1,060 corporate pension schemes that existed in 1997 falling to just 268.

The reduction in the UK is more modest, with an estimated 5,886 DB schemes in 2016 against 7,800 a decade earlier. Some of this consolidation has been achieved through initiatives such as the Local Government Pension Scheme (LGPS), which created eight investment pooled vehicles from what were previously 89 smaller ones. However, a major contributory factor has been the number going into the Pension Protection Fund (PPF), following the insolvency of a sponsoring employer.

That situation isn't unique to the UK – the US has also seen little movement towards consolidation over the past decade. As a result, not only do many schemes miss out on the economies of scale achieved through consolidation but they may be hampered by 'key person' risk, or over-reliance on one or two key individuals within the company who are fully conversant with the scheme's history and how it is managed.

A costly process

Rather like a football team's dependence on a star player, the scheme's day-to-day running and performance can suffer if a key trustee is unavailable; more so when he/she leaves the company. Smaller pension schemes have a tougher challenge in recruiting suitably qualified new trustees and typically delegate fund management decisions to investment consultants, whose incentives are based on quarterly results against set market benchmarks.

"Replacing key people can be costly and time-consuming. The only way to mitigate this risk is to put a succession plan in place," says Aegon head of pensions Kate Smith. "Pension scheme managers, or the sponsoring employer, should determine potential risks and identify other people to develop and cross train, so more people can take up the reins if need be.

"Along with this all processes should be documented so new staff can get to grips quickly with how the scheme is managed in order to mitigate potential issues and ensure that skills and expertise are not lost.

"Succession planning is just as important for running a pension scheme as it is for running a business. Keeping all the knowledge and expertise in the hands of one or two people is short-sighted and potentially leaves the scheme vulnerable. If something unforeseen happens to a key person, it can be nigh on impossible to replace them immediately, which ultimately could lead to mismanagement and members' benefits not being settled on time."

Pinsent Masons head of pensions Carolyn Saunders states that key person risk potentially affects schemes of all sizes, as the level of risk depends on the extent to which a key person is supported by advisers and/or consultants and on the degree of involvement in and knowledge of the scheme across the trustee board. This will vary from scheme to scheme, irrespective of size. However, building a close working relationship between an employer and the trustee board will help mitigate the impact on the employer of losing a key pensions resource.

"Key person risk is a particular issue for employers with DB schemes," adds Saunders. "If the DB scheme is closed to accrual – as so many are – the employer is unlikely to replace a pensions manager who retires. The risk can be mitigated to a certain extent by using advisers and ensuring that they are all joined up with one another, so that each has a good overview of what is happening with the scheme."

The skills required in a successor also reflect whether the incoming trustee joins a DB or DC scheme. According to accountancy firm Crowe Clark Whitehill's most recent pension risk management survey, trustees of DB schemes focus primarily on managing financial risks, while those of DC schemes regard the greatest risks as being those potentially resulting in members being treated unfairly or making the wrong decisions.

So for DB scheme trustees, the risk agenda is headed by the issues of funding volatility, the strength of the employer covenant and implementing an inappropriate investment strategy, while for those in DC schemes, the priorities are delivering 'value for members', designing the default fund and ensuring good quality communications.

However, for both groups the ability to handle IT, cybersecurity and data protection risks are fast moving up their list of priorities. Add to this the plethora of guidance issued since mid-2016 on the impact of Brexit to employers and scheme trustees, who must assure members that its effects on the scheme are being monitored.

Not surprisingly, the survey confirmed that smaller schemes with fewer resources available tend to outsource pension services. In addition, many spend less time reviewing pension risks and rely more heavily on external advisers for support. Smaller schemes also rely more on independent and/or professional trustees to provide them with direction and support in risk management, although it appears these individuals aren't always aware that they are expected to fulfil this role.

A fine line

The recent insolvency of Carillion and a spate of casualties in the retail sector are also examples of trustees having to attempt to walk a fine line when representing their scheme members.

Demand too much from the scheme sponsor and they potentially undermine the company's business investment and even its financial health, but demand too little and the interests of the company's sponsors and stakeholders get priority over those of scheme members. For instance, Carillion's scheme trustees spent 10 years in a fruitless attempt to get the construction services group to increase its level of contribution.

Indeed, The Pensions Regulator's most recent guidance to trustees, issued last December, on the wide-ranging duties and responsibilities that it expects of pension scheme trustees is a daunting 40-page document that could deter prospective new trustees as much as it informs.

Written by Graham Buck, a freelance journalist

Picking up the pace

Sara Benwell considers the efforts made by the pensions industry to adapt its products to the needs of today's savers, and what more needs to be done

Summary
- The pensions industry has struggled to innovate fast enough – given the pace of regulation.
- At-retirement products is a key area where more innovation is needed.
- The institutional world needs to do more to keep pace with the retail market.
- Better guidance, more advice and cost controls can help bridge the gap.

Today's world of pensions saving is completely unrecognisable to the one we lived in just a few short decades ago.

The death of DB and decline of annuities, coupled with the rise of auto-enrolment and new freedoms, mean pensions are no longer the straightforward retirement income products they once were.

Most of these changes happened fairly rapidly, meaning that the timeframe in which anyone could innovate was relatively small. This is doubly true in the at-retirement space, where the industry had regulation thrust upon it without consultation and was expected to meet the challenges in little more than a year.

The net result of this, of course, is that innovation so far has been patchy and results have been mixed.

What do consumers want?

The big question that needs to drive innovation is: 'What do people actually want from their pensions?' After all, there's not much point in innovating just for the sake of it.

It's a question the pensions industry has been struggling to answer, in part because it is not used to treating pension scheme members like consumers at all.

When you look at the development of ISAs and other savings and investment vehicles, it quickly becomes clear that institutional pensions companies are light years behind when it comes to understanding what the everyday man (or woman) wants.

LifeSight, Willis Towers Watson, head of proposition development David Bird says: "Pensions have not evolved to meet the needs of today's members. Members are consumers – and in every other industry consumers are listened to and products designed for their needs. The industry has a very long way to go to start better addressing those needs.

"The main hope that members will get what they want and need from pension savings is the growth of the outsourced pension model. By using, for example, the master trust model, businesses can partner with providers who are consumer centric, as they are built with tomorrow's technology in mind – giving members flexibility and more personalised contact."

There have been attempts to collect evidence and design products based on what people have done so far. But because changes are relatively new and DC pots are still small, there's not enough data or genuine insight into what the future might hold, and therefore what innovation is needed.

This is exacerbated by the fact that consumers themselves don't seem to know what they want.

SSGA senior managing director, global head of DC proposition and strategy, Nigel Aston, explains: "If you ask people anywhere in the world what they really want from a pension, they say 'a wage – a steady income, guaranteed for life'. However, when you offer an annuity, they don't want it anymore. At the same time, consumers naturally wish to take advantage of the new freedoms. People desire both security and flexibility; we have to find a way to give them both."

Holistic retirement products

This dichotomy of wants suggests some sort of blended product, which combines annuity-like features with drawdown access, is needed. There are several ways

to do this, but initial attempts have been swiftly abandoned thus far.

Fidelity International head of pensions product Carolyn Jones says: "When the government removed the requirement to purchase an annuity… they expected this to lead to a 'competitive and innovative market'. Many commentators are saying that this has failed to materialise and in terms of the introduction of new products this is probably fair.

"Indeed, we have seen early adopters of 'hybrid' retirement products – i.e. products with some sort of guarantee – withdraw them. Axa, Aegon, MetLife and Partnership *[are]* all pulling products from the market."

Despite this, there is renewed interest in developing hybrid products from asset managers of late and as the market grows, it seems likely that demand will grow.

PTL managing director, independent trustee Richard Butcher explains: "The products in place at the moment seem okay – but I think there is one obvious weakness. While recent retirees can manage the drawdown process fairly well, as they age and their cognitive ability declines, they will be less able to do so.

"In addition, research shows that most people underestimate their life expectancy. These two together hint at the need for some sort of later life guarantee around income – perhaps a later life annuity, synthetic annuity or even collective drawdown (a sort of later life collective DC scheme).

