Vulnerable customers
Covid-19 has increased the number of vulnerable customers. How can the industry help?

De-risking
Will it be another record year for bulk annuity deals?

Actuarial valuations
Exploring the discrepancy between transfer values and commutation rates

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March 2021

PENSIONS Age

The leading pensions magazine

Scams: *The latest industry developments to tackle pension scams*

Investment: *How DB investment strategies have fared amid the pandemic*

On the radar

Who and what may be caught up in TPR's new criminal and civil sanctions powers?

Climate change: The pensions organisations committed to going net zero

Editorial Comment

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

The word 'risk' may instantly conjure up negative connotations, but it is also often talked about in a positive sense – 'nothing ventured, nothing gained' and all that.

But risk cannot always be defined in such clear-cut terms as 'good' or 'bad'. There is the blurry middle ground, and within that may be the risk of confusion, of uncertainty, of mixed messages.

The risk of the wrong signals being sent to retirement savers was on the collective mind of the industry after hearing Chancellor Rishi Sunak's Spring Budget.

Of particular concern was the announcement that the pensions lifetime allowance (LTA) will be frozen at £1,073,100 until April 2026.

In response to the news, Canada Life technical director, Andrew Tully, said: "This measure simply sends the wrong signal to savers trying to do the right thing. It also penalises good investment performance."

Tully was not the only one worried by the news, with Pensions Management Institute director of policy, Tim Middleton, describing the LTA freeze as disappointing.

"We are concerned that the measure will serve as a further disincentive for workplace pension saving, which can only have a negative impact for society as a whole," he explained.

It is unlikely that the government meant to potentially disincentivise pension savers in their actions to tackle the tough economic times ahead in the wake of the Covid-19 pandemic. Just as it probably didn't intend to make people fearful of conducting standard business practices, or to drive away lay trustees, when granting additional powers to The Pensions Regulator (TPR) in the Pension Schemes Act *[which recently received Royal Assent; see page 10 for more]*.

But as our cover story on page 32 explains, there are worries about TPR's new ability to impose criminal and civil sanctions, such as up to seven years imprisonment or a £1 million fine for 'any persons' causing 'material risk' to a DB scheme without 'reasonable excuse'.

The concerns are that standard business practices may be caught within the new powers, impacting sponsoring employers' ability to pay dividends, obtain debt or undergo corporate restructurings. There may also be a decline in lay trustees due to the perceived risk of involvement with a pension scheme.

Both TPR and the Department for Work and Pensions have been vocal in expressing that these powers are to prevent the likes of another 'Carillion' or 'Philip Green' scenario and will not impede on legitimate business activities where these are conducted in good faith. They also stress that the increased focus on pension matters within corporate activity will ultimately provide improved protection to members.

Arguably now, more than ever, members need this additional protection. With our theme of risk this issue, the feature on page 67 finds that Covid-19 has increased the number of people who may be considered financially 'vulnerable' – the Financial Conduct Authority's (FCA) recent research puts a staggering 27.7 million UK adults in this category.

The FCA is honing in on this, having published guidance clarifying its expectations of financial firms on the fair treatment of vulnerable customers.

Reducing, or even removing, people's financial vulnerability would be the ideal scenario. But that aim is as lofty as it is unattainable, and certainly beyond the abilities of the pensions industry alone. It is also not responsible for any confusion government changes to pension saving or scheme management may inadvertently cause. But the sector does have power over its conduct and communication to members; here pension savers should never bear the risk of a lack of clarity.

Laura Blows, Editor

COVER FEATURE

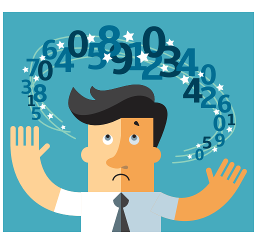
Theme: Risk

32

On the radar

The Pension Schemes Act features new powers for The Pensions Regulator from the autumn, including criminal sanctions for 'any person' acting to the detriment of the pension scheme without 'reasonable excuse'. Concerns have arisen that anyone, however distantly impacting a pension scheme, may be at risk of prosecution simply by going about standard business actions. To what extent are these fears justified and what preparations can be done while waiting for further guidance? Laura Blows finds out

Highlighted features



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NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 14,481 (July 2019–June 2020) print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20). Our print circulation is around 300% higher than the next nearest title, and 500% higher than the third title.

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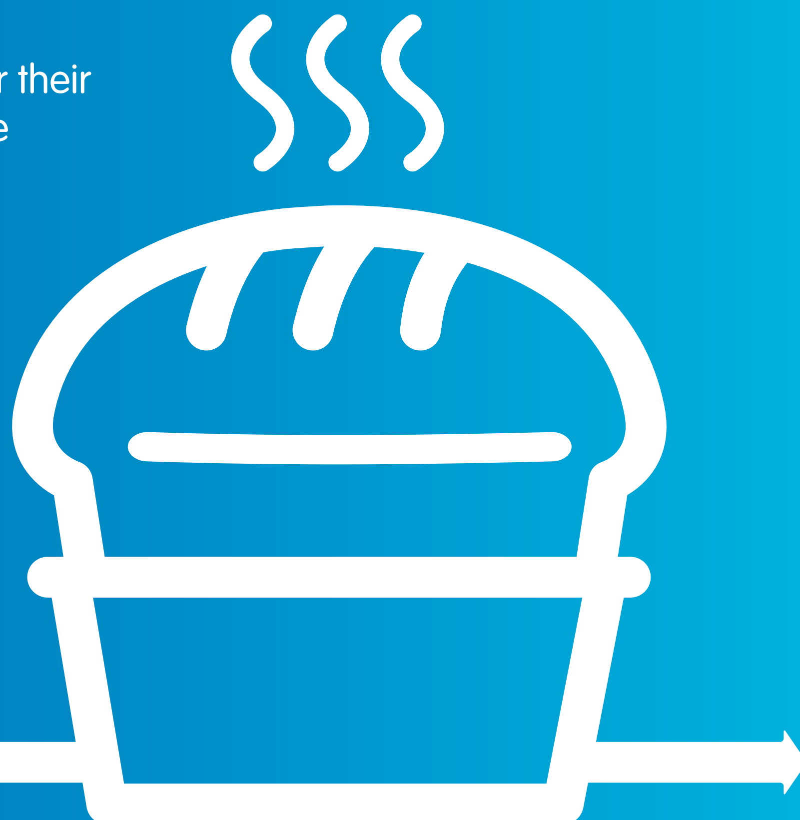

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Dateline - February 2021

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

3 February HMRC repaid £25,766,055 in overpaid tax on flexible pension withdrawals in Q4 2020, the government reveals. This represents an approximately £13.6m decline in the amount of overpaid tax issued back to savers in comparison to Q3 2020, when £39.4m was repaid. A total of £2.4bn was withdrawn flexibly by 360,000 savers in Q4, compared to £2.3bn withdrawn by 347,000 individuals in Q3.

4 February The **Pension Protection Fund (PPF)** launches a consultation into changing the assumptions used for assessment and levy valuations in order to keep them in line with the bulk annuity market. It proposes updating mortality assumptions by moving to the latest 'S3' series mortality tables and to use the CMI 2019 mortality projections model, as well as changing the discount rates for pensioners and non-pensioners post-retirement. Additionally, amending the calculation for wind-up expenses and slightly reducing pensioner and non-pensioner benefit installation or payment expenses is mooted.

4 February The **government** confirms that it intends to proceed with the deferred choice underpin approach when providing members with their options following the McCloud judgment, although flexibilities will be introduced to support scheme administrators. The government's response to the McCloud consultation explains that this will mean members will make their decision between legacy and reformed scheme benefits shortly before benefits are paid from the scheme. In the meantime, members will be deemed to have accrued benefits in their legacy schemes, rather than reformed schemes, for the remedy period (1 April 2015 - 31 March 2022) until they make that choice. The plans follow a 'landmark' court ruling, which found that changes made to judges' and firefighters' pensions were discriminatory on the grounds of age, and applied to all public sector schemes.

8 February Government pension liabilities increased by 21 per cent between 2015 and 2018, figures from the **Office for National Statistics** (ONS) reveal, prompting concerns amongst industry experts as to the future burden that these pension promises may represent. The ONS data shows that the accrued-to-date gross pension liabilities of UK pension providers in relation to workplace pensions and state pensions grew to £8.9trn at the end of 2018, compared to £7.6trn at the end of 2015.

11 February The **Pension Schemes Bill** is officially granted Royal Assent and is now the Pension Schemes Act, in what has been highlighted as a "historic day" for the UK pensions industry. The act aims to help bolster protections for savers through the introduction of new powers to help trustees combat pension scams and the expansion of The Pension Regulator's (TPR) powers. In addition to this, the bill introduces the framework for the introduction of pensions dashboards and collective defined contribution schemes, as well as furthering the government's green agenda by requiring schemes to adopt and report against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). However, large sections of the bill are not expected to come into force for several months.

Editorial credit: Ascannio / Shutterstock.com

11 February Seven in 10 (70 per cent) UK adults that are not retirees have a pension that is in accumulation, as of February 2020, an 8 percentage point increase from 62 per cent in 2017, according to the **Financial Conduct Authority (FCA)**. The FCA's *Financial Lives 2020 survey: The impact of coronavirus,* attributes the increase to the introduction of auto-enrolment (AE) in the UK. Pension take-up has increased particularly among employees aged between 25 and 54, with 90 per cent of this cohort saving into a pension, up from 82 per cent in 2017.

11 February The **government** publishes a consultation setting out its proposals to increase the age at which people can access their pension without a tax penalty from 55 to 57 in April 2028. Under the proposals, pension schemes would be allowed to decide how and when to move to the new 'normal minimum pension age' by 2028, meaning that some schemes may decide to raise the minimum age in

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

their rules before 2028. However, individual scheme members who have a right under their current scheme rules at the date of this consultation to access their pension below the age of 57 will be protected from the increase in 2028.

12 February Pensions Minister, **Guy Opperman**, confirms plans for the new climate-related reporting requirements outlined in the Pension Schemes Act to be "on the statute book" ahead of COP26, with work on other supporting regulations continuing "at pace". Opperman highlights the Pension Schemes Act as a "tremendous team effort at the Department for Work and Pensions", while noting that further work is still needed on the supporting regulations.

Editorial credit: Travers Lewis / Shutterstock.com

15 February Arcadia's DB pension schemes could avoid falling under the remit of the PPF after trustees managed to accumulate £173m from the sale of assets. Sources cited by *The Guardian* state that it was "likely" that the scheme would manage to remain independent from the PPF following the sales, meaning that members who have not yet reached retirement age could receive more of their pensions than the 90 per cent provided by the lifeboat fund.

16 February TPR confirms that a second consultation on the DB funding code will take place in the second half of 2021. In a blog post, TPR executive director of regulatory policy, analysis and advice, David Fairs, states that the Pension Schemes Act will help build on the existing approach to DB funding as well as setting new requirements. He emphasises that the regulator is "committed" to the scheme-specific regime and is looking at the next steps arising from the legislation, which is developing a funding code that works for all schemes, including those that are open, with these aspects already consulted on in 2020. TPR is looking to provide clarity to what is expected of trustees and employers.

19 February The Supreme Court ruling that Uber drivers are not self-employed could have "ripple effects" for all gig workers and move them towards being eligible for AE pensions, according to **Aegon**. Following the ruling, Uber must classify its drivers as workers, rather than self-employed, which could give them the right to be auto-enrolled in a workplace pension scheme, depending on their earnings.

24 February The Work and Pensions Committee launches the second part of its inquiry into the impact of the pensions freedoms and protection of pension savers, focusing on decisions savers make about accessing their pensions. In this second strand of the inquiry, the committee says it is interested in hearing about the options open to people when they come to access their pensions, the advice and guidance available, and the information people need to make an informed choice about retirement products.

24 February The trustees of three major companies' pension schemes are granted more time to consider applying for a judicial review of the decision to align the Retail Prices Index (RPI) with the Consumer Prices Index including owner occupiers' housing costs (CPIH). Pension trustees from the **BT Pension Scheme, Ford Pension Schemes, and Marks and Spencer Pension Scheme** issued a joint application to the court for the six-week deadline extension.

26 February The **government** publishes its responses to consultations on reforming the judicial pension scheme and how age discrimination, as identified in the McCloud ruling, will be addressed. It confirms that, unlike the rest of the public sector, judges affected by McCloud will participate in an 'options exercise' in 2022, rather than making a deferred choice. This will allow judges to make a retrospective choice of pension scheme membership backdated to 1 April 2015, when the discrimination began, until 31 March 2022, after which all judges will be moved to the reformed pension scheme.

News focus

Pension Schemes Bill gains Royal Assent

After more than a year since its introduction, the Pension Schemes Bill has received Royal Assent and becomes the Pension Schemes Act 2021. Its passage was described as a "historic day" for the UK pensions industry, although large sections of the act are not expected to come into force for several months as further regulations are developed

The Pension Schemes Bill has officially been granted Royal Assent and is now the Pension Schemes Act, in what has been highlighted as a "historic day" for the UK pensions industry.

The act aims to help bolster protections for savers through the introduction of new powers to help trustees combat pension scams and the expansion of The Pensions Regulator's (TPR) powers.

In addition to this, the bill introduces the framework for the introduction of pensions dashboards and collective defined contribution (CDC) schemes, as well as furthering the government's green agenda, by requiring schemes to adopt and report against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Commenting on the news, Pensions Minister, Guy Opperman, stated: "This is a historic day for UK pensions and I'm thrilled that after more than 12 months, amidst all the challenges we've faced, the bill has now received Royal Assent.

"This act makes our pensions safer, better and greener, as we look to build back better from the pandemic. Its passage will reassure savers that they can, and will, have a retirement they deserve."

The news has also been welcomed by TPR, with its chief executive, Charles Counsell, highlighting the act as a "strong package of measures to further protect UK pension savers".

He stated: "We are extremely pleased to see it become law and have worked closely with the Department for Work and Pensions (DWP) to develop effective proposals that will make a real difference to savers.

"Through the new act, we will build on our clear, quick and tough approach to drive better standards across the pension schemes we regulate and ensure savers are treated fairly by employers.

"We will be clear in our expectations when talking to trustees, employers and others, and quick to take effective action where we have concerns. Trustees will be expected to demonstrate how their funding approach is prudent, appropriate and sustainable."

Commenting on the environmental focus, Counsell emphasised that TPR is also "stepping up" to meet the challenges around climate change, confirming that the regulator will be launching its own climate strategy during 2021.

The bill started its passage to becoming law over a year ago, when it was first introduced in the Queen's speech in October 2019, and was subsequently reintroduced following the Conservative Party's victory in the December 2019 General Election.

It was brought to the House of Lords in January 2020, taking just over a year to proceed through the parliamentary process, and facing much debate, as well as a number of both failed and successful amendments.

Industry experts have described the Pension Schemes Act as "ground-breaking", but noted that this was just the first step in changing regulations and legislation.

"This is a ground-breaking piece of legislation making pensions safer, better and greener," commented Aegon head of pensions, Kate Smith.

"This is just the beginning as we'll now see a raft of regulations over the next few months setting out the detail of how schemes will have to comply with the new rules."

Hymans Robertson partner, Laura McLaren, added: "Although the new Pension Schemes Act lays the foundations for changes to many areas of pensions legislation, it is really just the first step.

"Whilst the act establishes a lot of important primary legislation, much of the underlying detail is left to secondary regulations and guidance that will now need to be drafted, consulted on and implemented over the coming months."

AJ Bell senior analyst, Tom Selby, noted that the act will have a "profound impact" on the UK retirement landscape, with members, trustees and sponsoring employers all likely to be affected.

However, he warned that the act's attempt to address pension scams through controls on transfers was likely to have a "limited" impact, as most scams focus on people aged 55 and over, rather than those transferring.

"Sitting alongside familiar DB and DC designs, CDC can now offer something different and welcome, so we are approaching an exciting time," said Aon partner and head of UK retirement policy, Matthew Arends.

"This new legislation opens up the opportunity to enable single employer CDC plans. But it shouldn't stop there – the path should now be open for government and the DWP to move ahead at pace with the second phase of enabling legislation. This would provide wider-reaching options, making CDC accessible in a variety of ways – potentially including CDC master trusts, decumulation-only CDC platforms, and industry-wide or multi-employer CDC plans."

Hymans Robertson partner, Paul Waters, added that the act should be a "catalyst" for the development of dashboards.

He continued: "So far, however, progress on the pensions dashboard has been way too slow and we are unlikely to be anywhere near the Open Banking position by the end of this year.

"The dashboards can, and should, make a disruptive change. But despite the progress made through 2020, we are still measuring the dashboard programme through internal industry activity and milestones.

"We need to move quickly to a place where we are measuring progress by the tangible benefits being delivered to the millions of UK savers who need help in planning for their retirement. It needs to move even faster and it would be great to see industry commitment to make that happen."

Herbert Smith Freehills regional head of employment, pensions and incentives, Samantha Brown, said that the new criminal offences and regulatory sanctions outlined in the act will serve as a "wake-up call" for directors of companies with DB schemes, as well as lenders and investors in those companies.

"Although the new sanctions have a noble aim – to protect the interests of DB scheme members – they could make it harder to restructure distressed sponsors of DB schemes, by limiting the scope for creative solutions to be found. In many ways, this could not come at a worse time," she added.

"The new funding requirements will fundamentally change the way the scheme funding process works. Going forward, trustees and sponsors will need to agree a legally-binding long-term objective for their scheme and work backwards to put in place a funding plan enabling this target to be achieved."

Pinsent Masons head of pensions and long-term savings, Carolyn Saunders, commented: "Now is the time to take stock and prepare. The act tells us something of the government's intentions, but there is much still to come through regulations and guidance. There are some fundamental changes to the pension landscape and trustees and sponsoring employers need to be ready to respond.