"The other need that should be addressed is more internal for the providers. As drawdown becomes mainstream what are they going to do to their processes to reduce costs?"

The cost issue is important, and the industry is crying out for an 'institutional-style' drawdown approach. Particularly since the path to retail drawdown is fraught with danger.

Portafina managing director Jamie Smith-Thompson says: "With non-advised drawdown being pretty high risk, would you want to jump in the deep end without knowing what a safe withdrawal rate is? I know I wouldn't! Not to forget, whether the underlying investments are within your tolerance of loss."

Fortunately, the regulator is on the case and at the very least, cost controlled

products are within reach. The Work and Pensions Select Committee has called for providers of drawdown products to offer a default option for their "core customer group" with a maximum charge of 0.75 per cent, in line with the cap for DC schemes.

Creating better defaults

In the absence of holistic products, the current priority is to create better defaults and to guide people towards the right outcome.

As we don't know how or when members will take their money, traditional defaults suddenly look far from fit for purpose.

Change has therefore been – by necessity – rapid. We've seen some schemes changing their targets from annuities to drawdown or even cash and adopting new investment strategies as a result.

We've also seen a new style of 'hedge your bets' defaults emerge. This fourth way assumes that we won't be able to get members to commit to a specific end goal, so opts for an investment strategy that works for people choosing any of the available paths.

This approach has an added bonus. While it might seem pessimistic to assume that we can never engage people enough to get them to choose a specific retirement option, there are an increasing number of people looking to blend different products.

Jones adds: "We are likely to see guidance services developed… to shape how people will take their retirement income using a combination of products to suit their needs. For example, using annuity/DB and state pension to cover initial essential expenditure requirements, with additional supplementary income drawn down in the earlier years with a potential annuity purchase at a later age.

"Indeed, for those taking financial advice we are already seeing financial advisers using multiple products to provide for their clients' needs in retirement."

Better guidance and advice

This approach works well for those who choose to take advice, but also highlights the emerging gap for those who don't.

Confusion about retirement options has meant that advice and communications has been the focus for much innovation in the pensions space. Master trusts have made good progress here.

Nonetheless, we're only halfway there. And as people grapple with picking the right option, better guidance or advice will be welcomed.

ARC Pensions Law partner Vikki Masarano says: "There is also a real issue with the availability of good independent financial advice, both for members of DB schemes who are interested in transferring to DC so that they can access the value of their benefits and for DC members seeking the right product for their retirement, perhaps outside their workplace scheme."

The small pot problem

In an ideal world, sorting out the accumulation process and providing good at-retirement products should solve the problem. But that forgets that when it comes to pensions communications there are too many cooks spoiling the broth.

And the issue of multiple small pots is one that must be addressed.

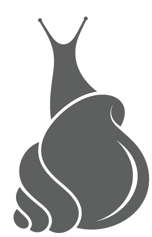
Twelve pots in a lifetime is a figure that's often bandied about, but in reality, millennials could be looking at far more workplace savings products.

Fortunately, the pensions dashboard – when it eventually comes along – will shine a light on the problem, even if it won't solve it.

Once it does, it seems likely that the pensions industry will have some serious questions to answer about how hard it is to consolidate savings – and sharpish.

Smart companies like Pension Bee are popping up in the consumer space and show what can be done to address these issues.

But if the institutional market doesn't want to see money flow into the retail market even earlier (and if we want to protect those currently saving into workplace pensions from the costs associated with some retail providers) some catching up needs to happen.



Otherwise, innovation will happen, but there will be no one left to see it.

Written by Sara Benwell, a freelance journalist

Summary
- DC pension schemes must disclose transaction costs to members.
- The FCA's IDWG will soon publish a universal template for total ownership costs.
- Disclosure can be a starting point to reducing costs.
- The message to members should be carefully managed.

Towards transparency

The quest for total cost disclosure remains incomplete but there are plenty of measures for trustees to implement now, finds Alastair O'Dell

There is now little doubt about the final result of the decade-long quest to gain transparency into pension schemes' hidden costs. The most pressing concern this year is DC transaction cost disclosure, but this is just a stepping stone to total cost disclosure.

DC trustee boards, since 2014, and contract-based schemes' independent governance committees (IGCs), since 2015, have been required to report transaction costs in their Chair's Annual Statement but have enjoyed only limited success, with asset managers taking varying and incomplete approaches to disclosure.

That all changed on 3 January 2018, when the FCA imposed a legal duty on regulated firms to respond to transaction cost requests, using the slippage cost methodology employed by MiFID II and PRIIPs.

In March, DWP regulations considerably increased trustees' obligations, requiring the publication of transaction costs for all investment options and an illustration of the compounding effect of costs and charges. It came into force on 6 April 2018, but trustees have seven months after the next scheme-year ending to comply.

Lane Clark & Peacock, partner Matt Gibson says: "The data we are going to get will not really be sufficient to make sensible decisions – unless a manger's costs are particularly out of line. There are so many approximations used that I don't think comparing them is going to be very helpful."

Improving governance

In February, ShareAction reviewed IGCs' approaches to reporting and found that just nine of 16 IGCs reported any data on transaction costs, but highlighted the Legal & General IGC for good practice.

"We made an effort to make it as digestible as possible, but it is not simple," says independent director Daniel Godfrey and member of the Legal & General IGC.

The former Investment Association chief executive adds: "It's important that IGCs get the best information they can and articulate meaningful information to members in a digestible form."

Pembroke visiting professor at the University of Cambridge's Judge Business School David Pitt-Watson states: "Not telling people what is being charged to their account isn't reasonable. It's unacceptable that the fund management industry has been holding back on transparency."

However, he notes that it is not viable for a lone asset manager to break ranks so an industry standard is essential. Transparency Task Force founding chair Andy Agathangelou has been instrumental in bringing asset managers to the table, with regular events and initiatives such as the Transparency Trophy.

The whole truth

The FCA, determined to impose transparency across all investment funds, turned to Chris Sier to chair its Investment Disclosure Working Group (IDWG). *Pensions Age* requested an interview but he declined to speak until his FCA work is complete.

However, the direction of travel is clear. Sier created the template for the most effective initiative to date – the Local Government Pension Scheme (LGPS) Code of Transparency – and the FCA requested an even stronger version.

The £250 billion LGPS requires all managers of listed assets to sign up before any of its regional funds can invest (it has £180 billion in listed assets). More than 50 managers have committed and it continues to grow.

All pension schemes can piggyback on the LGPS code as its advisory board's website lists all signatories. "Clients outside the LGPS are asking for the same thing," says Local Government Association head of pensions Jeff Houston. "And the LGPS tick logo provides a level of confidence."

The IDWG template will operate on the investment fund level so it can be universally applied. "We went back to first base to identify every possible cost," says Houston, who is also a deputy chair of IDWG. "The important thing is the trustees are assured all is being disclosed.

"We are all *[in the working group]* pulling in the same direction – everyone is signed up to the principle – the question is how to break it down."

The IDWG is creating two templates. Asset managers will fill out the account level template to a high level of granularity. This feeds through into the user level one, which is useful to trustees. The primary purpose is to "inform whether it's the best asset class to be in and whether it's the right way to be in that asset class," says Houston.

Simplitium head of pensions product development Stewart Bevan, who also sits on the IDWG, says: "There have been competing methodologies for cost data collection but the introduction of the IDWG standards, which has involved cross-industry participation in designing the new templates, identifies consistent, standardised, industry-agreed cost categories for the first time."

The IDWG aims to finalise the documents by June and the LGPS has committed to adopt it.

Ongoing issues

It is important to note that asset managers do not profit from hidden costs. Indeed, the fees accrue to third parties and degrade performance. Nonetheless, "it is fair to say costs have not been monitored as closely as they should've been," says Mercer director Alasdair Gill.

Asset managers have resisted when they view the data as proprietary and/or commercially sensitive. They may also lack the operational capacity, particularly if acquisitions have led to parallel systems. And, some complain of difficulties securing third-party data. "It's always an issue when asset managers run funds with underlying managers," says Houston.

For example, if a private equity fund-of-funds invests in an underlying fund in the US, it may not be able to force it to provide data and, if it can, it may be supplied on a calendar year (not UK financial year) basis.