"Although the new act is wide-ranging, a key focus area is climate and, here, the government has been quick out of the starting gate with draft regulations. The headline obligations are about disclosure, but at their heart is the requirement for trustees to adopt effective governance systems so that they can assess and understand what climate change means for their scheme.

"We will see the largest schemes required to comply first and they will play a critical role in using their market power to drive best practice from asset managers and advisers."

Now Pensions director of policy, Adrian Boulding, called for a second pensions bill.

"While the dashboards are important, further legislation is needed to change the framework of auto-enrolment," he said.

"The workforce is increasingly dynamic meaning that people are accumulating numerous pensions pots as they move jobs. Many workers now work flexibly, hold multiple jobs, or work part-time and are often blocked from being automatically enrolled because of the £10,000 earnings trigger or are disproportionately disadvantaged by the lower earnings limit. For auto-enrolment to continue to be a success, the framework must be altered to best serve a changing workforce."

Written by Jack Gray and Sophie Smith

Spring Budget 2021: LTA frozen until April 2026

In his Spring Budget speech, Chancellor Rishi Sunak announced that the lifetime allowance (LTA) will be frozen until April 2026. Alongside this, the supporting documents revealed that the government plans to launch a consultation on whether costs within the charge cap affect schemes' ability to invest in a broader range of assets

Chancellor Rishi Sunak has announced that the pensions LTA will be frozen at £1,073,100 until April 2026.

In his Spring Budget speech, Sunak said: "I will maintain at their current levels, until April 2026, the inheritance tax thresholds, the pensions LTA and the annual exempt amount in capital gains tax."

The LTA had been expected to rise by £5,800 in 2021/22, in line with 0.5 per cent Consumer Prices Index (CPI) inflation.

The freeze is expected to save the government £80m in 2021/22, £150m in 2022/23, £215m in 2023/24, £255m in 2024/25 and £300m in 2025/26.

Rumours had been circulating pre-Budget that the Chancellor would freeze the LTA.

Hymans Robertson partner, Chris Noon, warned that the move may be a "kneejerk" decision that could lead to "unintended consequences".

Additionally, Aegon pensions director, Steven Cameron, said that freezing the LTA would mean "many more" savers would exceed the allowance and face a tax penalty because of achieving good investment growth in their defined contribution pensions.

He added that it is also expected to affect those "building up generous defined benefit pensions".

Those affected include senior doctors saving into the NHS Pension Scheme, with the British Medical Association saying it was "deeply concerned" the freeze will result in large numbers of doctors retiring early or working less.

Sunak also confirmed the government's intentions to remove "barriers" in pension regulation that may have discouraged DC pension schemes from investing in high-growth companies.

The Spring Budget documents revealed plans to consult on whether certain costs within the charge cap affect pension schemes' ability to invest in a broader range of assets "within the next month".

It stated that this would aim to ensure pension schemes are not discouraged from such investments and are able to offer the highest possible return for savers.

It also confirmed that the Department for Work and Pensions will be proposing draft regulations designed to make it easier for schemes to take up such

opportunities within the charge cap by smoothing certain performance fees over a multi-year period.

The government growth plan outlined three core pillars of growth: infrastructure, skills and innovation, with the latter category outlining plans to support access to finance to "unleash innovation", including reforms to address disincentives for pension funds to invest in high-growth companies.

The report, entitled *Build Back Better, our plan for growth*, stated: "There remains a largely untapped pool of capital from institutional investors, particularly DC pension schemes.

"The government and financial regulators have removed a range of regulatory barriers to ensure that pension savers can access the returns offered by venture capital and growth equity, as part of a balanced portfolio.

"The government will consult in the next month on whether certain costs affect DC pension schemes' ability to invest in a broader range of assets."

The consultation follows a similar government consultation from September 2020.

Scottish Widows head of policy, pensions and investments, Peter Glancy, argued that the plans could represent a "much-needed boost" for the economy following the pandemic.

He stated: "By allowing pension funds to invest in the redevelopment of the country's infrastructure and economic initiatives, trillions of pounds invested in UK pensions could provide a much needed boost as Britain looks to bounce back from Covid-19.

"This could also be great news for pension savers, whose pension pots would benefit from the returns on these investments in the long run.

"We await the Financial Conduct Authority consultation promised by the Chancellor."

Written by Jack Gray and Sophie Smith


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Govt sets out plans to raise pension access age to 57 in 2028

The government has launched a consultation outlining its intention to increase the minimum age at which savers can access their pensions without incurring a tax penalty from 55 to 57 in 2028. Pension schemes will have the responsibility of deciding when and how to increase the minimum age in their rules by April 2028

The government has published a consultation setting out its proposals to increase the age at which people can access their pension savings without a tax penalty from 55 to 57 in April 2028.

Under the proposals, pension schemes would be allowed to decide how and when to move to the new 'normal minimum pension age' by April 2028, meaning that some schemes may decide to raise the minimum age in their rules by the deadline.

However, individual scheme members who have a right under their current scheme rules at the date of this consultation to access their pension below the age of 57 will be protected from the increase in 2028.

The move to increase the normal minimum pension age will be in line with the increase in the state pension age to 67 and will not apply to members of the armed forces, police or fire services.

The government has proposed that individuals can retain their protection as part of a transfer from one scheme to another, but only if they become a member of another pension scheme as a result of a block transfer, usually defined as when two or more members transfer from the same scheme, at the same time, to the same scheme.

LCP partner and former Pensions Minister, Steve Webb, warned that the proposals risked creating "second class" pension schemes.

"Whilst the increase in the normal minimum pension age from 55 to 57 had been widely trailed, the way in which the change will be implemented could be complex for savers and for schemes and risks creating 'second class' pensions with tougher access rules depending on when they were opened," he stated.

"There will be a need for clear communication with members to make sure they understand the different rules that may apply to their different pensions. As we move towards an era of pension consolidation, members will have to be careful not to accidentally throw away protected rights to access a pension at 55."

Many individuals and sponsoring employers will need to "carefully consider" the implications of the proposed increase, warned Hymans Robertson partner, Michael Ambery.

He continued: "In particular it will have an impact to the decisions on the timing of when they take their pension benefits. Individual pension savers could be put off by changes that on the face of things may just sound like you need to work for longer and money is locked away. In the current environment saving for retirement and what that looks like may mean this may feel unpopular.

"A change to the earliest point at which an individual can claim pension benefits and the payment of benefits such as state pension and other pensions becomes a juggling act where an individual will need help and support in order to determine best approach and timing of taking benefits.

"Most pension arrangements are still based on anticipated retirement at age 65. Recent experience shows less than half of individuals actually retire at the age they have targeted. This means that individuals could be invested incorrectly.

"If there are changes, as proposed in this consultation, integrating retirement age and adequacy, and communicating this clearly to members, will be key to ensuring that any change in legislation is understood and made appropriate for the individual investor."

Canada Life technical director, Andrew Tully, said the confirmation of the timing of the increase would be "welcome" to savers and advisers and give time for "appropriate planning" before the change comes into effect.

However, he noted that the proposed continuation of the block transfer rules was "disappointing to see".

"These rules are complex and can prevent individuals benefiting from the pension freedoms, by taking the most suitable option for their circumstances," he added. "Removing the block transfer rules and allowing those affected to keep their entitlement to a lower pension age on transfer would be a positive move."

Written by Jack Gray


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VIEW FROM THE PMI

"Your young men (and women) will see visions."

The above may seem opaque to many of you, and deserves some explanation unless you are familiar with the Old Testament prophet, Joel!

He wrote: "Your sons and daughters will prophesy, your old men will dream dreams, and your young men will see visions."

At this point, if you're still reading, you're probably thinking the PMI president has been too long in lockdown. That's possibly true, and brought into sharp focus by a significant birthday this year. I've decided that it's time to embrace my role as a senior.

It happens to us all. There comes a time to hand the baton on to the next generation, however, the above quote demonstrates we can all still play an important part, irrespective of age. Old men dream dreams, and young men see visions. At first glance they appear the same, although they are not. Dreams require imagination and are full of possibilities and resolutions. A vision calls for a clear purpose and the motivation and energy to make the dream a reality. A perfect combination?

At the PMI, we want to envision the present future. It's why we launched the PMI mentoring scheme so that experienced pensions professionals can share their wisdom with those starting their careers in pensions. The PMI student essay competition provides a platform for our students to contribute innovative ideas to solve perennial problems. We've so much to learn from each other – these are just a couple of examples.

I've forgiven Joel for not mentioning older women.

PMI president, Lesley Alexander

Govt to proceed with deferred choice approach following McCloud

Following its consultation on addressing age discrimination identified in public-sector pension schemes, the government has revealed that it will be proceeding with the deferred choice underpin (DCU) approach when providing members with their options. However, unlike the rest of the public sector, the judicial pension scheme will use an 'options exercise' in 2022

The government has confirmed that it intends to proceed with the DCU approach when providing members with their options following the McCloud judgment, although flexibilities will be introduced to support scheme administrators.

The government's response to the McCloud consultation explained that this will mean that members will make their decision between legacy and reformed scheme benefits shortly before benefits are paid from the scheme.

In the meantime, members will be deemed to have accrued benefits in their legacy schemes, rather than reformed schemes, for the remedy period, between 1 April 2015 and 31 March 2022, until they make that choice.

Those who have already retired or received a pension award, meanwhile, will be offered a choice "as soon as practicable" after necessary legislative and process changes can be made, and the position they choose will be applied retrospectively back to the date the award was made.

It stated: "There will be no entitlement to have the benefits of one scheme in some respects, but of the other scheme in other respects. Nor will there be any provision for a 'tapered' system under which some members might be entitled or required to treat part of that period as service in one scheme, and part of it as service in another.

"Maintaining such an age-based system of tapered protection would perpetuate or even extend the discrimination identified by the courts."

The plans follow a 'landmark' court

ruling, which found that changes made to judges' and firefighters' pensions were discriminatory on the grounds of age, and applied to all public sector pension schemes.

The government argued that by deferring the choice most members will have "significantly greater certainty" over their benefit entitlements when making their decision, highlighting this as "by some margin" the most important consideration.

However, it also acknowledged that making a choice at the point of payment means that the majority of members will not confirm the benefits they will receive until they take them, with a number of respondents raising this uncertainty as a concern.

Considering this, the government confirmed that it will require schemes to provide details annually of the accrued benefits available to members in relation to relevant service for both the legacy and reformed scheme, with the aim of providing members with visibility over their expected benefit entitlements for the remedy period in advance of their decision.

The government also confirmed that it will bring forward new pension legislation "when parliamentary time allows", in order to ensure that the discriminatory features relating to the remedy period and the transition to the reformed schemes are removed from the pension scheme rules with effect from 1 April 2022.

Industry organisations have supported the government's proposals for a delayed approach, although concerns around member communications and the cost of the remedy persist.

The government also published its responses to consultations on reforming the judicial pension scheme and how age discrimination, as identified in the McCloud ruling, will be addressed.

It confirmed that, unlike the rest of the public sector, judges affected by McCloud will participate in an 'options exercise' in 2022, rather than making a deferred choice.

This will allow judges to make a retrospective choice of pension scheme membership backdated to 1 April 2015, when the discrimination began, until 31 March 2022, after which all judges will be moved to the reformed pension scheme.

Judges will have to choose between the Judicial Pension Scheme 1993 (JUPRA), or its fee-paid equivalent, Fee-Paid Judicial Pension Scheme (FPJPS), and the New Judicial Pension Scheme 2015 (NJPS).

The options exercise would also deal with the technical details of the choice, for example in respect of past tax and contributions.

The government said that while respondents "generally welcomed" the steps being taken, there were concerns about the options exercise proposal.

Many respondents believed that judges wishing to return to JUPRA/FPJPS should be able to do so before 2022.

However, the government said that running the exercise in 2022 would allow judges to "consider their own career and pay progression during the remedy period", and that although "most" would be better off returning to JUPRA/FPJPS, some may find NJPA membership more beneficial.

From April 2022, subject to parliamentary time and approval of required legislation, judges who are in service and eligible for a judicial pension will automatically join the reformed scheme, unless they decide to opt out.

The reformed scheme will be a career average scheme, unlike JUPRA/FPJPS which were final salary, but it will be tax-unregistered, like JUPRA/FPJPS.

The government confirmed that there will be no annual allowance or taper, and no lifetime allowance in the reformed scheme.

It will have an accrual rate of 2.5 per cent, with no restriction on the number of accruing years in service, and a contribution rate of 4.26 per cent.

Written by Jack Gray and Sophie Smith

NEWS IN BRIEF

The **High Court** has reinstated the power for the scheme actuary of the Iggesund (UK) Pension Scheme to select the scheme's inflation measure for pensions indexation, after it was unintentionally deleted from the scheme rules. The case centred on a power that was accidently deleted from the scheme's 1992 rules, which enabled the scheme actuary to select an alternative measure to the Retail Prices Index (RPI) for pensions indexation.

Pension companies must work to understand the characteristics of vulnerability that are likely to be present in their target market or customer base, according to new guidance from the **Financial Conduct Authority (FCA)**. The regulator's new guidance for firms on the fair treatment of vulnerable customers calls for companies from different ends of the financial services sector to be more aware of customers' vulnerabilities.

Active wealth, global expansion and fund services specialist, **Zedra,** has acquired independent occupational pension scheme governance support provider, **Inside Pensions**, for an undisclosed sum. The purchase was completed by Zedra with the aim of diversifying its service offering and expanding its business in the pension space.

Legal & General Assurance Society has agreed a £570m pensioner buy-in deal with the **Deutsche Bank (UK) Pension Scheme** in the "first step" of its de-risking strategy. The scheme has assets under management of around £4.5bn and a funding surplus.

VIEW FROM THE PLSA

The start of each year gives our policy board the opportunity to determine what key policy areas we are going to focus on for the year ahead.

Last year, we proposed that a new regulatory regime be established requiring pension schemes to support their members when making decisions on how to access their DC savings. This year we intend to make the case for its adoption by the government and regulators.

We want to make it easier for schemes to report on climate-aware investing by encouraging greater uniformity of reporting up and across the investment chain. We also want to encourage more ESG training.

People are not saving enough money for their retirements and pensions tax relief plays a key role in supporting pension saving. Therefore, any reform should be carefully consulted on before being imposed. Our goal is to persuade decision-makers to steer clear of changes that would damage pension provision.

We all know there is a small pots problem. It's therefore vital that we work to solve it in a way that reduces costs for schemes and operates in the interest of savers.

We want to help design appropriate protections for savers and to support the pensions industry prepare their data and connection to dashboards.

The PLSA will advocate for a DB funding regime that allows sufficient flexibility for open DB schemes, sets achievable goals for closed DB schemes, and adopts a suitable regime for multi-employer DB schemes.

PLSA director of policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PPF launches consultation on actuarial assumption changes

The Pension Protection Fund (PPF) has published a consultation seeking views to its proposals in changing the assumptions used for assessment and levy valuations to keep them in line with the bulk annuity market. The proposals included updating mortality assumptions and changing the discount rates for post-retirement

The Pension Protection Fund (PPF) has launched a consultation into changing the assumptions used for assessment and levy valuations in order to keep them in line with the bulk annuity market.

The proposals included in the consultation would be to update mortality assumptions by moving to the latest 'S3' series mortality tables and to use the CMI 2019 mortality projections model, as well as changing the discount rates for pensioners and non-pensioners post-retirement.

Additionally, amending the calculation for wind-up expenses and slightly reducing pensioner and non-pensioner benefit installation or payment expenses was mooted.

Looking into the impact of the changes, the PPF's consultation document estimated that the changes would reduce the value of scheme liabilities during a section 143 PPF assessment valuation, although it noted that the actual impact would differ based on a scheme's duration and membership profile.

Additionally, it was reckoned that changes to the levy valuations would improve the aggregate funding ratio of the 5,318 schemes in the PPF 7800 index from 93.5 per cent to 97.6 per cent and move 261 schemes from deficit to surplus, with the deficit of schemes in deficit reducing from £253bn to £204bn.

Under the Pensions Act 2004, the PPF is required to keep the assumptions in line with estimated pricing from the bulk annuity market.

The online consultation will end at 5pm 18 March 2021 and a summary of responses will be published on the PPF website, while the changes for valuations are set to be introduced on or after 1 May 2021.

PPF chief finance officer and chief actuary, Lisa McCrory, said: "As part of a regular review, in December last year we held discussions with eight insurance companies about whether our current assumptions were dated and need reassessing.

"Based on these discussions, we're now consulting on our proposals, to find out whether our updated assumptions strike the right balance with the bulk annuity market. We want to invite stakeholders to share their views on our proposals which will help shape future actuarial assumptions."

Written by Duncan Ferris

Uber drivers eligible for AE

Following a Supreme Court judgment that ruled they are not self-employed, Uber drivers will be eligible for auto-enrolment (AE), depending on their earnings

Editorial credit: Lutsenko_Oleksandr / Shutterstock.com

The Supreme Court ruling that Uber drivers are not self-employed could have "ripple effects" for all gig workers and move them towards being eligible for AE pensions, according to Aegon.

Following the ruling, Uber must classify its drivers as workers, rather than self-employed, which could give them the right to be auto-enrolled in a workplace pension scheme, depending on their earnings.

"The Supreme Court judgment that Uber drivers are 'workers' rather than 'self-employed' could have ripple effects for all gig workers, giving them not only rights to holiday pay, but potentially other workplace benefits such as employer pension contributions," commented Aegon head of pensions, Kate Smith.

"In the UK, pension provision is largely delivered through the workplace, and the self-employed, including gig workers, are excluded from the government's flagship AE policy.

"This reclassification is another step towards opening the doors to AE for all gig workers, giving them the opportunity to save for retirement, with the important boost of the right to a 3 per cent employer pension contribution."

Under current AE rules, an employer must enrol any employee between the ages of 22 and state pension age earning at least £10,000 a year, or £833 per month if paid monthly, into a workplace pension scheme.

Also commenting on the ruling, Broadstone technical director, David Brooks, noted that Uber drivers' AE pension rights will "need to be addressed and potentially retrospectively".

"This will be a massive administrative headache as drivers hours are not static and determined by how much they work, and likewise earnings will fluctuate," he continued.

"This late adoption by Uber will also require the highest level of contributions to be paid across 5 per cent of banded earnings, which may well result in more than normal opt-outs that could still leave their employees without pension provision in later life.

"This could also have repercussions for people in similar 'gig' occupations which could be huge."

The case has been running since former Uber drivers, James Farrar and Yaseen Aslam, won an employment tribunal against the firm in October 2016.

Since then, Uber has lost appeals in the Employment Appeal Tribunal, the High Court and now the Supreme Court.

Written by Jack Gray

NEWS IN BRIEF

The Pensions Regulator's (TPR's) use of statutory powers increased by nearly 50 per cent in Q4 2020 compared to the previous quarter, which the regulator described as "in line with expectations". TPR used its powers for AE breaches 24,799 times between October and December, compared to 16,559 times in Q3 2020. The number of escalating penalty notices issued in the quarter also increased, with 2,597 notices issued in Q4 2020, compared to seven in Q3.

The proportion of defined benefit pension transfers displaying at least one scam 'red flag' fell by 16 percentage points to 60 per cent in January, according to the XPS Red Flag Index. **XPS Pensions Group** emphasised that despite the "welcome fall" from the record high of 76 per cent seen in December, the volume of red flags seen by the scam protection service remains "significant".

The **government** has confirmed that regulations around the restriction of public-sector exit payments will be revoked in light of concerns that they may have "unintended consequences". The plans were announced following an "extensive review" of the application of the cap, which concluded that the Restriction of Public Sector Exit Payments Regulations 2020 should be revoked.

The UK is the world's third-largest pension market, having been overtaken by Japan in 2020, with assets totalling \$3.6trn (£2.58trn), according to **Willis Towers Watson**. The UK's ratio of pension assets to gross domestic product was shown to have increased to 135 per cent during 2020, with the global ratio having climbed by 11.2 per cent to a record high of 80 per cent.

VIEW FROM AMNT

Just before writing this piece, England beat India in the first cricket test, a marvellous and uplifting (for England fans) result, particularly as I witness the snowy landscape outside my house.

The word 'test' is aptly applied to cricket matches as it literally means 'by which the presence, quality, or genuineness of anything is determined'.

This also applies to the year 2020 personally and collectively. These certainly have been testing times!

The tests are not over for England as this is a series of matches and by the time you read this fortune will probably have changed. Similarly with the vaccine rollout, the testing times are not over, though we have a glimpse of a brighter future.

Pension trustees who have weathered the storm will still be tested over the next years, with the continuing strain on sponsors as the nation comes out of the slump, the ramifications of Brexit and the need to put environmental issues to the fore of investment strategies.

Cricketers may have inherent abilities but they still need help from an array of support staff; coaches, managers, physiotherapists and, in the modern game, data analysts and strategists. Seems like a pension board.

Trustees will need their support team and the assistance from sponsors in providing the necessary time and training. The AMNT will continue to focus on these issues to ensure we have a winning team.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

LGPS funds' fossil-fuel investments fall to nearly £10bn

Local Government Pension Scheme (LGPS) funds' fossil fuel investments were found to have decreased by 40 per cent since 2017 to £9.9bn, representative of 3 per cent of the scheme's total value. Despite the decline, climate campaigners have called for increased action from the funds to further decrease their exposure to fossil-fuel investments

LGPS funds hold investments of £9.9bn in fossil fuels, equivalent to £1,450 for each of the 6.8 million LGPS members in the UK, and representative of 3 per cent of the total scheme value, according to industry research.

Despite this, the report, produced by Friends of the Earth and Platform, found that there have been improvements, with this figure representing a 40 per cent fall since 2017, when £16.1bn was being invested by LGPS funds in fossil fuels.

However, it stressed that the figures only included investments in the top 200 most harmful fossil-fuel companies worldwide, clarifying that if this was to include all fossil extractors and companies that contribute to the industry, this figure would be "far greater" than £10bn.

Nearly three-quarters (72 per cent) of the investments, equal to around £7bn, were invested into fossil fuels through indirect investment vehicles.

As such, the report explained that local authority pension funds are in a particularly weak negotiating position with fossil-fuel majors, as only 26 per cent of their holdings in fossil-fuel companies are direct.

Welsh local authority pension funds had a collective investment in fossil fuels of £538m, while Northern Irish funds had £113m in fossil fuels, the highest proportion out of the four, representing 3.4 per cent of the scheme value.

It also revealed that 10 companies account for 70 per cent of local authority pension funds direct fossil-fuel investments, with BP, Shell and BHP accounting for 40 per cent of total direct investments across all local authority pension funds, roughly consistent with 2017.

In other news, British Airways has reached an agreement with the trustee of the New Airways Pension Scheme (Naps) to defer £450m in pension deficit recovery contributions due between October 2020 and September 2021.

A financing update from the International Airlines Group confirmed that the trustee agreed to the temporary deferment of monthly contributions of £37.5m from October 2020 to September 2021, with a total value of £450m.

The agreement includes the monthly contributions from October, November, December and January, which the Naps trustee agreed to defer whilst the negotiations were ongoing.

Written by Sophie Smith

Appointments, moves and mandates


Russel Picot

The Universities Superannuation Scheme (USS) has appointed Russel Picot as trustee board director. Picot was formerly HSBC Group chief accounting officer, and brings experience in both pensions and knowledge of broader environmental, social and governance (ESG) issues to the role. Prior to this, he held a number of external appointments, including as special adviser to the Task Force on Climate-related Financial Disclosures (TCFD), and trustee on the master trust LifeSight. His appointment comes amid the departures of both Kirsten English and Michael Merton, who stepped down from the board at the end of January.
USSL Board chair, Dame Kate Barker, commented: "We are delighted to be welcoming Russell to the board. He brings a wealth of knowledge of the financial services sector and considerable experience of working with pension schemes. His expertise in how investors tackle broader issues such as climate change will also be a welcome strengthening of our skillset."


Geoff McKenzie

Ross Trustees has appointed Geoff McKenzie as senior trustee manager. He joins from Clarks, where he was director of global pensions, having also previously held a similar position with Vodafone, and senior pension roles at Barclays. He brings more than 20 years of experience to the role, with experience in outsourcing scheme administration, and developing and executing member communications.


Louise Grindley

Independent Trustee Services (ITS) has named Louise Grindley as head of professional operations. Grindley joins the firm from Barnett Waddingham, bringing over 30 years' experience to the role. Previously, she has held roles at LCP and Aviva, and is a qualified PRINCE2 practitioner and Pensions Management Institute fellow. Based in London, her appointment represents the eighth major hire for ITS in the past year.


Joanne Fairbairn

PTL has announced the appointment of Joanne Fairbairn as client director. Fairbairn joins PTL from Marks and Spencer, where she held the role of head of pensions, having previously spent 12 years at Tesco as group international and UK corporate pension manager. She brings 30 years of experience to the role, having also previously worked as an actuary and consultant at Mercer for 14 years.


Ashok Gupta

Mercer has announced the appointment of Ashok Gupta as chair of the UK board, following the retirement of Jane Barker. Gupta will also chair the Risk Committee and the Nominations Committee. He has over 40 years' experience in the industry, and is also acting as a non-executive director at SunLife Financial, J.P. Morgan European Smaller Companies Investment Trust, and the Ethical Journalism Network.


Sally Bridgeland

The Pension Insurance Corporation (PIC) has added Sally Bridgeland to its board. She will join as an independent non-executive director and will also replace Steve Sarjant as chair of the Risk Committee, following his retirement. Bridgeland has held numerous executive and non-executive roles prior to this, including BP Pension Fund CEO and Lloyds Banking Group Pensions Trustees Limited trustee director.

XPS Pensions Group has been appointed as actuarial and investment advisers to the trustees of Mitchells & Butlers' pension schemes. The appointment follows a "competitive tender process", and will see XPS provide both actuarial and investment advice to the trustees of the two Mitchells & Butlers DB pension schemes, which have over £3bn in assets.
Alongside this, XPS Pensions Group has also been appointed actuarial and investment advisers to the Heart of England Co-operative Pension Schemes. The appointment was again made following a "competitive tender process", and will see XPS provide both actuarial and investment advice to its DB and defined contribution arrangements.
The trustees stated that they sought an adviser who clearly understands the unique way Co-operative Societies operate and could help effectively work with the society to implement an investment strategy focused on meeting its funding objectives and security of members' benefits. The scheme has nearly £50m of assets and provides pension benefits to around 1,000 members.

VIEW FROM THE PPI

Covid-19 is catalysing a systemic shift in how we use digital platforms and more people are interacting digitally with their pensions and finances than ever before. However, whilst the pandemic has prompted more frequent and effective engagement with technology for many, it has likely also exacerbated digital exclusion.

From 2009 to 2018, the proportion of UK adults over age 50 who reported regularly using the internet rose from 41 per cent to 74 per cent, driven by significant increases among people over 65. Although use among the under-50s is almost universal, narrowing access gaps bring positive news for digital engagement among older cohorts. At all ages however, participation rates mask substantial variation within and between population groups.

Today's digital divides reflect differences not just in who can access new technologies, but how they use them and the outcomes they are able to achieve. Explanations for variation in engagement are typically underpinned by factors that mirror existing social inequalities, shaped further by complex functional and attitudinal considerations.

The speed of digital transformation has precluded substantive opportunities to mitigate inequalities among low-use groups. For these people, a blend of targeted policy interventions and support from financial services providers will be key to ensuring the availability and continuity of services or resources, and that they can meaningfully be used by those who need them.

PPI research associate, Anna Brain

PENSIONS POLICY INSTITUTE
PPI

Market commentary: Fresh growth?

With vaccines being doled out like hot cakes across the UK, one could be forgiven for thinking that we are now jabbing our way out of the economic doldrums. The reality is quite a bit more nuanced than that, but with 2020 now clearly in the rearview mirror, analysts have been able to take stock of the year as a whole, along with freshly emerging data that is starting to reflect some semblance of recovery. It is nearly spring, after all, so what better time for fresh growth?

For example, Janus Henderson's Global Dividend Index in February showed that worldwide payouts had fallen by 12 per cent, or $1.26trn, in 2020, as one company in eight cancelled its payout altogether. This decline was actually less severe than had been feared, while dividends over the course of the ongoing year were slated to fall in between a range of a 2 per cent decline or 2 per cent growth.

Janus Henderson investment director for global equity income, Jane Shoemake, said that the impact of the pandemic had been consistent with a "conventional, if severe, recession", adding that a global approach would have helped many investors escape the "extreme" disruption suffered in some countries and sectors.

Indeed, pension funds were among those investors who seemed to largely escape 'extreme' disruption over the course of the full year, as Willis Towers Watson's *Global Pension Assets* study found that global institutional pension fund assets in the 22 largest major markets rose by 11 per cent to $52.5trn over the 12-month period.

Thinking Ahead Institute co-head, Marisa Hall, said: "In what was a highly tumultuous year, pension funds continued to grow strongly in 2020, underpinned by ongoing multi-decade themes such as the rotation from equities to alternatives and the growth of DC, now the dominant global pensions model. This paints a picture of a resilient industry in good health and relatively well placed to weather the effects – economic and otherwise – of the ongoing pandemic.

"This is good news for billions of savers around the world. However, this shouldn't mask the growing set of challenges that industry leaders face, particularly around addressing broader stakeholder groups' needs and wants, while continuing to deliver financial security for their fund members."

Elsewhere, there were hints of good news at the Office for National Statistics (ONS), which Quilter Investors portfolio manager, Paul Craig, said showed that "we could see a spring of hope as the economy rebounds once restrictions are finally fully lifted before the peak summer months".

He noted that evidence of this could be seen in the ONS' figures, which demonstrated "the unemployment rate continuing to tick up over the winter months to reach 5.1 per cent in the three months to December" but redundancies beginning to decline "since peaking in September". Additionally, the number of employers proposing redundancies dropped to its lowest point since the beginning of the pandemic in January.

However, Craig stressed that investors needed to be aware that many businesses were still facing "an uphill struggle" and would also have to deal with "the consequences of Brexit".

AJ Bell financial analyst, Laith Khalaf, was even more pessimistic, stating: "We might have a roadmap out of lockdown, but unemployment is still heading in the wrong direction and things will get worse before they get better. A cautious release from social restrictions may forestall a future lockdown, but it also serves to dampen economic activity and put jobs under pressure."

Written by Duncan Ferris

In association with

FTSE Russell Head of Sustainable Investment Solutions, Lee Clements

Green investing

Laura Blows speaks to FTSE Russell head of sustainable investment solutions, Lee Clements, about green investing, Green Revenues data and the EU Taxonomy

"Sustainability can be a very broad and subjective issue," FTSE Russell head of sustainable investment solutions, Lee Clements, points out in the *Pensions Age* podcast, *Green investing*.

"Therefore, what various stakeholders are trying to do is to define different areas of sustainability and then trying to find ways to create common language, metrics and goals to be able to achieve both the climate outcomes and find practical ways to implement the work that needs to be done."

Europe is one of the most active areas for working towards these aims, with a carbon-neutrality goal for 2050. The European Green Deal aims to generate the investment and action for this and is expected to require invested of around €1 trillion, Clements explains.

As part of that, there is a lot of expectation for the investment community to mobilise around climate finance, he adds. However, there are a wide range of green investment products that may not always match what is considered green or sustainable, Clements warns. Therefore the EU Green Taxonomy puts together a list of activities that will drive the EU environmental objectives.

"The benefit of the EU Taxonomy is around two main areas – one of them is achieving this common language goal," Clements says. "There are lots of concerns around green washing and around what is and isn't sustainable, and how to measure it, to help investors understand the green economy and have confidence in figures around the green economy."

The second area is a requirement for companies to disclose data around the degree to which their revenue streams are exposed to green products and services. It also requires investors to disclose the degree to which their portfolios are exposed to these green products and services, he explains.

"This should help investors to differentiate between portfolios that are highly exposed to the green economy or have little exposure and help investors to mobilise more finance towards these areas," Clements adds.

To help with this, FTSE Russell has developed a structure, measurement methodology and process to meet client demand for quality data to help truthfully size and monitor aggregate and individual contribution to the growing green economy – Green Revenues.

"What Green Revenues has done is use a detailed taxonomy of activities, analysing more than 16,000 companies globally, to find all of the disclosed data around revenue exposure. Where the data isn't disclosed it uses a robust system of indicators to estimate a level of exposure to the green economy and so can provide investors with a detailed database that they can use to generate both investment ideas and analyse their portfolios for reporting purposes," Clements says.

"We have been working with a number of investors with this, including Aberdeen Standard, who recently announced that it will be using the solution to help it manage both the regulatory requirements and the opportunities that are afforded by the EU Green Taxonomy," he adds.

Through FTSE Russell's work with UK government institutions, it is aware that the government will be developing a taxonomy solution in line with the EU Taxonomy's goals. "It will not necessarily be a carbon copy but UK pension funds should be aware of this and expect something similar coming down the line for them," Clements says.

Pension funds as investors should also be considering it as part of their overall sustainability process and as a potential source of green alpha, he adds.

"In our latest report we highlight that the green economy is around 6 per cent of the global listed equity market. It is bigger than the fossil fuel economy, it is more than $5 trillion of exposure and is very globally diverse. So over and above any regulatory requirements that pension funds would be looking at, it also provides a strong investment opportunity for them as well."

To find out more about this subject, and to listen to the podcast, please visit www.pensionsage.com

VIEW FROM THE ABI

Environmental, social and governance (ESG) investing has grown significantly, with consumers considering the impact of their money and institutional investors looking to reduce risk exposure over the long term.

We surveyed members in the automatic enrolment (AE) market to ask how ESG is incorporated into default funds, about consumer engagement and how members see the market developing.

Our survey showed that members take ESG seriously and have integrated it into much of their AE propositions, including in default funds. Our members show a clear preference towards stewardship over divestment and will only consider divestment after they have exhausted several avenues in attempts to pressure companies to change their practices.

On the consumer side, members have found that interest is rising, although over 70 per cent of the public still do not know that their pension is invested. Those that do will care about how their pensions are invested, although may struggle to see the connection between events in the news and how their pensions could be affected. These customers trust their provider to be informed.

As interest in ESG grows, so will scrutiny, and it will be important to build consumer trust. In our study we identified that members would like to see clearer guidance, more robust reporting processes and definitions.

ABI policy adviser, Reuben Overmark

Soapbox: #Alwaysapensionsangle

The recent Gamestop share price saga caused waves in the investment industry, as those both familiar and foreign to the market watched with bated breath to see what would happen.

Regardless of the potential regulatory challenges that this might cause, however, I can't help but consider the pensions angle of what is, effectively, a large group of consumers making their voice and beliefs heard, albeit with significant ramifications for the market and their savings.

This momentum may have in part been driven by a sense of one-upmanship from small investors against large institutions, but it also reflects a more steadily growing, and perhaps more virtuous, momentum in the responsible investment space. After all, if pension savers could unite as readily as Reddit users, perhaps the industry would be working at a faster pace to integrate ESG factors into their investments.

Consumer campaigns are increasingly tapping into the channels and platforms that have created such momentum, such as Twitter, Reddit and TikTok, with the Make My Money Matter campaign, for instance, launching several 'star-studded' initiatives on social media, such as its recent Valentine's campaign.