Asset managers have also pointed out they may have nothing to do with agreeing the fee schedule in areas where they incur charges. A DB scheme with segregated mandates purchases the custodial relationship – but may not have secured it at best price. Asset managers have not viewed it as their responsibility to monitor such costs – one benefit of disclosure is that it will motivate a feedback loop.

For example, Pitt-Watson notes that there is a concern that short term trading must, in aggregate, reduce returns to pension beneficiaries. "Not only is it taking money out of your pension pot but it is encouraging short termism, an activity that most people would say they rather did not happen. Disclosure of costs will bring this to their attention."

Counting costs

Hidden charges can be hugely significant and their disclosure can lead to actionable measures. In 2011 Railpen reported total costs of £90 million but forensic accounting later found an additional £200 million; negotiations and reallocations facilitated savings of £70 million. Likewise, the West Midlands Pension Scheme reported costs for 2013/14 of £11.2 million but this shot up to £87.3 million under a new standard, but has declined each year since.

Innovation foundation Nesta found that 20-25 per cent of the income from its endowment went in costs. Gill says: "The management fees were only 42 per cent of the total cost of running the portfolio. Costs can be material and clients don't realise they are being incurred in their name."

The power of disclosure was also observed when MiFID II separated out research costs, which managers almost universally absorbed. "The amount spent on research has come down and they are much more selective about what they are purchasing," says Gibson.

Mercer global director of strategic research Phil Edwards adds: "It was a good marginal win for investors. Hedge funds decided to pass these on to investors – they behave a little bit differently."

Understanding and interpreting costs is an essential starting point for assessing value. High transaction costs are not necessarily a problem – identifying short-term mispricing can produce great returns.

"It's important this is interpreted correctly," says Godfrey. "They may be being incurred to achieve higher performance. It's a friction to be overcome."

But even if net returns are strong, it provides a warning for the future. "You are definitely going to pay the costs – you are not necessarily going to get outperformance," adds Gibson.

Written by Alastair O'Dell, a freelance journalist

Communicating with DC members

The new DWP rules compel schemes to publish an illustration of the compounding effect of the costs and charges affecting their pension savings.

There is a danger that, if not properly managed, disclosure would discourage DC members investing. It needs to be explained that the new figure reflects the total cost of ownership, and is not an increase in costs.

Houston says: "If it suddenly costs 10 times more that it seemed to cost, how do you manage that out to the public, press and members?" He suggests one approach would be to recast previous years costs using the new standard.

Summary
- Liquidity is an important part of a pension fund's strategy for multiple reasons, from paying out pensioners to matching liabilities and covering the funding of some long-term investment.
- Cash, equities and bonds can provide reliable but generally low returns through interest, dividends and coupons. Careful management is required to ensure cash pays the best interest possible.
- Some argue that settling for liquid assets is detrimental to a pension fund and could worsen funding gap issues, and that pensions place too much focus on the ability to access their assets.
- Investing in long-term assets, where funds are blocked for some time, usually provides an 'illiquidity premium' that rewards investors for keeping assets locked up.
- A balance is essential – liquidity requirements can't be ignored, but then neither can the need to pursue better returns.

Going with the flow

Sandra Haurant explores how pension funds are adapting their ratio of liquid asset holdings to meet their changing needs

Liquidity has long been a focus for pension funds. Pensions may have fared relatively well during the liquidity crunch of 2007-08, but ensuring an adequate cashflow is nonetheless an essential part of any pension fund's strategy. This was an area that was thrown into sharp relief when the financial world was thrown into crisis, and those investors without sufficient liquidity found themselves high and dry.

Liquid assets are those that can be converted into cash quickly, and of course, in the case of cash itself, accessed readily. Illiquid assets, on the other hand, are those that are far harder to sell or to liquidate, like infrastructure, for example. Liquid assests form a major part of pension funds' portfolios. According to the latest Willis Towers Watson Global *Pensions Assets Study*, published in February 2018, asset allocation in global pensions is split so that 46% is invested in equities, 27% in bonds, 2% in cash and 25% in 'other' investments. In the UK, 47% of total assets is held in equities 35% in bonds, 2% in cash and the remaining 16% is in assets.

Know your needs

"It is very important that pension funds should be aware of their liquidity requirements," says Cambridge Associates' head of European pensions, Alex Koriath. "Different liabilities pose different risks. First, we have funding level risks because of interest rate and inflation changes. Then there is the fact that most pension funds in the UK are cashflow negative, so they are paying out more that they receive in. Trustee and pension fund administrators need to be aware of the coming outflows over the near and medium term, and how they will source these. You need to be aware what your immediate liquidity needs are."

Payden & Rygel (London)'s managing principal Robin Creswell adds: "In the defined benefits (DB) sector, the majority of pension funds have adopted liability matching plans or strategies. They match those liabilities in a number of ways, and some of these result in having very significant cash being generated to hold as collateral against their liability matching contracts."

In the defined contributions (DC) sector, too, there has been an increased focus on liquidity and specifically cash. "DC is interesting, because historically all the focus has been on building up growth for members," says Payden & Rygel's director, institutions, Mark Stanley. "The big change is the freedom of choice to continue to roll on that investment, which means drawing down against the value of investments rather than buying an annuity. I think that changes decisions for trustees, in terms of how they make investment options available to retired members. There is a need to manage the day-to-day liquidity part of that portfolio more carefully."

While a proportion of the portfolio can be invested in growth-style assets, Stanley suggests that there are increased shorter-term liquidity needs within the portfolio to meet pension payments in the near future.

Cardano's head of client solutions, Andrew Stewart, adds: "Pension freedoms have led to increases in transfers out of DB schemes into DC arrangements. Schemes need to ensure that sufficient liquidity is retained to pay out higher transfers and that the remaining portfolio is not overly dominated by illiquid assets. However, as these freedoms have been available for a few years now, schemes should have good understanding of additional liquidity needs."

Liquidity, then, has an important part to pay, and finding the right ways to provide it is a necessary strategy. Where there is cash, it's important for pension funds to put it to good use. "When we went into 2007, a custodian for a pension fund would sweep cash at the end of a day to as many as 50 counterparty banks and today that is down to about five or six. Not because there are not other credit-worthy banks, but there are only a small number paying meaningful interest." Of course, on sums of this size, small differences can make a tremendous difference, and expert managers seek out the best rates.

And while equities and bonds pension funds offer a degree of liquidity and cashflow, in the form of dividends and coupons, they are not without risks. "Here is the irony: you could have assets that seem liquid, but still require a long holding horizon. Take for example equities. No one would buy shares if you knew you were going to buy a house in a year's time. You don't know where the equity market is going to be by then. You could lose your deposit if you were forced to sell at the wrong time," says Koriath. It's similar, he argues, for pension funds. "The worst case is that you find you have to pay out a significant amount in pension payments, and you don't have liquidity coming in, and so you have to sell risky assets at the wrong point in time, when they have fallen. You have to think about how you manage liquidity and avoid forced selling."

Missing out?

What's more, argues Koriath, a preoccupation with assets at the liquid end of the scale could be working against pension funds' interests and making it harder for pension schemes to close their funding gaps. "If you only invest in bonds and equities, you can still cover your immediate outflows and equity for longer-term returns, but in our view you are missing out. You might be better investing part of that in less liquid assets to harvest an illiquidity premium."

An illiquidity premium is essentially a higher return that is paid out because illiquid assets oblige investors to put their money away for the longer term. As a reward for making the funds inaccessible for a period of time, investors are offered higher rates. And in a sustained low interest rate environment, where bond yields continue to lie low, and where cash pays very little, some argue that it is time to shift towards more illiquid assets in search of these better returns.

"Liquidity rightly becomes a key consideration for schemes that are likely to be in a position to buy out in the short term. For schemes that are either some way off buyout, or planning to run off the pension scheme over time, investment time horizons are a lot longer," says Stewart. "This means that the theoretical additional return available on illiquid assets represents low hanging fruit for these pension funds – particularly illiquid assets that pay a stream of income which can be used to pay benefits."