The investment industry itself is also taking advantage of this momentum, with Fidelity Investments recently holding an investment Q&A session on Reddit.

Yet these same platforms are also plagued by financial misinformation, much of which focuses in on the temptation of an 'easy win' from the stock market. These posts often have millions of views, which may be unsurprising given the financial stressors of the pandemic combined with the abundance of spare time at home; but the impact on consumers can be huge.

And misunderstandings persist, with research from AJ Bell revealing that only one in five crypto investors would be willing to lose their entire investments, despite warnings from the FCA that they should be prepared for exactly this scenario. These savers may also be reluctant to seek further guidance, with some potentially convinced that they know better thanks to recent 'wins', whilst those who faced large losses may struggle to trust financial services.

These misunderstanding can be just as prominent in the pensions space, with a recent survey from Cushon revealing that 95 per cent of savers were oblivious to their pensions' CO2 emissions, despite an increasing number of providers and pension schemes making efforts to address climate change.

Indeed, the PLSA has argued that the industry is missing an opportunity to engage with savers on the proactive steps they are taking against climate change, after a survey revealed that 59 per cent of workplace pension holders did not know if their scheme was taking any action at all.

Communicating these steps with savers is crucial, not only from an engagement perspective, but also in terms of transparency and trust.

This is perhaps especially true when considering the steps a scheme is taking to engage as a stakeholder, particularly after analysis from Octopus Renewables warned that the pandemic will "significantly slow" the pace of divestment from fossil fuels.

Savers are engaging with the financial world, but not always through the channels we'd expect, and if the industry wants to educate members, it needs to take the message to them. There may well be #alwaysapensionsangle, but the industry needs to be in the right place, ready to join the hashtag, if it wants to take advantage of the momentum.

Written by Sophie Smith

Pensions and climate change

Matthew Swynnerton looks at the DWP's consultation on regulations introducing new requirements in relation to occupational pension schemes and climate change

The Pension Schemes Act 2021 provides a legislative framework for requiring trustees of occupational pension schemes to make disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. It contains powers for regulations to be made imposing requirements on trustees in relation to governance and disclosure. Following an August 2020 consultation on policy proposals, on 27 January the DWP published a consultation on draft regulations and draft statutory guidance.

Schemes in scope

Under the draft regulations, schemes that, on the first scheme year end date which falls on or after 1 March 2020, have relevant assets of £5 billion or more (with individual and bulk annuity contracts excluded from the value of assets for this purpose) have to comply with the governance requirements. Compliance is required from 1 October 2021 or, if later, the date that they obtain audited accounts for the relevant scheme year. Trustees of authorised master trusts and authorised collective money purchase schemes (irrespective of size) will also have to comply with the governance requirements from 1 October 2021 or, if later, the date on which the scheme is authorised. The draft regulations provide for the requirements to apply one year later for schemes that have relevant assets of £1 billion or more on the first scheme year end date which falls on or after 1 March 2021.

The requirements

The new governance requirements include that trustees must:

- establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme;
- identify and assess the impact of climate-related risks and opportunities which they consider will have an effect over the short, medium and long term on the scheme's investment strategy and (where it has one) funding strategy;
- as far as they are able, undertake scenario analysis assessing the impact on the scheme's assets and liabilities and the resilience of the scheme's investment strategy and (where it has one) funding strategy for at least two scenarios;
- establish and maintain processes for the purpose of enabling them to identify, assess and effectively manage climate-related risks relevant to the scheme;
- select an absolute emissions metric, an emissions intensity metric and an additional climate change metric to calculate in relation to the scheme's assets; and
- set a target for the scheme in relation to at least one of the metrics.

Trustees in scope of the regulations will also be subject to new trustee knowledge and understanding requirements in relation to climate change risks and opportunities.

Trustees will have to publish annual TCFD reports containing specified information within seven months of the end of the scheme year. The TCFD report will have to be published on a publicly available website, accessible free of charge and the website address will have to be provided in the annual report and accounts, annual benefit statements, summary funding statement (for DB schemes) and the scheme return.

Smaller schemes

The consultation states that the DWP will begin an interim review in the second half of 2023 which will enable it to assess how effective the regulations have been, allow identification of best practice, and will determine whether to extend the requirements to smaller schemes from late 2024 or early 2025, following consultation.

In January, the Pensions Climate Risk Industry Group published non-statutory guidance for trustees on assessing, managing and reporting climate-related risks in line with the TCFD recommendations. This guidance is designed to complement the new statutory requirements for schemes in scope and to provide a starting point for the integration of climate issues into existing trustee governance processes for schemes of all sizes. The Ministerial Foreword to the guidance states that it will be of use to all trustees, refers to the 2023 review in relation to smaller schemes and states that, with that in mind, trustees of those schemes should start looking at this guidance now and begin building their knowledge and understanding.

Conclusions

Trustees should include considering the regulations, statutory guidance and non-statutory guidance and actions that they should take as a result of them in their plans for the months ahead.

Written by DLA Piper pensions partner, Matthew Swynnerton

In association with

DLA PIPER

VIEW FROM THE SPP

As we emerge from a year of restrictions, it is possible to view the opportunities for advancement in the pensions sector with optimism.

While we have been prevented from leaving our homes, technology has stepped in to facilitate what we need and want to do.

Of course, the creation of more sophisticated ways of interacting brings with it the challenge of protecting individuals from those with ill intentions (pension scammers prime among them).

But when we look at what policy, legislative and regulatory changes have created in recent times, we see a framework that gives impetus to the management of climate change risk through responsible investment, the consolidation of DC investments into fewer better governed providers, and a solution to the small pots issue that is a drag on auto-enrolment.

So the political desire is there and the legal parameters are being set. It will be over to our industry to develop new solutions with the ultimate objective of advancing the outcome for each individual who has placed their wealth and trust in pension provision.

This is an exciting time to be part of the UK pensions industry and one when, if the opportunities are embraced responsibly and with conviction (using technology as a tool), the pension outcomes for millions can be enhanced.

SPP FS Regulation Committee member, Simon Daniel

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On the launch of industry guaranteed minimum pensions (GMP) equalisation tax guidance

"Since the first judgment in the Lloyds Bank case established once and for all the need to equalise, there has been a natural desire to get on with it. But schemes continue to be faced with difficult unresolved issues – tax often being one of the knottiest. Many schemes want to implement GMP equalisation projects as soon as they reasonably can, and we hope this guidance will help the industry address tax issues in a pragmatic and proportionate way."

GMP Equalisation Working Group tax sub-group chair, Daniel Gerring

On the increase in enforcement activity from The Pensions Regulator

"The use of our powers declined significantly in the early months of the pandemic, as we introduced measures to support employers to ensure that they were not unduly penalised during a period of unprecedented administrative and financial disruption. We did not want to make a bad situation worse. As we anticipated and following the introduction of government support for employers, we have now lifted those easements and are returning to normal levels of enforcement activity."

TPR director of automatic enrolment, Mel Charles

On government plans to revoke public sector exit payment regulations

"It's great the government has finally seen sense and stepped back from this damaging regulation that threatened to blight the retirement of millions of workers. Through no fault of their own, long-serving staff over the age of 55 and facing redundancy would have been hit by the regulation. The government has wasted much time and money and should now abandon any plans to re-introduce the regulations. Instead, ministers should concentrate on supporting dedicated public service workers who are delivering for their communities in the most challenging of circumstances."

Unison general secretary, Christina McAnea

On the Supreme Court judgment ruling that Uber drivers are workers

"In the UK, pension provision is largely delivered through the workplace, and the self-employed, including gig workers, are excluded from the government's flagship auto-enrolment (AE) policy. This reclassification is another step towards opening the doors to AE for all gig workers, giving them the opportunity to save for retirement, with the important boost of the right to a 3 per cent employer pension contribution."

Aegon head of pensions, Kate Smith

On the need for greater climate change awareness in pension savings amid evidence that savers are 'oblivious' to pensions' CO2 emissions

"It is about time we put people's pension savings to good use in the battle to protect our planet and knowing their money can help long-term sustainability will encourage more people to feel proud of their pensions."

Former Pensions Minister, Baroness Ros Altmann

DC investment: Putting the ‘trust’ in trusteeship

Chris Inman highlights the importance of ensuring DC default investment strategies provide the best outcomes for members, and how target-date funds can help achieve this

How have your scheme members been spending their spare time during lockdown? If they are typical of the UK population and according to the Office for National Statistics, 71 per cent of them will have been streaming films and boxsets. They might have contributed to the 149 per cent increase in time spent doing DIY or gardening, or benefitted from an average 18 minutes a day of extra sleep.

It is far less likely that they will have been checking their pension savings. Aon’s 2021 DC member survey, *Keeping on Track in Challenging Times*, found that only 7 per cent of the 2,000 DC scheme members we surveyed in October 2020 said they had checked the performance of their pension investments during the first quarter of the year. And a mere 8 per cent said that they intended to check their performance over the next 12 months.

On the surface, those statistics seem disastrous. If members will not check investment performance during one of the biggest crises in living memory, when will they?

Viewed another way, these are positive findings. With nearly 40 per cent of survey respondents saying they have been impacted financially by employment changes as a result of Covid-19, now is not the right time for members to start attempting to manage their own pension investments.

Instead, they are outsourcing investment decisions to the people who are best able to manage them: trustees, investment consultants and fund managers. This helps members to avoid the risk of poor decisions, such as moving assets at the wrong time and crystallising losses.

But default strategies are evolving fast. We know from the experiences of the 2008/2009 financial crash that a ‘set and forget’ lifestyle approach, which moves members from equities into bonds or cash as they get closer to retirement, also risks crystallising losses and leaving members with depleted savings.

In contrast, investment strategies such as target-date funds (TDFs) set goals for returns over the long term. We have adopted this approach for our Aon DC MasterTrust, as well as offering our newly-launched target driven investment strategy to schemes more widely.

Rather than simply switching from equities to bonds at a specific point in time, we assess whether investment returns are on track to meet the long-term goals of the TDF. If members’ returns have performed below our expected level, we can retain growth assets for longer – even if the member is approaching retirement. Similarly, if markets perform well, we can ‘bank’ some of the gains and reduce risk earlier.

Another finding from our 2021 research focused on responsible investment. Given that only 7 per cent of members looked at the performance of their savings at all, perhaps it is not surprising that just 4 per cent had explored whether their pension investments were in line with their environmental and ethical beliefs.

Again, this is not because members do not care – but is indicative of the fact that they expect their scheme to be monitoring this on their behalf. Impact investment strategies, such as Aon’s Global Impact Fund, mean trustees can share good news stories about ways that members’ contributions benefit society. This has the potential to help engage members, but without actively involving them in the complexities of responsible investment.

DC schemes have traditionally focused on encouraging members to contribute as much as possible, then hoping investment returns and market timing work to their advantage. But this is too high-risk. It is vital to go back to first principles with all default strategies and to set clear objectives for returns over time. It then becomes much easier to build and monitor a strategy that meets those objectives. Using goals such as the Pensions and Lifetime Savings Association’s Retirement Living Standards can be a good starting point.

If members outsource pensions investment to the experts that run schemes on their behalf, it is vital that those experts deliver an appropriate outcome for them. All schemes must step back and ask whether their default investment strategy is worthy of the trust that members have placed in it.

Visit http://aon.io/3aVfTlE to view Aon’s survey results.

Written by Aon head of DC investment advisory, Chris Inman

VIEW FROM THE ACA

In a report published last month, *Pensions: Build back better,* we set out six key areas where we are looking to the government to make further reforms in the current parliament.

The policy recommendations reflect on the findings of the ACA's *2020 Pension trends* survey, which exposed a range of weaknesses in the UK pensions system that warrant attention from the government to support changes often widely sought by business and the pensions industry itself to extend and deepen provision.

We believe that as the government builds its medium-term policy response to the pandemic it is essential that proposals form part of a wider intergenerational strategy covering all aspects of tax and savings, including pensions and social care, and that this will help to protect the needs of society for generations to come.

Our latest survey found there's strong business support for the policies set to become law through the Pension Schemes Act in 2021. Pensions are becoming central to tackling climate risk, with savers demanding action and schemes beginning to grasp the nettle. DB schemes getting access to commercial consolidators and a funding regime focused more towards the long term are both strongly supported. And there's support for collective defined contribution as a new way of saving beyond just Royal Mail.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Diary: March 2021 and beyond

Sustainable Investment Summit 2021

17 March 2021
Online

The Sustainable Investment Summit offers pension funds, insurance companies, charities and corporates the opportunity to learn and network alongside their peers at a key time for the sustainable investment industry. This one-day conference will offer delegates up-to-date knowledge and guidance they need to help them understand all aspects of the sustainable investment market.

For more information, visit:
sisummit.net/index

Pensions Age Spring Conference

22 April 2021
Online

The Pensions Age Spring Conference, which has become a must-attend event in the UK pensions calendar, offers pension funds and those working in the pensions sector the chance to learn and network alongside their peers at one of the most dynamic yet challenging times in UK pensions history. This conference, which is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, will offer delegates the knowledge and guidance they need to help them run their pension schemes and meet members' needs.

For more information, visit:
pensionsage.com/springconference

PLSA Local Authority Conference 2021

18-19 May 2021
Online

The Local Authority Conference is the largest of its kind dedicated to the Local Government Pension Scheme. Speakers in 2021 will include senior policy makers and influencers, high-profile industry figures and people with something to teach us from outside pensions. The varied programme will feature keynotes, interactive roundtables and discussions, sponsor showcases and lightning rounds.

For more information, visit:
plsa.co.uk/events-local-authority-conference

Asset Management Awards 2021

20 May 2021
Online

The Asset Management Awards are designed to recognise outstanding achievement in the UK/European institutional and retail asset management spaces. The awards' objective is to honour outstanding professionals and firms, to recognise, celebrate, and promote best practice, to support continuing development, contribute towards raising standards of asset management and to provide recognition.

For more information, visit:
moneyage.co.uk/assetmanagementawards/

Visit www.pensionsage.com for more diary listings

Month in numbers

11%

A total of 11 per cent of over-50s have paused or halted their pension contributions due to the Covid-19 pandemic, with 4 per cent reducing their contributions and 7 per cent ceasing them altogether, research from SunLife has revealed. The survey also found that the worldwide pandemic has caused 40 per cent of over-50s to worry about the future, with 34 per cent being concerned specifically about their finances, and a third of this subset expressing specific worries that their money might "run out".

15 million

Over a quarter (29 per cent) of UK adults, equal to around 15 million people, say they do not have a pension, increasing to as much as 44 per cent in some areas amid "big regional differences", research from Interactive Investor has found.

£30bn

Final volumes from the bulk annuity market in 2020 are estimated to have broken £30bn but fallen short of the £43bn achieved in 2019, according to a Q1 update on the market from Aon.

A systematic approach to global macro

CFM's head of quantitative investment solutions, Philip Seager, talks to *Pensions Age* about the diversification benefits of systematic global macro for pension portfolios

What is the current investment climate and how should investors adapt to this?
Central banks and policymakers have reacted quickly to the Covid crisis with ultra-loose monetary policy and aggressive fiscal stimulus packages. Once the vaccine covers a large part of the population and consumer spending resumes, one can easily foresee an imminent spike in inflation. This rise will likely be temporary but there are reasons to suggest a more permanent regime could take hold, with people retiring younger and a pullback in globalisation and immigration, all creating a lack of workers. Also, central banks are arguably becoming more comfortable or borderline complacent to inflation risk. Our research finds that over the past 20 years, there is a negative correlation between developed market government bonds and equities. Going back over a century, the bond/equity correlation was positive, so this negative correlation has really been an outlier. We argue that this flip to a negative correlation was a behavioural change as investors became comfortable with central bank easing – meaning when the economy weakened then central bank easing no longer stoked inflation. If rising inflation now pushes the correlation between bonds and equities back to positive, then bonds are no longer an efficient diversifier.

In such a climate how do we most effectively diversify equities? Or even better, hedge?
Investors often confuse diversification with hedging. Diversification means uncorrelated, so if equities go down then your diversifier can either go down with equities or go up. Just because it goes down when equities go down doesn't mean it is not a diversifier. If you want something that goes up when equities go down then you are looking for a hedge. Many macro strategies tend to be a natural diversifier from equities but not many are a real hedge. A genuine hedge strategy is quite rare. In the absence of bonds being a good hedge or even a diversifier what should one do? We have been exploiting trend following (TF) effects since CFM's 1991 creation to generate positive returns. TF is a long-term positively drifting strategy. We believe that this positive performance is due to a behavioural bias where investors 'need' to follow trends, which become self-fulfilling. TF is also a mechanical hedge, just look at the performance of CTAs in 2008! It is the positive drift that makes TF different to buying options though. With buying options you get an equity hedge but it comes at the cost of a negative drift. Taking the right mix of systematic macro and adapted TF strategies and blending with equities, provides both a diversifier and a hedge.

How can this Systematic Global Macro (SGM) programme help with diversification? And how does this differ from discretionary macro?
Macro programmes generally tend to be uncorrelated with equities and also with most other strategies and asset classes. If they are uncorrelated and have a positive return profile, when blended with traditional portfolios you get improved risk-adjusted returns. SGM takes macro ideas and builds an algorithm to capture that effect in an automated fashion. The skill of the systematic macro manager is to take only those strategies whose performance is not just a statistical fluke. In investment, as in many areas of daily life, algorithms are efficiently used to absorb, treat and analyse vast amounts of data to make decisions. It is our belief that this trend towards automation can only continue and that algorithms will have an increasing advantage over discretionary investors over time.

What benefits can SGM provide for pension fund portfolios?
The good thing about systematic macro is there is always a rationale behind the strategy that can be explained. Pension funds want to have that understanding, transparency and explanation. Pension funds often hold public and private equities, bonds and perhaps some credit, infrastructure, real estate etc. Most of these instruments have some equity exposure or premium embedded in them – so diversification is difficult. Macro-style strategies bring genuine decorrelation and diversification, which will improve risk-adjusted outcomes (if they perform positively). Because bond returns are looking poor and interest rates are at historic lows, with inflation potentially picking up, one can argue that this macro approach can be a good replacement for bonds. This approach, coupled with the transparency and understanding that you can get from SGM, makes it a positive addition to a pension fund portfolio.

Changing the game

Duncan Ferris chats with Smart Pension group managing director, Will Wynne, about being motivated by positivity, trying to remember childhood French, and combative dinner parties

What's your employment history (including jobs outside of pensions)?
First job was in the City, working in private equity at Crédit Agricole Indosuez for five years.

In 2003, I took up a role in digital marketing at eBay UK as just the 30th UK eBay employee. I left to co-found my first business, Arena Flowers, in 2006. Arena is the UK's most ethical florist, and as a platform, partners with third parties to manage end to end their flower category.

What's your favourite memory of working in the pensions sector?
When Smart Pension went live and we'd turned a painful paper-based process into something you could get done on your phone in a few minutes. Game changer.

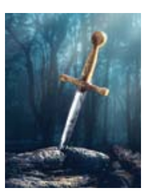
If you did not work in pensions, what sector do you think you would be in instead?
I'm a big fan of empowering people through technology and I like to work in 'good' businesses which help people live more fulfilled lives. Arena is the world's first carbon neutral florist and Smart qualifies as an impact company as defined by the UN. I would always hope to be doing something positive like that.

What was your dream job as a child?
My dad was a businessman working in Kinshasa, Zaïre, with his finger in countless sectors – vehicles, minerals, agriculture, transport. I think I wanted my dad's job!

What do you like to do in your spare time?
I don't get too much of that, what with the day job(s), but I tend to like to spend it with my family; I have one-year-old and three-year-old daughters, family in the UK and my wife's Kiwi family.

Do you have any hidden skills or talents?
I can skydive? I did 36 jumps but the novelty wore off, while the risk of death remained the same so I packed that in! Also, I was educated in Kinshasa speaking French but taught myself to read and write English so I could read my sister's comics.

Is there a particular sport/team that you follow?
I used to follow most sports but I started to get bored of the whole circus, so now I just watch events like the Olympics and World Cup.



If you had to choose one favourite book, which would you recommend people read?
The Once and Future King by TH White (about Arthurian legend). I read it when I was bedridden for two weeks with cerebral malaria in Kinshasa and it made quite the impression on a delirious 10-year-old me.

And what film/boxset should people see?
We recently watched the last season of *Spiral,* a gritty and long-running French police drama. Aside from being a great programme, I enjoy trying to follow the French. Not easy and the subtitles are definitely on!

Is there any particular music/band that you enjoy?
My family wasn't particularly musical in my childhood and my prep school banned it, so when I got to public school aged 13 my new friends enjoyed schooling me on many different types of music. I think Led Zeppelin made the biggest impression on them, and so on me too.

Who would be your dream dinner party guests?
Elon Musk. Andrew Neil. Richard Dawkins. That would be a total mess actually. Maybe throw in Jeff Bezos to see him and Musk have another round of their jousting, moderated by Neil, with Dawkins as the analyst commentator.

Is there an inspirational quote/ saying you particularly like?
When running my own businesses, I've been continuously reminded that "assumption is the mother of all **** ups" is true. Watching *The Last Dance,* I also enjoyed Michael Jordan's quote "There's no I in team but there is in win". I guess you can say that if you're MJ!

Written by Duncan Ferris

Barnett Waddingham Head of DB Endgame Strategy, Ian Mills

DB journey plans

Pensions Age editor, Laura Blows, speaks to Barnett Waddingham partner and head of DB endgame strategy, Ian Mills, about planning and monitoring DB journey plans

"Flexibility is key. No DB journey plan is ever going to work exactly as modelled, as 2020 has demonstrated," advises Barnett Waddingham partner and head of DB endgame strategy, Ian Mills, in the *Pensions Age* podcast, *DB journey plans*.

According to Mills, a well-designed journey plan should cover every aspect of the scheme. "It is not just an actuarial or investment issue. It needs to think about legal, accounting, admin, employer covenant, all of these things need to be considered and all the perspectives of all the stakeholders need to be taken into account."

When establishing a journey plan, the first requirement is to agree the destination, such as buyout, low dependency or self-sufficiency, and translate that into something that is measurable, on an actuarial basis for example. Then think about the timeline, Mills adds. "This considers scheme maturity, employer covenant and quality of the data."

After this is the setting of the 'four levers' of pensions strategy, Mills says.

"The first two are obvious and well understood – investment returns and contributions. You can clearly solve the deficit by growing assets faster or by putting more money in.

"But the second two of the four levers can be just as significant. Lever number three is the time lever. Simply, it recognises that time can be a great healer. Sometimes just waiting can be enough to repair your deficit.

"The fourth level is the member option lever. This recognises that the liabilities you are aiming at are not fixed and will depend on the decisions members make, for example members transferring out of the scheme."

Setting the journey plan is about setting the right level of reliance on each of these four levers, Mills says, along with designing a framework for how they should be adjusted.

"What will often happen is a pension scheme will come up with a strategy and inevitably it will not go to plan. Having that conversation about what you are likely to do if you get behind or ahead can help you react more quickly when you get there," he explains.

To know how – and when – to adjust the levers, the scheme requires up-to-date, live information, delivered in an easy-to-use format. This is where Barnett Waddingham's DB Navigator framework comes in.

The DB Navigator is a framework for designing and managing a journey plan, "with the managing being just as important as designing it", Mills explains. The framework helps ensure that all involved with helping steer the scheme towards its end goal have considered the following five questions – what should your journey plan look like, how are we going to measure progress, how can the journey plan be optimised along the way, how do you get ready for the final leg and what happens when you reach the end, he adds.

"At the heart of the DB Navigator framework is our Illuminate monitoring dashboard, which allows trustees to monitor what matters to them, as it is fully customisable," Mills explains.

"When used right this effectively drives the agenda for trustee meetings because trustees can look at the dashboard and if there is something there that is out of kilter the rest of the meeting can then be used to discuss how to correct that."

As Mills says, DB Navigator helps schemes with journey plan design and monitoring, "so that everything else can fall into place as they get to the end of their journey plan without any nasty surprises".

To find out more about this subject, and to listen to the podcast, please visit www.pensionsage.com

Summary
• TPR has been granted a number of new powers in the Pension Schemes Act, including the ability to impose criminal and civil sanctions. The new powers are expected to increase focus on pensions in the context of corporate activity, putting schemes on a stronger financial footing and ultimately benefitting the members.
• There have been concerns that standard business practices may be caught within the new powers, impacting on sponsoring employers' ability to pay dividends, obtain debt or undergo corporate restructurings. There may also be a decline in lay trustees due to the perceived risk of involvement with a pension scheme.
• TPR and the DWP have highlighted that the powers will not impede upon standard business behaviour and is intended just for 'wilful and reckless' behaviour. The criminal and civil sanctions are expected to be used mainly as a deterrent.
• Consultation and guidance are expected before the powers are implemented in the autumn. In preparation for this, it is recommended that employers and trustees receive training and advice, as well as review corporate governance practices and liability insurance.

On the radar

The Pension Schemes Act features new powers for The Pensions Regulator from the autumn, including criminal sanctions for 'any person' acting to the detriment of the pension scheme without 'reasonable excuse'. Concerns have arisen that anyone, however distantly impacting a pension scheme, may be at risk of prosecution simply by going about standard business actions. To what extent are these fears justified and what preparations can be done while waiting for further guidance? Laura Blows finds out

Section 107 of the Pension Schemes Act, amending section 58 of the Pensions Act 2004 regarding sanctions for the avoidance of employer debt, may not sound likely to set alarms ringing, but its dry words have flashed up on the industry's radar as a cause for concern.

The Pension Schemes Act grants new powers to The Pensions Regulator (TPR), including extending its information-gathering powers by giving the regulator the power to require individuals to attend an interview, as well as extending the existing notifiable events regime.

It also includes two new Contribution Notice triggers that will apply where a party engages in an act or course of conduct that reduces the amount that may be available on the insolvency of a sponsor or which reduces the value of a sponsor to a material extent.

However, the new powers garnering the most attention are that of section 107, about criminal and civil sanctions, such as imprisonment of a maximum of seven years or fines of up to £1 million, which can be issued for such reasons as knowingly causing material risk to the likelihood of pension benefits being paid or providing misleading information.

"The government is committed to increasing protections for workers' retirement savings, and the Pension Schemes Bill will do just that. There must be no hiding place for those intent on jeopardising the retirement prospects of hard-working people," a Department for Work and Pensions (DWP) spokesperson says.

Speaking when the Pension Schemes Bill was announced in October 2019, TPR chief executive, Charles Counsell, said that the bill would give it the power to set and enforce clearer scheme funding standards in defined benefit (DB) pension schemes, while also providing early warning of potential problems.

"Where problems do arise, new criminal sanctions and civil fines will act as a strong deterrent against risky and reckless behaviour, giving us flexibility to issue fines at the appropriate level, depending on severity," he added.

"The powers in the bill are quite different to what was originally proposed in the white paper," LCP principal, Laura Amin, says. "Much of the focus of parliamentary discussion was on the new criminal offences and on their use to target 'wilful and reckless' behaviour (as originally proposed) compared to what is now in the bill and act. There was very little discussion on the detail of how the offences would be applied and little discussion on the detail of the new Contribution Notices and other powers."

Lincoln Pensions director, Luke Hartley, notes that while the new Contribution Notice tests may reflect the challenges faced by TPR in using its powers historically, the 'wilful and reckless behaviour' alludes to the pensions issues that arose from Carillion and Philip Green's interaction (or lack thereof) with the BHS pension scheme.

Worthy goals indeed, and yet the new TPR powers, particularly the criminal and civil sanctions, have been subject to a great deal of concern. Why so?

Concerns

A key worry has been the scope of the new provisions. "The Pension Schemes Act has given TPR the power to target a much broader range of behaviour and individuals. This legislation – particularly the new criminal offences and civil penalties contained in section 107 – means that instead of focusing on the rare incidents of rogue directors damaging pension schemes and savers, new criminal offences could apply to an extremely wide range of parties and actions," PLSA deputy director of policy, Joe Dabrowski, says.

"Before the bill passed into law, TPR already had a broad range of powers to extend pension liabilities beyond employing companies, to their 'associates' and 'connected persons'. The new offences however apply to 'any person'. Third parties such as banks, trade counterparties and landlords could find themselves at risk of being found to have committed a criminal offence in relation to normal interactions with a pension scheme, which previously carried no responsibility. So could government bodies that deal with the private sector, pension trustees, advisers, insurers, banks that lend to employers, investment counterparties, or anyone who deals with the employer in any capacity whatsoever.

"The PLSA has, and continues to, support the underlying policy objective of creating a criminal offence for the most serious conduct – especially in the wake of the well-publicised BHS and Carillion crises – that harms pension schemes. However, the legislation has set the bar much lower, despite the frequent and unanimous concerns expressed by the industry."

Also, the new criminal offences and £1 million civil fines will apply where the person takes such action without a 'reasonable excuse'. According to Herbert Smith Freehills regional head, Samantha Brown, it is unclear what will amount to a 'reasonable excuse', particularly where decisions and actions are being examined with the benefit of hindsight and in circumstances where things have gone wrong.

"TPR's new powers have significantly increased the risk-profile of running a DB scheme. Although trustees and their advisers are within the scope of the powers, we would expect both barrels of the regulatory gun to be pointing at employers. This provides a real incentive for employers to become more engaged with their trustees and scheme governance generally. They need to be doing the right thing and to be seen to do the right thing, under the watchful gaze of TPR," Squire Patton Boggs partner, Matthew Giles, says.

Impact

For Amin, the new criminal offences could potentially have "significant and far-reaching implications to the UK pension system as we know it".

For example, she says, it leads to questions such as whether a lender requesting additional security to support an increased lending facility for a struggling company with a DB scheme come under the potential scope of the offence, or if a director signing off a dividend is at risk of the offence if a cash contribution is not made at the same time to the DB scheme on what TPR would consider to be an equal footing.

While the prospect of criminal offences is causing the most attention, the two new Contribution Notice Tests will potentially be more significant in terms of their impact, Amin adds.

"For example, it is likely any material restructuring or dividend decision will need to be tested in detail against the new requirements. In some cases, what has previously been considered normal business activity will now breach the requirements, and the sponsor may need to agree mitigation with the trustees of the scheme," she says.

"This could add to board governance costs, because a wider range of corporate activity will need to be considered through the pensions lens, requiring trustees to be involved sooner than usual in the process and for it to be demonstrated that they have balanced the needs of the business with the needs of the pension scheme – which may mean that corporate options will be more constrained than in the past."

Pensions becoming a more focal issue in corporate actions appears to be a primary objective of the legislation, but, Hartley warns, "otherwise beneficial proposals could become uncommercial if pension issues cannot be addressed swiftly and pragmatically. Over time, this could lead to more business failures".

This constraint could also be problematic as the impact of the Covid-19 crisis has illustrated the need for employers to be able to take quick actions in unprecedented circumstances, Dabrowski says.

"The act could result in employers and trustees being afraid to take necessary steps to do what's best for the business and pension scheme in the long run due to fear of falling foul of the offences, or for normal activities to be mired in unnecessary compliance, or simply to stop altogether. There is also the quite real risk that it will deter people from wanting to be trustees."

Independent Trustee Services director, Nita Tinn, agrees that the criminal sanctions will impact the ability to attract and retain both company-appointed and member-nominated lay trustees, "with many likely to be deterred from taking on the role, especially as criminal sanctions are not generally possible to insure against"; the result being an increased need for professional trustees.

Another potential area of impact is with mergers and acquisitions, Aon partner and head of UK retirement policy, Matthew Arends, warns.

"Without the associated regulations, it is unclear what events will need notification and when. But one reading is that companies will have to notify TPR and trustee boards very early in the process of considering corporate transactions. Large companies are sometimes juggling tens or hundreds of potential transactions simultaneously, most of which will never be followed through, so this could be a very significant additional burden on companies – and their trustee boards, who will need to assess the information provided – for little actual improvement in the running of the pension scheme. It also raises material questions about confidentiality of sensitive information. A pragmatic approach is needed," he says.

Approach

Both TPR and the DWP stress that a pragmatic approach will indeed be implemented.

Speaking at the PLSA Investment Conference last year, Pensions Minister, Guy Opperman, said: "I recognise that there are concerns amongst some about the scope of these offences, however I want to just clarify and take the opportunity to highlight that it is the conduct that we are focusing on here.

"It is only an offence if the person intended to harm the scheme, or should've known that the conduct would have that effect, and they have no reasonable excuse for their actions. It is important that where these offences have been committed, the regulator can respond appropriately, no matter who has committed them.

"It is not the government's intention to interfere with routine business activities. We want to improve protections for members, whilst being proportionate to business, you will all understand that this was bought in following the actions of Philip Green.

"These are the people that we are focused upon."

In last month's *Pensions Age*, TPR executive director of regulatory policy, analysis and advice, David Fairs, highlighted how criminal offences need to be proved 'beyond reasonable doubt' – "a high threshold for a prosecuting authority such as TPR to meet".

He also pointed out how the context, such as the challenges with Covid-19 and Brexit, would also be taken into consideration when determining the reasonableness of a person's conduct in relation to the new offences.

Giles anticipates a very limited use of TPR's new powers to institute criminal proceedings, as "the government sees the criminal sanctions mainly acting as a deterrent rather than a punishment", forecasting 0-5 criminal convictions per year (0-2 involving custodial sentences and 0-3 involving substantial fines).

"TPR is much more familiar with the civil sanctions that it has had in its armoury for many years, and with these having a lower burden of proof, we see these as continuing to be the weapon of choice for TPR," he adds.

Although the regulator is likely to be reluctant to use new powers, it may come under significant pressure

to make use of these new powers, particularly when the next high-profile corporate failure involving a DB scheme occurs, Brown warns.

"Therefore, even if the regulator shows restraint external pressures may force it to act, particularly as these powers have been introduced in response to a perception that the regulator has not been tough enough historically."

Meanwhile, SPP president, James Riley, says that it is "very well to say that everything will be ok and just for very bad behaviour but that is not what the law says". Attitudes may change how the courts interpret this act over time, he states, giving the example of how the Human Rights Act has evolved in court from its initial interpretation.

"No one is expecting TPR behaviour to materially change overnight, but there is a tail risk for the industry and for companies that are not part of the industry, such as investors and banks," he says.

Guidance

While Hartley believes that the criminal sanctions "are more a deterrent for egregious behaviour than a likely normal course of action, clear guidance is needed to avoid unnecessary corporate disruption".

This guidance is on its way, with Fairs stating in February's *Pensions Age* that "TPR will work closely with all stakeholders, including through consultation, to produce guidance on the criminal offences".

However, while people are keen to see the guidance, it is important to remember that guidance is not legislation or regulation; "it is not as powerful as the law", Riley states.

In January, the government confirmed that TPR's additional powers will not be applied retrospectively and are expected to be available to TPR by autumn 2021.

Preparation

Even without guidance yet, there are still a number of ways pension stakeholders can prepare for the autumn.

"Despite the fact that these new powers are not expected to come into force until later this year directors, lenders and investors should have regard to them now when making decisions. This is because even though the regulator has indicated that actions and decisions taken prior to these new powers coming into force will not be capable of triggering the exercise of these new powers, once the powers are in force, they could be triggered by any related acts that take place after that time," Brown says.