Structural issues

There is a flipside to this, though. Certain illiquid assets actually create the need for higher liquidity within a pension fund. "It is fairly common for pension funds to have a commitment of three to five years to invest in, for example, private equity or infrastructure, or other illiquid assets, or indeed a combination of all three," explains Creswell. "With infrastructure, for example, there could be a three-year funding programme where the pension fund knows it will have to meet quarterly payments for construction deadlines, for example. The approach some of the pension funds take is to sell down equities or bonds because they can't risk the capital value of those portfolios fluctuating."

The need for liquidity, then, can be provoked in the process of accessing illiquid assets that should pay a premium. "You need to take into account all your commitments. Your most effective line of defence is the absolute limit you put on the illiquid assets you invest in," says Koriath. "If you only have 15% in illiquid assets, by definition you have 85% in liquid assets. I think there are very rare circumstances where you would need 85% of your assets, and that situation doesn't occur over night."

Is it possible to find the right combination of liquid assets offering sufficient cashflow, and illiquid assets allowing pension funds to access the higher returns they need? "A balance can be struck between the risks and (potential) returns," says Stewart. "However, this balance needs to be evaluated against other available investment opportunities in a portfolio context, before deciding whether to invest in a less-liquid asset."

Written by Sandra Haurant, a freelance journalist

Wednesday 7 November 2018

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Member empowerment roundtable

Keeping the member on track

Our panel of industry professionals asks what members need to stay on track and how empowering them in the right way can be crucial to achieving the right results

Chair: We're here today to talk about empowering members. Automatic enrolment (AE) was one of the major changes to be brought into the UK pensions system in recent years and it works via inertia. It works very well with individuals who have low levels of awareness and who aren't particularly engaged – it works well to get them to make the first step into pensions, to get them into workplace pension saving.

However, research also highlights that people being inert and starting off their pension saving probably isn't enough to get them the best outcomes. There's a lot therefore that we might be able to do to improve outcomes by engaging individuals at the right time and at certain points during their working lives, to potentially improve their outcomes at retirement.

How important is engagement in all of this?

Gandhi: Engagement is crucial. My focus at Schneider Electric is making sure that members get the right outcome. A lot of them have been transitioning to DC and a key part of my role is making sure that members understand the opportunities that DC gives them – engagement is a critical part of that.

But what do we really mean by engagement? If you look at it from a member's perspective, the member needs to think about where they want to get to, but as an employer, particularly within an industry that has a mature workforce, the employer wants to avoid a situation where their employees are continuing to work because they can't afford to retire.

A strapline we use is: 'Life is on.' This is about members looking at where they are in their working life and within their journey towards retirement, and we as an employer want to be there to support them through the whole journey. That's why engagement at Schneider is critical to what we do, so we can help make sure that employees can get to retirement comfortably, transition when they want to, transition to part time if they wish – that the economics work for them.

Ravi-Burslem: I agree that we need to first define what we mean by engagement as well as think about what we are trying to do. The focus needs to be on member outcome and, in some instances, it might be that engagement isn't the right tool for what we are trying to achieve.

Inertia, which is the antithesis of engagement, has worked really well to get a lot of people into saving, and at the start of their journey maybe that's a great thing, but then you've got a dichotomy with people getting to 55 who've maybe been inert for most of their lives, having to make quite complex decisions when they are coming close to retirement.

Coupled with that is the fact that realities are changing – retirement realities, work realities and the whole idea of people just taking their pension and having multiple decades of not working is outdated. Many people continue to work part-time because they haven't got enough money to survive. So understanding what we mean by engagement and when engagement is a good thing is really important.

Pickering: Employee engagement may well be catered for, at least initially, through auto-enrolment and inertia, but the real challenge is to secure the

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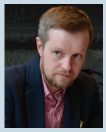
Member empowerment roundtable

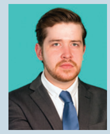
CHAIR

Chris Curry, Director, PPI
Chris is the director of the Pensions Policy Institute (PPI) with overall responsibility for leading and managing the PPI. Chris originally joined the PPI as research director in 2002 and was responsible for the research programme for 11 years. At the PPI, Chris has authored and presented a number of research reports analysing pensions (including state, private and public sector pensions), pension reforms and other provision for retirement income. He is a regular speaker at industry events.

PANEL



Robin Armer, Senior Business Development Manager, NEST
Robin works in the business development team at National Employment Savings Trust (NEST) and has 20 years' experience in financial services, predominantly working in the corporate pensions market. He has a number of industry related qualifications, including having been diploma level qualified with the Chartered Insurance Institute. Robin is an experienced public speaker and has in-depth knowledge of the pension landscape and the intermediary sector.



Matthew Burrell, Senior Policy Adviser, DC, PLSA
Matthew joined the Pensions and Lifetime Savings Association in 2016. Matthew works within the DC, lifetime savings and research team and works on all issues relating to DC pension schemes. Prior to joining the association, Matthew worked in the policy team at the Institute of Certified Bookkeepers. Here he worked on issues including anti money-laundering, auto-enrolment and tax digitisation. He studied for a BA in History at the University of Warwick before completing a Graduate Diploma in Law at the University of Law.

Jerry Gandhi, Pensions Manager UK&I, Schneider Electric
Jerry is a seasoned freelance pensions & benefits professional currently working as Pensions Manager UK & Ireland (Contract) for Schneider Electric to manage legacy Invensys and Schneider UK and Irish DB Pension schemes structures. In addition, he is driving visibility and value of the DC offer as part of the overall reward proposition. He has a passion for ensuring employees understand and value the pension benefits they accrue.

Alan Pickering, Chairman, BESTrustees
Alan is chairman of BESTrustees and a trustee of a number of pension schemes. These include the Plumbing Industry Pension Scheme which he chairs and The People's Pension. Alan chairs the governance group of the Royal Mail Statutory Pension Scheme. He was a trustee of the Kosovo Pensions Savings Trust between 2011 and 2015. Until February 2013, he chaired the financial literacy charity, Life Academy. He has also served as a non-executive director of The Pensions Regulator.

Colin Richardson, Client Director, PTL
Colin joined PTL as a client director in March 2014 having previously spent twenty-five years in pensions and actuarial consultancy. Colin acts as independent trustee on several DB and DC pension schemes both large and small including five DC master trusts. Colin also is a member of the Internal Governance Committees for two leading workplace pension providers. Colin chairs the PTL Governance Advisory Arrangement for pension providers which provides governance for twelve further pension providers.

David Williams, Engagement Manager, Environment Agency Pension Fund
David has over 20 years' experience of working with occupational pension schemes across the UK, and 14 years specifically within the LGPS. Former employers include NPI, where he worked as a senior broker consultant specialising in income drawdown, and with Prudential's client management team, advising and presenting on workplace pensions. David joined the EAPF in 2013 and has a number of industry qualifications that include the Chartered Insurance Institute AFPC.

Chair and Panellists

- **Chris Curry, Director, PPI**
- **Robin Armer, Senior Business Development Manager, NEST**
- **Matthew Burrell, Senior Policy Adviser, DC, PLSA**
- **Jerry Gandhi, Pensions Manager UK&I, Schneider Electric**
- **Alan Pickering, Chairman, BESTrustees**
- **Ranila Ravi-Burslem, Director of Marketing, NEST**
- **Colin Richardson, Client Director, PTL**
- **David Williams, Engagement Manager, Environment Agency Pension Fund**

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employer engagement. This is quite a challenge, given that auto-enrolment is actually enrolling thousands of employers who didn't want to be auto-enrolled in the first place.

At the larger employer end, employers are often fighting shy of engagement because they've been on the hook for DB risk and they don't now want to be on the hook for DC risk. Also, providing their employees with access to engagement tools or people who will help them with engagement still frightens many employers – a fact that hasn't been helped by this confusing spectrum between guidance and advice.

In this country, the guidance and advice dichotomy gets in the way of employers being engaged and therefore can continue the disenfranchisement of ordinary men and women who would really benefit from someone helping them make their minds up.

Gandhi: But isn't that the industry pushing the issue around? Our industry is always telling pension managers to be very careful about what they talk about to their members; that they need a consultant, an actuary or similar to help in the process. Actually, from an employer point of view, if all you're doing is talking about the value of your scheme, the quality of what you're delivering and the opportunities that it gives, that is not advice. It is guidance. A pension manager should be free to talk about the value of the scheme the employer provides yet quite often the industry says that's dangerous.

Armer: With auto-enrolment, there is a very structured process by which people are coming into pensions. They're getting a level of contribution. Things have been decided for them at a large-scale level and yes, they can play about

with the edges of that, but there are very clear choices being made on their behalf. Then they get to this point closer to retirement when there's a huge range of choices they have to make and there is no guided pathway for them. There is no default option.

We're asking people who have very little skill in this field to make incredibly difficult choices, and this just doesn't fit with the rest of the process up to that point.

Burrell: This is something that highlights the shockingly low level of financial capability in the UK, which is really the defining issue here. We encourage people to be inert. Then at 55 or whenever they decide to make the decisions, it's all on them. They can make any decision that they like, even though they may never have had any of these risks explained to them. It's very difficult estimating how long you're going to live, and how much money you're going to need. There are whole professions based on that and we're essentially expecting a lot of the British population to somehow gain actuarial skills.

From the PLSA's perspective, we've always thought about putting things in terms that people can understand. Telling people that they need to replace 60 per cent of their salary in order to be able to maintain their lifestyle is a challenge when 40 per cent of the population can't tell you the functional effect of inflation on income.

However, if you ask people what they want to do at retirement, what type of lifestyle they are hoping for, then you can have benchmarks surrounding that. You can start to put things in a language that people understand. The concept of giving people access to a widely accepted series of benchmarks to use as a guide is an idea the PLSA is currently exploring as part of our 'Hitting the Target' work looking into the development of a set of national retirement income targets.

Richardson: We should be positive about the way things are going – many pension providers have already developed tools to help people plan their income needs in retirement. Those tools have either been developed or are developing fast.

One of the issues however with such tools is that there's often a very low proportion of members who use them. It's a real challenge just getting people to electronically register, for example, for access to a website – so there's all the scope in the world to develop very helpful tools with very clear language, but getting people onto the sites is the difficult step.

Pickering: It's a case of engaging with the right people at the right time. If I'm an employer with a limited budget, I'm going to rely on inertia and default for most of the early years of my employees' life with me in the accumulation phase, and then really concentrate my spend when they've got real decisions to make in later life – when they know what their workplans are looking like and which non-pension savings they've got under their belt.

As an employer, I get much better

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bang for my buck by spending it on 55-year-olds than 25-year-olds. If I ask a 25-year-old what their risk appetite is and when they want to retire, they'll say 'get a life, Grandad'; whereas if I say it to a 55 year old, I might strike a chord with them.

Armer: I'm not sure I agree – when we look at our membership, our younger members have some of the lowest opt-out rates of anybody in NEST. They are very aware of the fact that they need to save for their retirement, because they've got less expectation that anybody else will do it for them than any of the other generations.

Younger people have many more challenges around affordability, particularly if they've been through the higher education system and built up debt, and particularly with the challenges of getting onto the housing ladder in the current economic climate.

I would argue our opt-out rate for over 55s is far too high for people who should understand that this is a really easy way for them to accumulate at least some more money from their employer, that even in the worst-case scenario, they can cash out and pay a little bit of tax on.

Chair: In a way it's quite difficult to work out whether a low opt-out rate is a sign of engagement or disengagement.

Williams: My perspective is a little bit different, coming from the public sector where people still see their pension as a reward for service and commitment. Members appreciate that it's going to be a reasonably good pension, so our challenge is a little different – it's to get people to engage at a midway point or earlier, so that they can identify their individual pension gap and work on taking control of when they actually want to retire.

So for us, members accept that it's a good scheme but the downside is that the scheme has become so complex. The majority of members fall into three different schemes with various levels of protections and complicated reductions if they wish to retire early. Some years ago you could work out the likely pension for a member on a piece of paper and this now requires some very complex calculations. Our challenge is to keep the messages clear and provide tools to enable them to act without needing to go externally for advice.

Gandhi: The challenge in both DC and DB is that members need to think about where they want to get to. What's their own personal destination? I know that NEST has done a lot of work around default funds and target date funds, but you still need to know when that person is going to retire. The whole focus we've got is at the wrong end, in my view. It should start at the younger end.

Burrell: I agree that starting younger would be better, but no-one really likes to think about retirement until a certain point. There's a body of work in Australia that suggests that 47 is the right age. That's when people start to think about retirement, and this is when they've still got a reasonable amount of time to rectify any poor behaviours that they may have had in the past, or equally to say, okay, I'm doing all right.

Before this time, people simply won't engage and after that it's too late.

Pickering: Before auto-enrolment came along, an IFA who sat down in front of a 21-year-old client and said 'your default savings vehicle should be a pension' would probably get drummed out of the IFA fraternity because most 21-year-olds need a bank account and they need some medium-term savings, maybe an ISA. The joy of the 2006 tax regime is that one could have built up quite a bit of money in an ISA and then rolled it over into a pension fund, but because of the increasing intrusion of tax limits, it's quite difficult to do that sensibly. If we do get young people saving into a pension too soon, unless they're really poorly paid, they're going to hit tax limits midway through their career.

A pension has a particular purpose, and that's to provide an income stream in later life that doesn't peg out before you do. A pension scheme isn't a source of rainy-day money. I used to get really angry with people who wanted to allow for early access of pension savings. People need a hierarchy of savings, and I don't think we should place all the emphasis on a 21-year-old's savings needs and assume that involves pensions to the exclusion of everything else.

Ravi-Burslem: It's about reaching the right people at the right time, in a way that's relevant to where they are in their lives. It's also about talking to people in a broader financial context. We tend to talk about pensions in isolation, like it's this thing that sits outside of people's lives, so no wonder they don't have context. They don't think about a pension in relation to expenditure and debt and savings. That's

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wrong.

Given the pressures that are already on people when they're younger, getting them to save via auto-enrolment is a great thing; and a low opt-out rate is a great thing, because they are deciding not to opt out, and they're staying in the scheme.

Then if we can keep them saving consistently, by the time they get to their 40s, perhaps, and their pots are substantive enough to have a meaningful conversation, you can talk to them in the context of their lives. Then you can start saying, for example, you've got another 20/25 years until your later life kicks in in some way, shape or form, whatever that might be – and that's when you start talking about adequacy and retirement goals and income.

Armer: One of the things that we've done a big piece of work on at NEST is what we're referring to as a sidecar savings fund. The idea is that you filter some of the money that might go into your pension into a liquid savings vehicle that's designed to build up to a certain level to provide you with a rainy-day fund against short-term shocks.

There's some quite frightening research about the volume of people in the UK who don't have £500 of savings, which means people can be sent into a spiral of debt because of payday loan type arrangements at huge interest rates when, say, their washing machine or car breaks down.

Going back to the point about tax limits, I'm not sure I agree that this is such a problem. If you're getting to the point where you've got a million pounds in pension, and you can't put anymore in, then your problem is less relevant than the huge number of people who get to retirement without anywhere near enough money.

Chair: We do tend to forget that even though auto-enrolment has been around since 2012, we still actually haven't fully rolled out the initial plan. It will be another year until we get to the point whereby all employers are covered at the minimum contribution levels as set out in legislation.

In fact, auto-enrolment is really looking to change social norms over a 30- to 40-year period and we're only five years into that. Is it worth looking forward and asking how you think engagement might need to develop as auto-enrolment beds down?

Ravi-Burslem: Going back to the question about who's responsible for driving engagement, I think it's shared between the individual, the employer, the scheme and the state.

No one person or organisation can address the scale of change that is needed to shift the culture in society in the UK; it requires those four pillars of society to work together, to make a difference. Each individual and organisation plays a different role and provides a different level of trust and has different levels of impact.

All the research that we've done with our members shows that people want to feel a sense of ownership and control. Whether we agree or not with freedom and choice, it has given people some control and what they want is a scheme, the employer, the state to facilitate their ability to take ownership and control, so I'd say everybody has a part to play.