Hartley advises trustees and directors to seek training on the Pension Schemes Act, generally get their house in order and take appropriate advice to ensure a clear understanding of governance, funding, covenant and legal structure of their schemes. "Trustee boards should ensure they remain cognisant and mindful of changes to the scheme or covenant that could impact member benefits and if in doubt, take appropriate advice," he adds.

Directors' liability insurance should also be checked to ensure that it covers the various risks including the new civil financial penalty, Amin suggests.

"CFOs and boards will also need to review corporate governance processes for certain activities (likely to include at least refinancing, dividends and restructuring) to ensure that the pension scheme is considered earlier in the decision-making process and that there is an appropriate audit trail. This is likely to be needed throughout a large organisation, and not just a group board level," she says.

Despite the discussions around the scope and impact of TPR's new powers, a February 2021 webinar survey from Sackers found 43 per cent of pension trustees and employers had no concerns about the regulator's powers.

It also found that 40 per cent of respondents were mildly concerned, while just 17 per cent said they were either very or extremely concerned by the changes.

The DWP and TPR will likely be pleased to see such low levels of concern, despite the industry discussions as to the scope and impact of the new powers. After all, the changes are intended to be to the benefit of pension schemes and ultimately members, not to cause fear about well-intentioned actions.

It may also bring about unintended benefits, such as mitigating concerns arising from the reforms to the UK insolvency regime that were introduced last summer by the Corporate Insolvency and Governance Act 2020, Brown says.

"At the time there was considerable concern that the new corporate moratorium and restructuring plan could reduce the amount that DB schemes and the PPF stand to recover in an insolvency scenario. However, the threat of these new powers is likely to limit the use of those mechanisms where a distressed business has a DB scheme," she says.

According to Hartley, although there may be some headline- and attention-grabbing cases, the real benefit is likely to be an increased focus on pensions in the context of corporate activity, "which, alongside the changes to focus on longer-term journey planning, should give trustees of all schemes more influence to put schemes on a stronger financial footing and ultimately pay member benefits".

"We expect the increased powers to make pension scheme issues a key aspect of corporate events, which should ultimately result in better outcomes for pension schemes."

Written by Laura Blows

Summary
• The Pension Schemes Act has set the stage for new trustee powers to block suspect transfers, while Pensions Minister, Guy Opperman, is pushing for further measures in the fight against scams.
• While there is clear evidence of a slight upward trend in the number of pension scams, the true number could still be being vastly underestimated.
• PSIG is pushing for a rethink in the way in which scams are reported to Action Fraud, which could lead to a more accurate picture of how much of a problem they are for the industry.

Red flags

Duncan Ferris examines recent developments in how the industry can tackle scams, the prevalence of fraud and what further changes could be on the horizon

There has been a lot of noise throughout the pandemic about the heightened risk of scam activity in the pensions industry. New legislation brought in by the government is seeking to help squash the problem, but when there are problems measuring just how widespread scams are, it is hard to know if the announced measures will be enough.

New powers

When it comes to scams, the Pension Schemes Act has paved the way for new regulations to be made, which will seek to support pension trustees in blocking a transfer that displays pension scam red flags. These new rules are expected to come into force in September or October 2021.

The reaction to this was largely positive, with Sackers partner and director of professional development, Claire Carey, stating that the act would "bolster The Pensions Regulator's (TPR's) powers through new criminal and civil sanctions, compel defined benefit trustees and employers to think longer term by introducing a new funding and investment strategy, and hopefully help curb pensions scams by imposing new restrictions on statutory transfers".

This rosy view was not universally upheld, however, with AJ Bell senior analyst, Tom Selby, commenting that the legislation's attempt to address pension scams through controls on transfers was likely to have a "limited" impact as most scams focus on people aged 55 and over, rather than those transferring.

Elsewhere, Pensions Minister, Guy Opperman, has been vocal about cutting scams and fraud from the British pensions landscape. For example, January saw Opperman calling for HM Revenue & Customs to take a more active role in Project Bloom, a campaign launched by government agencies in 2015 to combat pension scams.

Perhaps the most significant hint of what the future strategy for dealing with scams might be is Opperman's call for the introduction of broader 'Henry VIII' powers in February, which he claims would make combatting the issue far easier.

He explained: "The problem that is repeatedly identified, is we identify a problem, cold calls is a good example, transfers is a good example, we go through a long process of consultation, legislation, secondary regulation, to deal with the problem, which takes a long time, and which there is a problem in the interim.

"The difficulty is if something pops up in the next six to 12 months that is an identifiable scam that you want me to address as minister, I have to come back and do consultation, primary legislation, and secondary regulation; because I haven't got a totally broad power."

Additionally, he called for the industry to step up, stating that he intended to question around 150 pension organisations about why they had not yet begun sharing their data with the Pension Scams Industry Group (PSIG).

Magnitude

Alongside these developments in regulations for fighting scams, recent months have also seen the release of data that indicates how prevalent scams are in the world of pensions. In early January, Action Fraud reported that it had received 637 reports of pension scams in 2020, of which 545 were passed out to UK law enforcement for further action. Speaking about the data, City of London Police national coordinator for economic crime, Commander Clinton Blackburn, noted that 2019/20 had shown a "slight upward trend" in reported pension fraud, following steady annual decreases from 2015.

However, this still might not reflect the full scale of the problem, as he explained: "The pension scam data is a subset of a much bigger problem. In the past three years we've seen losses of £30.8m. Pension scams are often reported as investment fraud and investment fraud is increasing as a result of the pandemic. In 2020 we saw nearly 19,000 investment frauds reported to Action Fraud."

Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, appeared to go further when speaking on TPR's recently-launched *TPR Talks* podcast, when she warned the scale of the pensions scams problem could be being underestimated by "as much as 5,000 per cent".

After being asked whether this figure was a calculation, Snowdon commented: "Obviously we don't know, because you don't know what you don't know! However, based on the number of cases that we see where we think there are scams, compared with the number of people who report a scam, the numbers are of that magnitude.

"You may only be getting 80 people reporting scams when we know that there are thousands of them taking place, or probably taking place, so the difference is huge. As only 80 or so people are reporting you can forgive Action Fraud for thinking there really isn't a big problem and that they would be far better of looking at areas where they can see big issues."

Additionally, Pensions and Lifetime Savings Association chair, Richard Butcher, points out that the pandemic period has seen "an increased amount of people taking money out through freedom and choice", adding that "what we don't know is whether they have genuinely undertaken careful analysis on their own, or whether they have been cajoled into doing it by some unscrupulous dealer".

In the pipeline

While we have examined what might be coming next from the government, different industry groups have their own perspectives on what needs to happen to progress the fight against fraudsters.

When asked about what PSIG is focusing on, Snowdon says: "One of the problems we have found with the Action Fraud process is that it is focused on pension liberation and it is focused on individuals making a report. The problem is that individuals don't tend to make those reports."

She cites numerous other problems with the process, such as needing to declare what the loss from the scam is when "at that point you don't actually know what the loss is" and needing to declare the victim when "the victim is not always the person who is reporting".

She adds: "It's very long-winded and one of the major issues is that you very rarely, if ever, hear anything about it once it has been reported. You report into a black hole and you never know if this was worthwhile or whether any action has been taken."

Butcher takes on a slightly different angle when looking to the future as he ponders how scammers might evolve with the industry. He notes that, when considering the impact that scams can have on retirement savings, it is worth considering "the implications of increasing longevity" and the average age of retirement increasing.

He adds: "That trend will continue as defined benefit pensions die away. So, we are going to see people working longer and making decisions about retirement later in life, but also, because of freedom and choice, we will see more people making active decisions about the pace at which they drawdown their money.

"All of this combines with cognitive decline, which starts to kick in when you are 40. Your brain is very clever; it can build hacks into itself which can bypass those weaknesses, but its ability to do that starts to stop at the age of around 75, meaning you are less able to make informed decisions."

Butcher concludes that this increased "vulnerability", coupled with the older age at which people will be making active savings decisions, will make people "more susceptible to scams".

If, as predicted by Butcher, this issue rears its head, the industry will be forced into coming up with further measures to crack down on fraudsters. While it might be better to do this sooner rather than later, Butcher notes that "whatever control structures we build in order to protect members, scammers come up with a new method outside of it".

Written by Duncan Ferris

Walk this way: *Emma Douglas considers pension savers' views on the FCA's Investment Pathways* ***p40***

Following the pathways – *Duncan Ferris examines how providers have been adapting to investment pathways and what impact their introduction might have on the industry* ***p42***

Investment pathways focus:

Finding the right journey

LGIM head of DC, Emma Douglas

Walk this way

Emma Douglas considers pension savers' views on the FCA's Investment Pathways

Do you know where your pension is invested? In 2019, the Financial Conduct Authority's (FCA) *Retirement Outcomes Review* uncovered that for a third of all consumers entering drawdown, the answer is no.[1] Instead, many choose the 'path of least resistance' and remain in the funds they were invested in before they retired.

But can Investment Pathways alone solve savers' woes? LGIM and NMG Consulting investigated the reactions of nearly 1,200 non-advised existing and prospective drawdown users' to the new concept[2], including who finds Investment Pathways useful: Does it meet the requirements of the scheme members most in need? In this article, we discuss our findings.

X marks the spot: Who found the concept the most useful?

The overall reception to Investment Pathways from both prospective retirees and those already in drawdown is warm. Sixty per cent of all respondents are positive about the broad idea. The four Investment Pathway options are relevant to the challenges retirees and the pre-retired face, with nine in 10 consumers able to align one of the options to their needs:

"It lays out all the options more clearly. Although all these options are already there they are just laying them out in a better way." ***Existing drawdown customer***

In particular, it is reassuring that the Investment Pathway concept appears to meet some of the requirements of the savers who are most in need of a boost. In part one of our research, we highlighted that older 'Generation Xers' (aged 50-56) have fallen through a gap in terms of pensions policy, savings and assets, issues that generations above and below them may not face. The prospective drawdown customers we surveyed, many of whom form part of this cohort, generally express lower confidence and exhibited lower knowledge levels than those already in retirement, anxieties which have been compounded by the Covid pandemic.

Prospective drawdown customers who think the Investment Pathways concept will be quite or very useful for their future pension decisions

Age:	50-54	55-64	65+
	68%	61%	58%

Source: LGIM & NMG Consulting, 2020.

So it is encouraging that 68 per cent of prospective drawdown customers aged 50-54 say they found the concept quite or very useful, a number which decreases as age rises, falling by 10 per cent for Baby Boomers over 65. Interest in the broad Investment Pathways concept is strongest among prospective retirees with pot values of between £30,000 and £100,000, the mid-sized group which is in line with the majority of the non-advised drawdown market.

Pathways feel simple enough for the majority of those who had not yet drawn down their pension to say they would proceed without advice. While just 12 per cent said they feel they need formal financial advice to make a decision having seen the concept, 60 per cent feel confident enough to make the decision alone.

However, for many savers, any more than four choices with a single fund solution attached seems too complicated:

"I think I would be quite happy making a decision. The way they have tried to simplify this makes me feel more confident. I would want just one fund and one choice." ***Prospective drawdown customer***

Conversely, there is a group of more engaged and confident savers, mostly amongst the already-retired segment, for whom the concept appears too basic. Those who rate themselves as being 'very' knowledgeable or confident about their retirement planning find the concept the least useful, with just 50 per cent and 41

What are Investment Pathways?

Effective after 1 February 2021, Investment Pathways are four options offered by providers to savers at retirement. Each has an appropriate single-fund solution sitting behind it:

Option 1: I have no plans to touch my money in the next five years

Option 2: I plan to use my money to set up a guaranteed income (annuity) within the next five years

Option 3: I plan to start taking my money as a long-term income within the next five years

Option 4: I plan to take out all my money within the next five years

There is no minimum investment amount, and members can mix and match between different options, as well as switching in and out at different times to suit their needs after retirement.

The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

per cent respectively declaring it useful. For this group, who tend to be older, male and better financially resourced, Investment Pathways are not perceived as likely to augment their retirement planning as they are already engaged investors.

A risky business?

While each solution's outcome was key for consumers, some non-advised savers are preoccupied with the perceived risk attached to each solution and 15 per cent describe themselves as 'very' risk averse.

Respondents are lukewarm about option one (leave money invested) because, as a 'medium risk' fund solution, it is perceived to be too high for them at this stage. Similarly, option four (withdraw all money) is seen as reckless, inappropriate for the vast majority and needing to be accompanied with detailed risk information, e.g. on the possible tax implications. Sixty-five per cent of those choosing to purchase an annuity described themselves as 'very' risk averse and likely did so on the basis that an annuity was perceived to be lower risk than the other options.

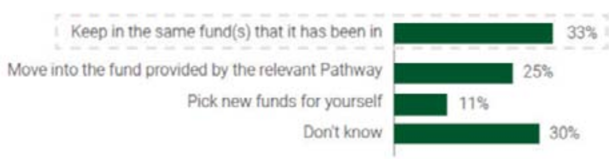
This risk aversion is not the case for everyone. As previously mentioned, for a small group, Investment Pathways are not perceived as likely to augment their retirement planning as they were already engaged investors. In general, however, respondents are very focused on outcomes and far less comfortable discussing the investment solution sitting behind each option.

It's also clear that the existence of the Investment Pathways concept alone should not mean that we treat better retirement planning as a fait accompli.

In our first report, we identified that for the majority of pension savers, default behaviours embedded during the pensions accumulation stage can lead to default behaviours during the decumulation stage. Unless investors are nudged, they are unlikely to break the habit of a (working) lifetime, and the biggest barrier to adoption of the concept will be apathy. Unfortunately, this was more pronounced amongst the generally less confident prospective drawdown group.

At the point of first access to their pension pot, one-third of those who had not yet drawn down expressed a preference for remaining invested in their accumulation fund even after the Pathway concept was explained to them, compared to just a quarter choosing Pathways.

The devil you know: Staying invested in their accumulation fund is the most popular choice for members at retirement



Source: LGIM & NMG Consulting, 2020.

At the stage where you need or want to start accessing money from your pension (either just the tax-free cash or more regular income), do you think you would prefer to: (Prospective drawdown customers)

The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

One small step for savers, one giant leap for pensions

Investment Pathways go a long way towards alleviating anxieties and delivering on the promise to firm up retirement options, in particular for non-advised savers who are yet to draw down. Those who previously confessed to having their head in the sand told us that this was a positive first step, a relatable and simple way to make retirement choices feel tangible, with a focus on the outcome of each decision.

The advice gap is still palpable in some non-advised savers' discomfort with risk and unwillingness to consider the investment aspects of the underlying solution. Above all, an unwillingness to engage early on leads to a reluctance after retirement.

Overcoming retirement apathy and ensuring the Investment Pathways concept is adopted fully and broadly begins long before members come to make their decumulation decisions. It starts early on in their accumulation journey and requires frequent touch points using the media savers use in their daily lives.

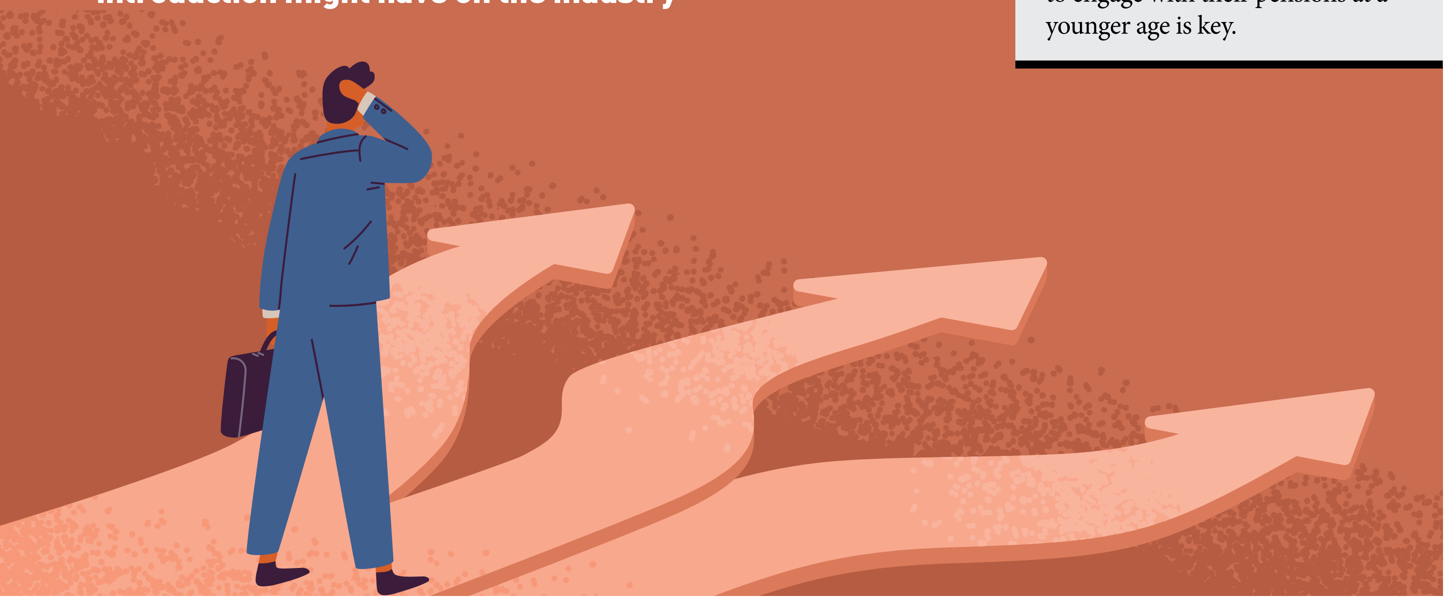
Written by LGIM head of DC, Emma Douglas

[1] https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review
[2] Qualitative research too place in September 2020 and quantitative research in October 2020

Following the pathways

Duncan Ferris examines how providers have been adapting to investment pathways and what impact their introduction might have on the industry

Summary
• The introduction of pathways looks more likely to largely be used by groups who do not generally seek professional advice.
• There are indications that consumers want pathways to provide more frequent check-ins with providers.
• Investment pathways may help ensure people have a comfortable retirement, but motivating people to engage with their pensions at a younger age is key.