Chair: According to the Pensions Commission's original framework around auto-enrolment, it was only designed to get the average earner halfway towards where they needed to be, then the state pension or some form of voluntary saving would top that up to get people to the required level.

That gets missed sometimes when thinking about what the right contribution for AE is. Maybe one question to throw out there is whose responsibility is it to make sure that kind of top-up happens?

Burrell: It's an interesting question because by its method of implementation and its very nature, auto-enrolment became a compliance exercise for the vast majority of employers. It's part of payroll. A lot of employers, I imagine, grumbled somewhat, went to their accountant, got it all set up, and they just view it as part of the monthly pay packet. It's like a tax. In fact, I've heard that from a lot of people, actually – it's just another tax.

That's obviously not how most of us around this table would like them to view their employees' retirement savings and futures.

Perhaps we should therefore try and encourage the slightly more paternalistic type of employer – try and convince employers that actually, pension saving and saving into alternative vehicles is all part of improving their employees' financial wellbeing and this gives you better employees in the long run.

If people have a rainy-day fund from a sidecar or similar, they're less likely to fall into severe financial trouble, which actually makes them a better

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and more effective worker. They will sleep better, they'll have a better focus on their work – all of these things come from a level of financial resilience that we don't currently encourage.

If we could engage with employers on that level, that would be great.

Gandhi: Auto-enrolment has put a lot of people on the path to accumulation and let's not push that too hard. We will get engagement progressively as people start to see the value of that pot growing but steady as we go – let people start to accumulate.

One of the things I've seen with many pension schemes is you set your contribution rate, then you're locked in. You get the matching contribution. We have an option where there's a minimum, but then you can also pay more to get more, and in fact you can change that every month. Technology allows you to do it. So, I say to people, try and do more. If you can't afford it for a couple of months, bring it back down. It's very flexible. That then drives engagement further. People see that putting a little bit more gets them a little bit more.

The other challenge we've got is that people who are reaching retirement now probably have multiple pots elsewhere.

Ravi-Burslem: Going back to the question about who's responsible for driving engagement, I think it's shared between the individual, the employer, the scheme and the state.

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Pickering: That word 'facilitate' is particularly relevant. As a full-time professional trustee, it's not for me to say how much an employer should pay in, what sort of contribution structure that employer might want. It's not for me to say how members should decide their savings allocation between, say, coffee shop money, holiday money and retirement money. That's a decision for them to make.

It's my job as a trustee to try and make sure that there is a safe system of governance, to make sure that the maximum amount of every pound paid in to the pension scheme works for the member, in a way that seems sensible for it to work for that member.

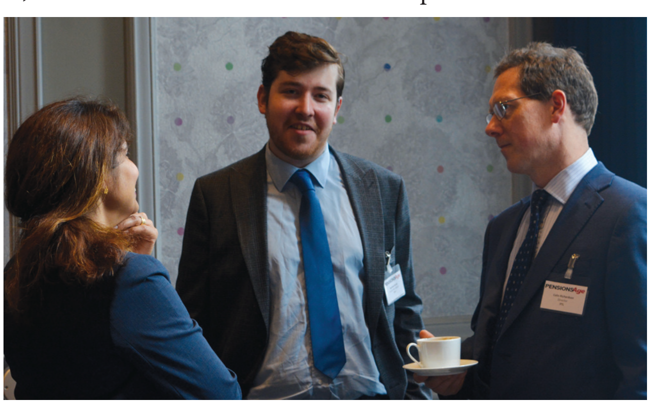
In the old days, you often saw trustees who saw themselves as savings champions, and they would tell their members they should bang as much into the AVC scheme as they could. It's not like that anymore. I shouldn't be an advocate of more and more pension saving. I should be a facilitator for those who want to do more pension saving. Also, when we use the word scheme, we need to be careful who we mean. Is it the provider, the trustee, the employer? We each have a different role to play, and it certainly isn't my role to encourage people to maximise pension saving when it might not be the right form of saving for them.

Gandhi: When we talk about schemes, you're right – there are different buckets of 'relationships'; for example, if you talk about a GPP that's a different relationship from a trust-based scheme. But if you talk about trustees in a trust-based scheme, I would argue the trustees should be more involved in outcome support, and that includes support or partnership with the employer.

Pickering: Yes, it's about trying to make sure that there are the right products within the scheme or outside the scheme to deliver outcomes, but I'm not sure that it's my job as a trustee to maximise inputs. It's my job to maximise the bang that people get for each buck that they input.

Richardson: There's a boundary line somewhere. It's debatable exactly where it is.

The regulatory authorities are certainly expecting the trustees – or the providers in the case of a GPP – to have an increasing role. It wasn't traditionally in trust law, that engagement, but it's certainly in codes of practice, and trustees now are expected to report on engagement and what they've done on this in their chair statements. So, the authorities are seeing a greater role for trustees and are pushing that but there's a boundary that can't be crossed – straying into advice and presupposing what



the best decision for a member might be is really something trustees can't do.

Williams: We can't second-guess what our members are doing or their financial circumstances. All we as a fund can do is to keep pushing the information towards them, in small manageable chunks that are clear and easy to understand, and to do this repeatedly across a number of different communication channels so that the member can pull that information at a time of their choosing and not ours. That's when they will engage with it.

Having a more digital approach, and even a device enabled self-service option is going to be more effective.

Richardson: Yes, a self-explore website where people can key in various amounts and see what difference it makes will always have more impact than just sending out an annual benefits statement, so there are some positive developments going on out there. We all know however that the big challenge is getting people to take advantage of what's on offer.

Also, more schemes are starting their communication times earlier, sending out letters maybe 15 years before expected retirement age.

Pickering: Two points there – there is a lot of talk about big data. I'm aware that some of the digital disruptors are writing to people, saying, for example, 'I see from your Facebook page that you've just had a baby – do you want to open a pension scheme for the baby?' There is that development.

From a trustee perspective, where I am happy to step up to the plate is in the choice of default because I know, with a degree of confidence, that I can make a real difference there.

I'd quite like to see members being

offered something which is as suitable as it can be, even if it isn't optimum, because for people of modest means, being in the right place in the market often dwarfs a difference between best in market and worst in market.

If that default fund has been chosen with them in mind, particularly during the inertia stage of their pension career, that's the best place for them to be.

So, whilst I'm not keen on telling people how much they should put into a pension scheme, I'm quite happy to step up to the plate and say, once you've decided how much, I think that this is a reasonable asset allocation at the stage when you want to be less engaged.

Gandhi: I believe trustees do have a role to play in contribution levels. The employer has set what they've set. If members are not maximising that, trustees have a duty to remind members that they're losing out on an opportunity which they can never go back on. If they're not paying it this year, they can't go back and recover it.

Richardson: But there's no duty in law to do that, although good practice is to help members see what difference higher contributions may make.

Pickering: But those employees may have a choice between share save and pension save. Who am I to say whether they should go pension save or share save?

Gandhi: It's not saying they should – it's reminding them of the opportunities that exist.

Armer: How you present those choices to them will be a huge deciding factor in what they choose to do. Behavioural economics shows that the way you present a choice to somebody dictates a large part of the decision that they make.

Ravi-Burslem: Also, there's a distinction between how trustees in a master trust will take their responsibilities, versus trustees in an employer-sponsored scheme. I can certainly say that NEST trustees do worry about things, from a member outcome perspective, you have to think about adequacy and consistency.

Richardson: But duty of law in a master trust and duty of law in an employer-sponsored scheme is the same, of course, with a difference that master trusts have an explicit requirement on member representations.

Ravi-Burslem: Absolutely but at the end of the day, it comes down to how you decide to exercise that duty. Also, the law says, 'here's the minimum you need to do'. It doesn't prescribe the maximum you need to do.

Richardson: We're all dancing on a pin on language because we're all wanting people to save more when it's in their interests.

Burrell: Going back to the original question of who has responsibility for what, different parties have different levers. A lot of good work has already been done by the industry in terms of simplifying the language that we use (we do tend to use a lot of acronyms), creating better communications and standardising some of the processes that people will go through, although there is a lot more that could be done.