Investment pathways are here, having been introduced at the beginning of February with the objective of supporting defined contribution pension savers in accessing their pension when the time comes. This is achieved by giving savers the choice of picking between four retirement scenarios based on their own circumstances and aims. The concept is simple enough, but how might it influence the industry as a whole?

Advisers

If pathways promote the use of predetermined options for savers, might that be detrimental for the business of financial advisers?

Personal Investment Management & Financial Advice Association (PIMFA) senior adviser on public policy, Simon Harrington, says: "We don't think that the introduction of investment pathways will have much of an impact on the demand for advice. In our view, they are a necessary intervention in the market to support otherwise disengaged savers from making poor decisions or not making them at all.

"It is absolutely imperative that these savers are afforded a level of support which has been lacking since the introduction of pension freedoms. The primary reason why they need this protection is because they do not seek out any form of professional support and, as a result, we don't believe that the existence of pathways will act as a disincentive, or indeed an incentive, for people to seek out financial advice."

It does seem to be the case that the primary market for the pathways is the non-advised market, with research from Legal & General Investment Management (LGIM) and NMG Consulting released in February finding that the strongest interest for the pathways was seen amongst pre-drawdown savers with pot values between £30,000 and £100,000. This group was identified as the one that represented the majority of the non-advised drawdown market.

LGIM head of defined contribution, Emma Douglas, says LGIM research appeared to indicate that a majority of the non-advised market were comfortable that "they could now proceed without advice", while just 12 per cent stated that they would need "formal financial advice".

She adds: "When we actually talk to people about making these decisions, quite often what most of them want is some kind of sense check. They don't particularly want full-fat financial advice, but they do seem to want a little bit of reassurance that they are not doing something crazy or silly. It's those kind of questions that people still need answering.

"I think this shows that there are definitely going to be some people who are prepared to go it alone with investment pathways, but I do think that quite a few of them will want some form of sense check – something that we have no definition of whatsoever and is a bit more than guidance but it's not quite advice. I do think we will need to provide that."

Providers

As well as potentially impacting advisers, the changes brought by investment pathways will also bring changes for providers. They have had more time than expected to prepare for these changes, as their implementation was delayed by six months amid the Covid-19 pandemic. Despite this, some in the industry are still concerned that this time has not been beneficial.

Harrington comments: "The clarity of requirements on firms has been disappointing. Despite having no real use for them, many advice and wealth firms will at least be required to consider them. Despite the six-month delay and requests for clarity on, for example, what due consideration of the efficacy of pathways look like, none have been forthcoming."

However, Douglas was more positive about the delay, stating that it gave LGIM more time to conduct research with members to "test the concepts" of investment pathways and "start getting a feel for how people are likely to react when we offer them the pathways".

She continues: "What is good about pathways is that they set out the four options very clearly and people understand how to use them. What we did find is that the pathways talk about a five-year period and the feedback we got from the people we talked to, as part of our research, is that they felt they would want check-ins on a much more regular basis.

"Five years felt like quite a long time in some people's retirement. A lot of things can change in that period, from health and financial circumstances to a need to support relatives, as well as even things like cognitive decline and dementia."

Douglas argues that providers offering more regular check-ins would create "more confidence" among consumers. She adds: "It's not often that you find people saying that they want to spend more time with their provider but actually, in this case, they did because they wanted to be prompted to think about their circumstances."

Another issue of note for providers is that independent governance committees (IGCs) will oversee the prospective value for money offered to investors by the pathways which they are designing.

Sackers partner, Jacqui Reid, says the remit of IGCs includes looking into whether the characteristics and net performance of the pathway investments are regularly reviewed by the firm, what the charges are like and whether member communications are "fit for purpose".

She continues: "Not only have providers had to implement pathways, but they also have the IGC scrutinising what they have been doing so that the IGC can meet their requirements around pathways as well – all within the space of about a year."

More steps?

While the assessing the full results of implementing investment pathways will have to wait until a later date, with an insight into this likely to be offered by the Financial Conduct Authority's (FCA's) review of implementation in 2022.

Reid seems to indicate that this will shed light on the future of pathways, pointing out that the FCA is likely to "see how the market reacts" to their introduction before making changes.

It is still clear that pathways are just one measure in the battle to ensure that savers make sensible retirement choices, so perhaps further action might work effectively alongside them.

Douglas comments: "There is a really widespread lack of proper retirement planning. Seventeen per cent of retirees just access their pots without doing any planning at all and 41 per cent of those nearing retirement have not made any concrete plans. I think people are not really engaging with their pensions, although that is certainly not a revelation.

"However, one of the things that auto-enrolment has been brilliant at is increasing saving. But because it is automatic and relies on inaction, it has made it harder for people to actually engage with this as their own pot of money and their own retirement future."

Reid agrees, stating that members who have been in a default environment "might not have had to make any investment decisions before", adding that it must be "quite daunting" for people in this situation to suddenly make choices about what could be the largest amount of money they have ever had access to.

As an antidote to this, Douglas suggests "warming people up" to ways in which they can spend their money and enjoy their retirement during the accumulation phase, stating that "otherwise people will end up at retirement without having thought about it at all".

She concludes: "Warming people up earlier, helping them to think holistically at what they can get and using 'rules of thumb' such as the *[PLSA's]* Retirement Living Standards will give them a picture of their retirement. Starting that before people hit the moment of making the decision is important, because that is the point at which it can become completely overwhelming."

Written by Duncan Ferris

In association with Legal & General Investment Management

Challenges and evolution

Richard Butcher looks back at the challenges the pensions industry has faced during his two years as PLSA chair and how the lessons learnt from these are helping the sector cope with the consequences of the current Covid-19 pandemic

"I'm not a spokesperson for the whole pensions industry, but as chair of the PLSA I want to say how incredibly proud I am of how the industry has coped with all of the challenges generated from the Covid-19 pandemic. It continued to deliver member security through billions of pounds to millions of people without error, omission or delay, despite Covid-19. The core thing that we do – provide security in retirement – continued almost uninterrupted. People did not even have to think about it and that's how good we are."

PLSA chair, Richard Butcher, is certainly right when he says the industry has coped remarkably well with the fallout from Covid-19 this past year. He gives the example of how, like so many other industries, the pensions sector had to suddenly close its offices and instead work from thousands of homes across the country. There were IT challenges at first, he acknowledges, but broadly everything went smoothly. "We learnt that the IT was robust enough," he says. "We have not seen a significant uptick in scamming or data loss.

"The other thing that underpins this is the flows of money into the industry have continued. DB funding has continued, with just some issues round the periphery. Also, DC money continued, so this has allowed us the space to continue to deliver," Butcher adds.

He recommends that the industry learns from this pandemic experience that major shifts are happening more frequently and are not likely to decline in the future, so it needs to be geared up for that.

"However, while Covid-19 is a pretty unique experience to date, we have had other challenges, to a greater or lesser extent, that the industry has had to face just during my two years as PLSA chair," Butcher says.

Financial crisis

He gives the example of the global financial crisis of 2008/9, as, even though it occurred over a decade ago, the lessons from this are still being learnt today. "It impacted the pensions industry in a fundamentally different way to Covid-19. With the global financial crisis, the sector learnt about the importance of robust risk modelling, planning and mitigation. It highlighted a different set of risks, mainly that had to be much more robust with our risk modelling and this improved robustness created many mitigations in place already, which enabled the pensions industry to react so well to Covid-19," Butcher explains.

These lessons included the importance of diversified investment strategies, not having concentration risk and even the simple lesson of not storing documents all in one place, "as we all saw people clearing out of Lehman's with boxes upon boxes of documents as the crash occurred, so do put copies of documents in more than one place".

Brexit and climate change

Like the global financial crisis, Brexit is likely to leave a lasting legacy of change. The transition period may have finished last year but it is "still too early to call" the impact it will have, Butcher says, adding that there will likely be both business failures and new businesses created as a result of the UK leaving the EU.

Another ongoing challenge, and one that continues to rise up the pensions agenda, is that of the role the industry has in helping to mitigate climate change.

As PLSA chair, Butcher has had to consider this issue head on; not least as he was chairing the PLSA Local Authority Conference session that Extinction Rebellion invaded back in 2019.

"*[Extinction Rebellion]* may have unrealistic expectations of how much we materially can do, but it has forced the government and regulators to create a framework for trustees and other asset owners to think about long-term risks. This is about values, not about tree hugging. This is about long-term risk mitigation, and of course climate change is a long-term risk, so this has to be good in the long term," he says.

DB and DC consolidation

As well as determining its role in the fight against climate change, the industry is also adjusting to internal reform, that of consolidation across all fronts, which "is still yet to happen en masse" Butcher says.

There has been a material number of DC schemes consolidated, Butcher notes, particularly at the micro end of the scale. "There is a pretty compelling case for the small to medium DC schemes that are already consolidating into master trusts," Butcher says. "However, I'm not so sure that larger DC schemes will consolidate, as they already enjoy economies of scale and robust governance."

Butcher is also unsure whether DC consolidation will continue to be a one-way journey. He gives the suggestion that a well-known sponsoring company may want to retain their own brand within their pension provision, so if they entered a master trust with £1 billion in assets, which subsequently grew into £6 billion, the sponsor may feel it is large enough to be worth unwinding the consolidation, running the scheme itself in an own-trust arrangement and making the experience more personal.

On the DB side of consolidation, Butcher expects DB master trusts to continue to receive a steady stream of clients. How many clients the new 'superfunds' will receive is still very much up in the air however. While the PLSA has been, and is, a strong advocate of DB consolidation, Butcher does note that the superfunds have been around for about three years and have yet to announce any business.

This is despite The Pensions Regulator describing the regulatory framework of how the superfunds could work in June 2020, with further detail in December – "so the jury's out with DB consolidators", he states. The population of schemes that could be consolidated is pretty small, Butcher says, and therefore he expects DB consolidation to become a feature of pensions landscape "but probably just at the level of buyout, in due course".

However they may fit into the pensions landscape, the new DB consolidators would count as disruptors to the market "if they succeed", Butcher says. If so, they would follow in the footsteps of innovations such as investment platforms, buyouts and the DC consolidators, master trusts, in initially being disruptors, but then being embedded in the pensions landscape.

The pensions industry has not yet worked out just how much of disruptor DB and DC consolidation will be on providers. Butcher says: "It is not good enough for providers to just sell more to fewer and just keep doing the same." As a long-term strategy growing in a declining market just doesn't work, he warns. "The companies that will do well are those that have a pinsharp focus on the opportunities. The best I have seen are those that diversify and do different things, such as branching out into wealth management or going international. The best businesses that will survive this 'great extinction' are those that are agile and diversify, and evolve quickly."

The industry has had what seemed like major crises along the way, which turned out to be little blips, Butcher states. "There have been lessons learnt, with 90 per cent of the industry's learning coming from little blips as opposed to major crises. With each of those little blips the industry has adapted and continues to survive," he adds. "Each little crisis has helped the industry evolve in a Darwinian way."

Evolution

This latest, not-so-little-crisis of the Covid-19 pandemic will also play its part in evolving the industry, Butcher expects.

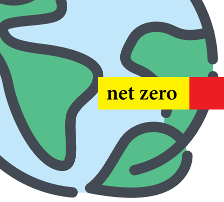
While we are hopefully getting out of the woods with Covid-19 in a medical sense, it is likely to create an increase in financially vulnerable members, he warns, highlighting that some may have implemented freedom and choice on their pensions savings to see them through financial hardship now. In the future there may be an increase in companies offering DC provision closing down, increasing the number of small pots, and a 'mini-rush' of DB schemes entering the PPF, as furlough and other initiatives wind down, along with the government looking towards the £2.5 trillion of pensions assets to invest in the long economy, "so we will see more government intervention".

"For the industry itself, the biggest residual risk as we continue into lockdown is the physical and mental wellbeing of the people working in the pensions industry. As well as the compassion side, as no one wants to see anyone suffering, it is also a business risk. If people are isolated, it is harder to see oversights and omissions, if they are frayed around the edges and missing things. The industry has coped really well with Covid-19 but we are not out of the woods yet," Butcher says.

He suggests that the industry and wider economy have been moving towards 'joint enterprise' for a number of years, with Covid-19 being a good learning point for the benefits of this, and which in turn will help create a stronger, more resilient workforce.

"Industry shifts will continue to occur and there is a warning from all of these crises that if we become complacent, we will become victims to these changes," Butcher states. "Collectively and individually we have to continue to challenge ourselves to do better if we are going to continue to play a part in this industry. If we become complacent we become obsolete."

Written by Laura Blows



The journey to net zero

Pension schemes and providers are increasingly taking steps to go beyond integrating environmental, social and governance (ESG) considerations into their investment strategies, with several organisations making a commitment to become fully net zero in close succession. Sophie Smith reports

Providers taking the plunge

Scottish Widows

Scottish Widows is targeting net zero across its entire portfolio of investments by 2050, with more immediate aims to halve the carbon footprint of its £170 billion investments by 2030.

The insurer will invest "billions" in climate solutions, including renewable energy, low-carbon buildings and energy efficiency technology by 2025, and has plans to publish further targets for its overall investment in climate solutions and the carbon footprint of existing investments later this year.

It will also use its influence through stewardship activity to drive the transition to a low-carbon future in the real economy, highlighting action that drives change in the real economy as the only way to achieve net zero goals. The plans have been praised by Pensions Minister, Guy Opperman, who highlighted it as a first amongst insurers, and applauded the fact that targets have been applied across the entire investment portfolio.

Aviva

Aviva is hoping to become a net-zero carbon emissions company by 2040, in what it has described as the "most demanding target of any major insurance company in the world today". The group is taking immediate action on coal, pledging to divest from all companies that make more than 5 per cent of their revenue from coal unless they have signed up to the Science Based Targets initiative by the end of 2022, and to stop underwriting insurance for this same subset by the end of 2021.

The group will also increase green investments, with a further £10 billion of assets from its auto-enrolment default funds and other policyholder funds to be invested into low-carbon strategies by 2022. It also plans to invest a further £6 billion in green assets and £2.5 billion in low carbon and renewable energy infrastructure by 2025, as well as delivering £1 billion of carbon transition loans. Whilst emissions reductions will make up the "vast majority" of its shift to net zero, the insurer also plans to invest in nature-based solutions to remove residual emissions in 2040, including a "first step" £100 million commitment by 2030.

Hymans Robertson

Hymans Robertson is aiming to be 'lifetime net zero' by 2025, meaning that the firm would have offset all of its carbon emissions, dating back to its founding in 1921, by the mid-2020s. Alongside this, the company is aiming to be net-carbon zero from 2021, in line with its pledge to halve its carbon footprint by 2025, and is also helping employees offset their own carbon footprints by matching contributions.

Aegon UK

Aegon UK is looking to achieve net-zero carbon emissions across its auto-enrolment default pension funds by 2050, after highlighting an "urgent need to take action" against climate change. The company is also looking to explore the practicability of halving the emissions associated with default funds by 2030.

Net Zero Asset Managers initiative

Thirty of the world's largest asset managers, representing £6.8 trillion in assets under management, are working together to ensure their investment portfolios have net-zero carbon emissions by 2050 as part of the Net Zero Asset Managers initiative.

The 30 firms signed up to the initiative will work with asset owner clients on decarbonisation goals, setting an interim target for the proportion of assets to be managed in line with net zero and reviewing that target at least every five years until 100 per cent of assets are included. Further commitments include setting interim targets for 2030 for assets to be managed in line with the net-zero goal, consistent with a fair share of the 50 per cent global reduction in CO2. Signatories will also submit disclosures in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Pension Schemes paving the way

National Grid UK

The National Grid UK Pension Scheme is looking to achieve a portfolio of assets with net-zero carbon emissions no later than 2050, or "earlier if possible",

highlighting climate change as the "defining issue of our time". The scheme is looking to divest from thermal coal-related assets by 2022, a sector that in which it says there is no "plausible path" to sustainability.

It is also working to engage and collaborate with the entities in which it invests and will, where appropriate, take steps to divest should engagement prove unsuccessful. In addition to this, the scheme will be monitoring the asset managers running investment mandates and requiring them to include climate-related implications in their investment processes and engage with companies on its behalf.

BT Pension Scheme

The BT Pension Scheme, which is the largest UK company pension scheme, is targeting net-zero greenhouse gas emissions across its £55 billion portfolio by 2035.

The scheme is reinvesting the majority of its assets over the next 15 years in companies that have lower emissions, whilst also increasing investment in transition solutions.

Investment mandates are being aligned with the net-zero goal over time and the scheme is expecting to select and retain managers it believes can achieve its targets, also requiring managers to report against a net-zero climate scorecard. Managers are also working to engage and set net-zero emissions objectives, although "insufficient efforts" to reduce emissions after a period of engagement "may result in divestment".

A campaign to lead the charge

Organisations are not only considering their own carbon impact, however, as increasing pressure is being placed on the pensions industry by campaign groups.

Make My Money Matter (MMMM), which is now backed by over 30 pledge partners, has launched a campaign to encourage pension schemes to sign up to be net zero and deforestation free across their portfolios, for instance.

This included a satirical short film, directed by BAFTA-winning director, David Kerr and starring Jason Isaacs as 'Guy Byrne-Woods', the CEO of Forestry Felling Syndicate, to support the launch of its related petition.