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There is also a big role for government in terms of digitalisation. The pensions dashboard project, for example, is ongoing and we're expecting something from DWP on this soon; and if that's appropriately governed, that could be a game changer.

Then there's the employer, but the employer is arguably the most tenuous link here. At one end you have these fantastic schemes that spend a huge amount of money on segmenting the population very well, understanding each segment and communicating with them in a way that they would like, to the other end where the employers view this purely as a compliance exercise.

From a master trust perspective, I believe you must view it as the master trust having a big responsibility towards members, because a lot of the employers within that master trust might not necessarily have that attitude.

Richardson: I agree with what you said there about master trusts and we should be realistic about what we might expect from small employers. Large employers might have a significant budget for pensions, HR and so on, but small employers are fighting to survive in the business market. There's a limit to what they can do in-house, which supports your point about the master trust. What the master trust can do, and the trustees and the provider is all important, particularly if there are small employers within the trust.

In terms of the levers, there will be more direct impact if the government lever is pulled more, as well as the levers of the trustees and the providers. Whereas, trying to get employers to do more is challenging as they are already under pressure and employers are the providers of jobs. There's always a plus and a minus in forcing employers to do more – you may end up with less jobs.

Pickering: At the risk of sounding dogmatic, the one thing that government shouldn't do is design savings products. Matthew *[Burrell]*, you mentioned acronyms. I don't mind a three-letter acronym called an ISA, but how many four-letter derivatives of an ISA do we want? Over all my working life, Chancellor after Chancellor introduces a new savings product, and there's no real evidence that it increases the amount of saving or has the effect that the Chancellor originally wanted it to have. It just causes confusion; the government and the regulator should focus on making sure that those who design and deliver products treat customers fairly.

We don't want savings products emerging from Whitehall and Westminster - particularly when they come with even more frequency than London buses.

Chair: Just to pick up on a couple of things which have come up – we talked about technology and how it might change things going forward. How do you actually get people to use the technology which could be helpful for them?

As well as that, are there things that we don't want to engage on, as well as things we do want to engage on? For example, you might not necessarily want to try and engage people with their investment allocation, because they might not be that well qualified to do so; but you might want to engage them in thinking about how much money they're putting in. What are the boundaries around that?

Armer: A lot of this comes down to the fact that people struggle with choice. The whole auto-enrolment programme is based upon putting in place something that takes away the need for people to make choices.

As Richard Thaler wrote, there are five things that people struggle with when making choices.

If we don't do something very often, we struggle with it. If something is complex, we struggle with it. If we don't get immediate feedback from making a choice, we struggle with it. People like to make choices where they know what they like – so it's something that they understand. Finally, if we have to incur the costs now, but we don't see the benefits until later, we struggle with it.

If you put those five things together, the things that are barriers to people making choices, that is the picture of a pension.

That's why government went away and built a framework that made a number of these decisions for people. And it's working in that you now have nine million people saving for a pension who weren't before. From here on, we need to look at ways in which we can repeat the model to solve the problems that we're now facing – adequacy of contributions for example.

Gandhi: We do have a massive amount of technology now. We have the capacity to do a lot more using websites. We at Schneider have tried to keep

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things simple. We have a website, so people can join it and there's no password requirement. It works nicely on any device, so it's simple.

As you go in, it asks you some very simple questions – are you an employee, a deferred member, or looking to join the company? Depending on what you say, you're served up with very simple information relevant to you. We've stripped out a lot of information. Then as they go through their lives, we ask them to just look back, change one lever, prime them with questions, so they can move along that journey in a simple way.

We also have a portal for our employee benefits. Each year we go back, we remind people what they're paying, and then the opportunity exists to uplift it around perhaps pay increases. Again, using simple questions. By starting with information that looks and ties into who they are and then working through that over the years creates massive improvement in engagement.

Williams: We've got 40 per cent of our members on our web portal. We've got a public website as well. Getting people on there is the first challenge, and then keeping them on there is too, especially in a DB scheme, because they don't need to come back unless it's to check their annual benefit statements once a year and that's about it.

So, the way we engage is by segmentation – we've got specific, targeted groups. You need to make sure the technology meets the needs of the members and doesn't just provide flexibility and ease for your communications. I'm going to give you a quick example. We have an excellent calculator on our web portal. It allows you to model your preferred retirement

age and will take into account all the protections, and possible reductions within the modeller, providing you with the bottom-line pension figure.

We found that members were still checking with the administrators as to whether the figures were correct, and we couldn't really understand why that was happening. From focus group work and customer surveys we established that people didn't understand it, they felt they needed a bit more information before they could trust it, even though it clearly states on the modeller that everything's been worked out for them.

So, what we then did was create a flow chart to explain these protections. We tested that with our employers, made some adjustments and then turned it into a click-through tool that sits on the public website and also sits on the web portal.

My point is, it's all fine and good using technology, but ultimately, you've got to use the data to keep learning and adapting to what the member wants, at the time that they want it. Whoever's accessing that modeller now can also use the click-through tool and understand how it all works a bit better.

Chair: Technology is useful, but we must use it in the right way.

Williams: Exactly. Also, we are keen to make sure that people don't think this is a big brother operation; reassure members that this data is being used appropriately. We try and be as transparent as we can with this information, trying to show our members what it is that we do with it and why we want that information.

Armer: Again, from a behavioural point of view, Fogg talks about what you need to make a decision. He talks about three key things – motivation, ability and trigger. Technology is the ability piece. It can make things simple for people to do when they want to do so, but it's of no value if you don't get the motivation and you don't get the trigger.

Motivation can be people's fear about what they're going to have at retirement or hope for what they're going to have at retirement – it's then that trigger point. From a master trust perspective, we see a huge role for us in that trigger. Scheme trustees also need to ask: is there a role for us in that trigger? Again, as an employer, is there a role?

It's about creating that spark to get that person to say, 'I want to know about this and actually, I can do it really easily here'.

Ravi-Burslem: We also have a role to play in the ability piece. We talked earlier about financial capability, and this is an issue for most people, so ability can be powerful and created in different ways. As a master trust we believe that the motivation can exist or not and, depending on where members are in their life stages, it might look very different, but you can absolutely influence that. You can motivate people to do something. You absolutely must make it easy for them, though, so the ability piece is important. Then the trigger might be a life event, or it might be something else that causes them to act – that's another essential part that we can play.

Looking back

Pensions Minister Guy Opperman has once again ruled out the possibility of implementing 'pot follows member' – a concept previously ruled out by one of his predecessors, Ros Altmann, in 2015, despite being discussed greatly in the first half of the decade. *Pensions Age* asks: What other past pension ideas – be it either previously implemented but now removed, or merely suggested in the past – would you like to see return?

Many would say final salary pensions for all. Remember the 1997 'tax raid'? Until the 1997 budget, pension funds received a tax credit on dividends; this has cost taxpayers an estimated £10 billion a year. Some look to this reform as the beginning of the end for final salary pension provision. Would the return of this tax relief see a move back to final salary pensions....I think that ship has sailed. In the old days contributions to personal pensions were restricted to an annual limit. This was replaced in 2006 by the introduction of the annual allowance of £215,000. (i.e, a limit to the amount you could contribute and claim tax relief), and a lifetime allowance – the overall amount you could save into a pension. The lifetime allowance was originally meant to rise with inflation but over time has been cut back to an extent that it makes little sense for DC pensions. Savers in DC pensions are limited by the annual allowance now of £40,000 (£10,000 for high earners) so to then limit the overall pot of a DC saver is nonsensical, and penalises sound investment choices. Get rid of the lifetime allowance for DC plans.

Fidelity International head of pension product Carolyn Jones

The pensions policy graveyard is full of once-popular ideas which were cruelly cut off in their prime. Most recently, who can forget the ill-fated secondary annuity market, which product providers spent considerable energy trying to make work but which was eventually halted due to concerns about the size of the market and consumer protections.

Other policy ideas that regularly get dusted down, usually in time for Budget day or party manifesto season, are the creation of a standing pensions commission; removal of some of the complexities around the lifetime and annual allowances and how to tackle the low take up of pensions amongst the self-employed. All of these are very worthy of future consideration.

One policy that made it to the statute books but which is awaiting more clarity is defined ambition. Collective DC may be revived as part of the work being done by Royal Mail (and others) and it will be interesting to see how this evolves.

However, the policy that I would most like to see introduced is a change to the way pension tax relief works. Some innovative thinking here could both reinvigorate the savings market by better aligning incentives and save money, which could be used to increase funding to public services.

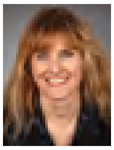
DC & Financial Well-being Consulting director Jon Parker

The time is right to consider another simplification exercise, as previously carried out in 2006. At the time, we saw around eight separate pension regimes brought under one, allowances simplified to an annual and lifetime limit and a number of other anomalous rules removed between pension products. It was a step towards a simpler, more flexible pensions landscape for all involved. Including, most importantly, savers.

But a number of successive waves of tweaking in the years that followed have undermined some of the simplifying reforms that were introduced. Even freedom and choice – arguably a simplification in itself – has led to further complications in tax allowances and rules.

We actually have a very clear policy landscape for pensions now, including the introduction of the flat-rate state pension, auto-enrolment for employees and flexibility for people at retirement. Perhaps it's time to tidy up the oversized legislative baggage we've accumulated along the way.

Standard Life head of pensions strategy Jamie Jenkins



Over two and a half decades ago, and written in the wake of the Maxwell scandal, the *Goode Report* (1993) noted that it is "better to have a relatively small number of rules which are vigorously enforced than a proliferation of regulations which are regularly broken". Fast forward (almost) a decade later, the *Pickering Report* (2002) echoed similar sentiments, referencing a "lack of stability in the regulatory regime that results from the frequency of legislative change" and the "past tendency to impose new legislative requirements on top of the existing structure" leading to "the layer cake nature" of pensions legislation. In response to such calls for reform, together with its own realisation that many layers of pensions legislation could be removed, merged or simplified, in 2006, the then government launched "a rolling deregulatory review of pensions regulation". Then, in 2012, the spotlight fell on pensions in a cross-governmental challenge to axe outdated or unnecessary regulations (known as the 'Red Tape Challenge').

Yet for all the periodic focus on deregulating, simplifying and reforming pensions, the law remains overly complicated. So, in addition to protecting DB schemes and their members by beefing up the regulator's powers, optimising scheme funding, and possibly facilitating the consolidation of schemes, could 2018 finally bring forth some deregulatory action?

Sackers partner Claire Carey

I would like to see more focus on pensions for the self-employed. Before Pensions Simplification (2006), there were specific provisions under Section 226 and 226a (ICTA 1970) which gave tax breaks on contributions and life assurance for self-employed workers. This ceased at A Day in a bid to simplify pension planning and lumped together all forms of employment.

Not many self-employed are eligible under the current auto-enrolment framework as apparently just two million would qualify, with 73 per cent of female self-employed workers excluded.

The fully subscribed auto-enrolment initiative for employees has largely bypassed the self-employed, who tend to have irregular income patterns, making regular saving harder.

Selectapension director Peter Bradshaw

My top request would be for the return of HMRC discretion: not just in the matter of pension scheme registration/deregistration, which has just returned to the statute book, but in the operation of the pensions tax regime in general. The FA 2004 regime we have at the moment fails to take due account of the propensity for human error, or to accommodate any event that has not been anticipated by the lawmakers.

On the DWP side, I wish for the return of something like the old OPB Memoranda (sometimes published jointly with the old SFO), which up to 1997 explained in some detail how social security legislation was meant to be construed and operated (No. 77 is currently still helpful on calculating GMP entitlement). HMRC, to their credit, continue to publish guidance on the tax legislation but the DWP has declined to help in a similar way.

Aries Insight director Ian Neale

A change to a single rate system would benefit lower earners who need it the most, in an environment where it's increasingly difficult to see how the pension savings gap will be plugged – the current 8 per cent minimum contribution under auto-enrolment simply isn't going to be enough for many to retire comfortably.

A significant change in tax rules would also give the government an opportunity to move away from the arguably archaic 'pensions' terminology, which carries relatively negative sentiment for those that carry memories of historic pensions scandals. Moving to a lifetime ISA-type system (another initiative that petered out) would likely improve the perception and increase trust in retirement savings, enhancing the good groundwork auto-enrolment has established in providing a base for long-term savings.

P-Solve head of DC solutions Niall Alexander

Until 2006 pension contributions made could be carried back to the previous year for tax relief purposes. This was particularly helpful to the self-employed and those who did not know their total earnings and therefore eligibility and affordability for pension savings, until after the tax year end. Given the growth in the gig economy and those with portfolio careers, the reintroduction of this rule would be helpful. In fact, it would also help millions of employees in defined benefit schemes who cannot know their pension input amount until after the end of the tax year, making top-up contributions hard to plan for.

LEBC The Retirement Adviser director of public policy Kay Ingram

Pensions history

The support for equity investment

One of the most significant collections in the Pensions Archive is the collection of the late George Ross Goobey, the pension fund manager of the Imperial Tobacco Pension Fund, who in the 1950s made the case to his trustees for investing the fund 100 per cent in equities.

In May 1957 he was preparing a paper reviewing the agreed investment policy of the fund and he used the remarks made by Chairmen of Life Offices on equity investment to support the strategy he had recommended.
It is interesting to reflect on these comments being made at that time to the Annual General Meetings of insurance companies. One of them was the National Mutual Life Assurance Society.

Chairman Kenneth Moore reported: "Although it has been impossible to avoid depreciation on the society's holdings of fixed interest securities, it has, to a considerable extent been offset by substantial appreciation on the society's holdings of ordinary shares. These holdings of ordinary shares amounted at December 31 last to over £3,800,000 representing 27 per cent of our total assets…they are in the main shares with an external or international flavour and include a substantial proportion of Canadian and American equities of the highest class.

"In this context it is interesting to recall that the society was among the first of the life offices to adopt an active investment policy and to include ordinary shares in its portfolio.

"Looking back over our records, I find the subject was first referred to at the Annual General Meeting held in 1922, when the new chairman, Mr J M Keynes, (later Lord Keynes) said that the labours of the great actuaries of the nineteenth century had carried actuarial science to the point where great improvements or striking innovations were no longer likely; that life offices must, in the future, stand or fall mainly by the success or failure of their investment policy; and that the widely increased range and choice of investments afforded opportunities for an active policy which had not existed previously."

Written by Alan Herbert, chairman, The Pensions Archive Trust

Fun and games

Wordsearch

T	N	O	I	T	A	L	U	G	E	R	R
O	R	I	N	D	U	S	T	R	Y	N	S
Y	S	A	G	A	P	V	Z	R	O	S	L
T	T	Y	N	G	T	R	M	I	I	I	L
I	C	E	Q	S	L	F	T	I	Q	C	I
S	U	B	D	Z	P	A	S	U	U	L	K
R	D	H	R	Z	T	A	I	S	U	K	S
E	O	R	V	U	T	D	R	R	Y	M	R
V	R	H	P	J	I	P	J	E	O	R	Q
I	P	E	S	T	C	I	L	F	N	O	C
D	R	L	Y	F	S	S	T	Z	O	C	W
C	O	M	P	E	T	I	T	I	O	N	Y

COMPETITION
CONFLICTS
DIVERSITY
INDUSTRY
LIQUIDITY
PRODUCTS
REGULATION
REPUTATION
SKILLS
TRANSPARENCY

I know that face...

Answer at bottom of page

I know that face... Answer: PASA director and KGC Associates founder Kim Gubler

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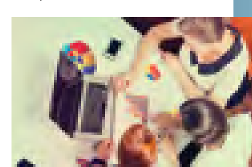

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3 year term

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The trustee board meet in full quarterly and this role will also be expected to sit on the investment sub-committee who meet approximately three times per year.

You need not have an interest in horseracing although some background would be an advantage.

This document should be viewed as an overview. The role receives a small salary and reimbursed expenses. We welcome enquiries from everyone and value diversity in our workforce.

If you feel you have the relevant skills and experience, please apply by covering letter including a copy of your CV, sending the information to pfoster@britishhorseracing.com

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