Nest

A MMMM pledge partner, Nest first announced a new climate policy targeting carbon neutrality by 2050 in July 2020, with plans to invest around 45 per cent of its portfolio, around £5.5 billion, into climate-aware strategies. The provider is removing £1.2 billion from the biggest carbon emitters, equal to removing 200,000 cars from the road, as part of its broader aim to reach net zero across its investments by 2050 or earlier, with the expectation that carbon emissions will be halved by 2030. It is also taking steps to divest from companies involved in thermal coal, oil sands and arctic drilling, targeting full divestment by 2025, unless they have a plan to phase out all related activity by 2030.

Smart Pension

Smart Pension is aiming to achieve net zero "well ahead" of 2050, alongside plans to halve carbon emissions ahead of 2030.

Having partnered with MMMM on its net-zero commitment, the master trust is introducing an allocation to a new social impact fund, which will capture investment opportunities that offer solutions to environmental and social challenges. Smart is developing technology to provide members with greater influence over ESG issues and working on a "number of initiatives" to strengthen its fund range.

Northern Local Government Pension Scheme

The Northern Local Government Pension Scheme (NLGPS) is targeting net-zero carbon emissions for 2050, having also become a MMMM pledge partner. The collaboration will support the scheme's broader ambition to invest 100 per cent of its assets in line with the Paris Agreement, with further ambitions to explore the feasibility of setting a 2030 target for net zero.

South Yorkshire Pensions Authority

Another MMMM pledge partner, the South Yorkshire Pensions Authority is targeting carbon neutral status for its investment portfolio by 2030, becoming one of the first Local Government Pension Scheme administering authorities to adopt a climate change policy and to adopt the reporting requirements of the TCFD. The authority set the target at a meeting in September 2020, giving authority officers six months to report back with an action plan on how the goals will be achieved.

Cushon

Cushon, a MMMM pledge partner, has launched the Net Zero Now Pension, thought to be a world first, thanks to its immediate net-zero goal.

The provider has reduced the emissions financed by the funds as far as possible via 'off the shelf' solutions from fund managers, and, to ensure there is no impact on returns, will pay to offset any residual emissions out of its own money. For these offsets, it has worked with Vertree to select a range of Verified Carbon Standard projects, with 75 per cent of these being triple, double or single gold rated under the Climate, Community and Biodiversity standard.

Written by Sophie Smith

Growing the sustainable pie the right way: *Scott Freedman highlights themes that should help to grow the sustainable fixed-income market* ***p50***

Investing in a greener future *– With the UK looking to 'build back better' in the aftermath of the coronavirus pandemic, pension investments have been touted as one of the ways in which the economy can recover in a more sustainable manner. Jack Gray investigates the role fixed-income investments have in the responsible post-Covid recovery* ***p52***

Sustainability focus:

The role of fixed income

Newton Investment Management fixed income portfolio manager, Scott Freedman

Growing the sustainable pie the right way

Scott Freedman highlights themes that should help to grow the sustainable fixed-income market

As investor interest in environmental, social and governance (ESG) considerations continues to grow, the integration of ESG factors within the fixed-income investment process is fast catching up with equities. This article highlights themes that we believe will help shape and grow the sustainable fixed-income market in 2021 and beyond.

Management incentives and KPIs

We anticipate an increased focus on management incentives being tied to ESG-related key performance indicators (KPIs). This should extend beyond senior management, and we expect a growing alignment between a wider range of stakeholders in issuers where this dynamic exists or is being enhanced.

An important question to also ask companies is where their board ESG oversight and expertise sits, and whether the drivers of the strategy have the necessary skills and accountability in place. We frequently ask these questions during engagement with management teams as it helps demonstrate whether the company is living and breathing a responsible strategy.

Further regulation

Plenty of new regulations and policies were announced by authorities during 2020, including the 'greening' of the European Central Bank's (ECB) purchase programmes and the development of the European Union (EU) taxonomy, which has helped to define what can be considered 'green', 'social' or 'sustainable'.

We believe 2021 will see the continued evolution of regulatory plans which will challenge investors, asset owners, companies and governments to improve their sustainable disclosure and reporting.

We are closely monitoring the potential implications for certain pools of capital that run the risk of either becoming stuck invested in stranded assets, or chasing too few assets and becoming expensive. There will also be opportunities for those issuers who can transition and those who develop long-term strategies with ESG considerations in mind.

Green, social and sustainable bonds growth

European governments represent the majority of issuance in this sub-sector today. We expect to see further growth from these European government issuers, and globally. Funding the recovery from the combined health-care and economic crisis of Covid-19 has accelerated the widening of the use of proceeds from these bonds to include social factors too. Examples include the recently-issued EU SURE bonds, while in the UK, Green+ Gilts are expected to launch in 2021, with the proceeds going towards both environmental and social purposes.

Reporting on the outcomes of the 'use of proceeds' bonds is as important for governments as it is for the corporate sector. In fact, we believe governments should be leading by example; robust and transparent reporting by governments can encourage companies to follow suit.

Investors asking more of issuers

Investors are starting to ask more of fixed-income issuers on ESG factors. Although fixed-income investors do not get a vote, they can and do engage. However, even today, in many of the meetings we have with issuers, we do not see peers asking important ESG questions. By asking more of issuers, ranging from the bare minimum of whether they have an ESG plan, to specific topics on how sustainability affects their businesses, fixed-income investors can push issuers to improve their practices, transparency and reporting for the benefit of all stakeholders. We have noticed ESG-related slides appearing in some issuers' presentations in some of the most carbon-intensive sectors, but ESG should not just be about ticking boxes, which is why fundamental credit analysis remains critical.

Although environmental factors have been a primary focus for investors for a few years now, they have sometimes still been eclipsed by time spent analysing social and governance issues. As the narrative around climate risk is becoming ever more urgent, we expect governments to increasingly address it, which should also lead to the broadening of green government-bond issuance globally.

US growth

The US has lagged other parts of the world in the issuance of 'use of proceeds' bonds. Following the change in administration and the country rejoining the Paris Climate Accord, new US government policies should ultimately lead to a greater focus on improving both environmental and social outcomes domestically. This is encouraging news as we often see that where governments lead by example, either through policies, support mechanisms or 'use-of-proceeds' sovereign issuance, it encourages domestic issuers to follow suit.

We anticipate that further growth driven by US issuers, for example, can enhance the size, diversification and liquidity of the market. Over time, even the best of the green-bond issuers will run out of projects to parcel into the green-bond framework, which may lead them down the road of sustainability-linked bonds as they continue to raise capital with the objective of providing positive environmental or social outcomes.

Sustainability-linked bond growth

We also expect significant growth in the newest area of the sustainable bond market – sustainability-linked bonds. The first sustainability-linked bond was issued by Italian utility company Enel in September 2019 and since then, just a handful of other issuers have come to the market with sustainability-linked bonds. The slow pace demonstrates that the market is still finding its feet, but we believe this relatively innovative area of financing has legs and will ultimately see material growth.

The International Capital Market Association (ICMA) released its guidelines on sustainability-linked bonds in June 2020, and is currently considering the concept of transition financing. As bond investors, we always prefer to have greater and stronger credit protections; owing to the global chase for yield, much of this has been eroded – both in number and quality. We have always voiced our concerns over the lack of penalties for green-bond issuers that do not allocate bond proceeds as promised or if reporting is not accurate.

Avoiding 'greenwashing'

The risk of 'greenwashing' becomes a real possibility when an issuer which scores poorly on ESG factors issues 'use-of-proceeds' bonds linked to specific environmental projects. Also, some issuers are attracted to the prospect of raising cheaper capital by using a label.

For us, having an ESG KPI target that links back to the broader strategy of the issuer can sometimes be more powerful for achieving positive outcomes than a narrow focus on a specific project, but that target needs to be credible. In our view, this is where active management and fundamental analysis can make a material difference by identifying the most suitable issuers.

Improving ESG data quality

ESG data quality in fixed income is inherently inferior to equities in certain areas, owing to there being many smaller and private issuers. Data providers have been making decent headway on closing the gap, but relatively poor disclosure remains widespread, especially in the area of leveraged finance markets.

While there has been a recent flood of new ESG data providers claiming to have superior insight into material ESG issues, investors are still learning how to process the data, and, once again, standards and consistency are required to act as guide rails.

Working together

Finally, when it comes to purely financial returns, what is good for a bondholder is not necessarily good for a shareholder and vice versa. However, when it comes to ESG factors, we believe both sets of investors should be fully aligned.

We think issuers considering ESG factors should be more likely to have resilient and effective business models, which can also lead to societal and financial positive outcomes.

While bond investors can engage, they cannot hold management teams to account through voting as shareholders can. They do, however, have the ability to deny capital to issuers. In our view, shareholders and bondholders working together will create the best opportunity to improve environmental and societal outcomes, as well as share best practices.

Written by Newton Investment Management fixed income portfolio manager, Scott Freedman

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Summary
- The government recently announced its intention to place the UK at the forefront of green finance and revealed its plans to launch the first Sovereign Green Bond in 2021.
- Like many asset classes, opportunities for responsible investment through fixed income are increasing.
- Fixed income can offer pension investors with the opportunity to direct capital that benefits society and the environment in a focused way.
- However, there are risks of greenwashing and investors may need to be diligent in where they choose to invest.

Investing in a greener future

With the UK looking to 'build back better' in the aftermath of the coronavirus pandemic, pension investments have been touted as one of the ways in which the economy can recover in a more sustainable manner. Jack Gray investigates the role fixed-income investments have in the responsible post-Covid recovery

In November 2020, the government conducted a financial services update that outlined its intentions to make the UK a world leader in green finance. Included in the update was the announcement of plans to introduce the UK's first Sovereign Green Bond in 2021. The gilts aim to support the country in meeting its 2050 net-zero target and help it 'build back better' in the aftermath of the Covid-19 pandemic.

The announcement demonstrated the increasing role that fixed-income investment is playing in responsible investment. Opportunities for fixed-income investors to make investments in line with environmental, social and governance (ESG) targets are becoming more commonplace. The types of sustainable bonds available have developed over the past decade, alongside the growing take up of ESG-related metrics across the whole investment landscape, making ESG-friendly investments safer and more reliable.

Although equity markets may have traditionally led the way in sustainable investing and ESG-focused products, fixed income seems to be catching up.

Playing its part

"Fixed income benefits from being able to provide a powerful and focused way for investors to direct capital to uses that benefit society and the environment, that is not available to the same extent for equity investors," begins Newton Investment Management fixed income team analyst and portfolio manager, Scott Freedman.

These include investments in private companies, development agencies, and green, social, and sustainability-linked bonds.

Freedman explains that green and social bonds are 'use of proceeds' bonds, where the capital is directed to specific environmental and social projects, while sustainability-linked bonds are where there exists a whole business key performance indicator, such as an emissions reduction target.

"If this target is not met, the interest cost on the bond steps up," he continues. "This provides a valuable covenant with bondholders, ensures there is 'skin in the game' for the issuer and ensures senior management buy in to transition the issuer towards better outcomes, rather than just specific projects."

Hymans Robertson investment research consultant, Penny Cochrane, notes that, "to a degree", debt markets are already pricing in ESG risks, with many managers seeing this as integral to their investment processes.

"Sustainability is also taking a front seat with more issuance of sustainable or sustainability-linked bonds, although this market is still relatively illiquid," she adds. "Exposure to unsustainable issuers, such as fossil-fuel producers, is widely recognised as a risk as we transition to a low carbon economy.

"With DB pension funds holding a growing portion of their assets in fixed income, there is a need to think about sustainability, especially over the longer term as ESG factors such as climate risk play out and give rise to the potential for increased defaults. Investors can choose to avoid lending to corporations unable to demonstrate sufficient ESG management or choose actively to fund sustainable projects."

Evolving environment

Although the first-ever green bonds were issued by the World Bank in 2007 and the UK has announced its intention to issue its first Sovereign Green Bond, Pensions and Lifetime Savings Association (PLSA) deputy director, Joe Dabrowski, believes that fixed income is "often overlooked" in the public debate about sustainable investing.

"The market for green bonds has grown significantly since then with over 50 countries issuing them," he notes. "However, the UK is, so far, not among them. This is something the PLSA would like to see change and have called for the issuance of green gilts."

Dabrowski adds that the new rules for climate disclose coming into force for large pension schemes from October 2022 will mean that pension trustees will need a broader array of investments to meet their climate ambitions.

"Green gilts issued by the UK government would be particularly appealing for funded DB pension schemes as they are lower risk when compared to investing directly in green energy projects, and, being sterling-denominated, would be suitable for funding the benefits of their retired UK members," he explains. "DB schemes would also likely have appetite for index-linked green gilts. If these assets were priced attractively, it could fuel lots of capital going into 'greening' the economy."

Despite concerns that fixed income is being overlooked by some as a means for responsible investment, Cochrane says that sustainable investing through the fixed-income market has become more mainstream.

"We have seen the launch of sustainable bond funds, including funds for retail investors," she continues. "There has been substantial growth of the green bond market. Green bonds represent only about 1-2 per cent of the fixed-income market but is quickly growing, with 2020 seeing a higher level of issuance than 2019.

"There has been notable expansion in the sectors issuing green bonds, moving beyond predominantly utilities and banks. The types of sustainable bonds available to investors have developed over the past 10 years, with diversity-linked bonds available in the US, as well as blue bonds, which support initiatives aiming to preserve and protect oceans."

Opportunities for sustainable fixed-income investing have improved, with innovation in the types of instruments available to investors, according to Freedman.

He states that, as these instruments mature, they are becoming more mainstream and liquid, and that several bodies are involved in promoting the standardisation of principles and frameworks behind these instruments.

"Allocating fixed income capital to issuers undergoing a favourable ESG transition will be the next leg of growth and opportunities for a broader allocation of capital. I believe that the mobilisation of mainstream capital will be more important for the environment and society than some of the already best in class green and social projects," Freedman says.

Beware of greenwashing

As with any asset class, there are risks associated with sustainable fixed-income investing. The most commonly cited risk is that of 'greenwashing'. Cochrane explains: "There is the perception that sustainable investing may mean an impact to overall returns but this not the case in most instances.

"However, there are other risks that investors need to be aware of. In particular, greenwashing, whereby a company touts its environmental policies but doesn't follow through with action, can be an issue in sustainable investing. Robust pre-issuance due diligence should ensure proceeds raised are being used to fund sustainability projects where that is the intention."

Freedman agrees, and encourages fixed-income investors to conduct fundamental issuer analysis to determine the robustness of the ESG plan, or the credibility of the projects or targets for green, social and sustainability-linked bonds.

Looking to the future

Looking to the future, Freedman believes that further growth will likely to lead to greater diversification of investment opportunities and touch more areas of society.

"Today, if you solely invest in green bonds, you will be exposed predominantly to banks, utilities and relatively high-quality, investment-grade debt, with a higher degree of interest rate sensitivity," he says. "Therefore, further growth into other sectors, geographies and credit ratings, will help sustain the demand side of the green bond market."

Written by Jack Gray

In association with NEWTON Investment Management

Keeping things clear

Brunel Pension Partnership head of operations, Darren Hay, discusses the pool's approach to cost transparency, its partnership with Caceis and why Cost Transparency Initiative (CTI) templates will need to evolve to meet varying needs

What is Brunel's approach to cost transparency?
Brunel Pension Partnership aims to deliver stronger investment returns over the long term, while protecting our clients' interests by contributing to a more sustainable and resilient financial system that supports sustainable economic growth and a thriving society. Brunel is a signatory to the UN-backed Principles for Responsible Investment and aligns its practices and processes to their 12 investment principles and definitions of responsible investment. Brunel is also a signatory of the Local Government Pension Scheme (LGPS) Code of Transparency.

Formed in 2017, Brunel is one of eight LGPS pools across the UK and brings together about £30 billion in investments for 10 funds. Three of its principal goals are to find cost-effective solutions and be transparent and accountable, which it seeks to achieve through driving greater transparency on costs.

The LGPS pools have adopted a forward-looking approach to their respective pension funds. Each underlying scheme has its own unique approach and investment strategy. In Brunel's case, the pool has to be quick to adopt the right technology, tools and information available to them to increase their transparency on costs. This full transparency includes using the Cost Transparency Initiative (CTI) templates, to collate the full range of management fees, administrative fees and transaction costs, in order to paint a picture of their total cost of ownership. Pooling was built to enable better governance, which is the key pillar in Brunel's overall delivery to its clients.

Why did Brunel decide to partner with Caceis on cost transparency and what benefits has the partnership brought?
Brunel is currently only three years into its journey to increase cost transparency. 2019 was the first time we were able to capture a full view of cost transparency information. Our partnership with Caceis made our year-end much easier than when we had conducted the exercise internally.

In terms of outsourcing, Brunel prefers to use external fund managers who have the expertise and wider available resources to service Brunel. We have taken a similar approach by selecting Caceis as our cost transparency provider. As a result, Brunel has a better grasp of our costs and a solid platform to manage them in the future. Progress in this area has also enabled us to better explain costs to its pension scheme clients and members, while offering clients the added reassurance that comes with using an independent third party.

There was also a recognition that Caceis provides access to a wider data set and a broader view of the cost transparency landscape. For example, the Caceis partnership has already enabled Brunel to look at fees and performance data for different asset classes.

More generally, Brunel's approach across the whole business is to work with creative partners in the market that can provide additional levels of governance, resource and expertise – so long as it makes sense from a skills and cost perspective.

Why does Brunel believe cost transparency is so important?
Everything Brunel does revolves around responsible investment in one shape or another. Brunel is very conscious that the affordability and sustainability of its clients' pension funds ultimately depend on the investment decisions it makes. The partnership aims to sustain a good pension scheme for members and employers alike through its investment work. We must ensure that member contributions are used wisely. At the same time, we recognise that superior investment skill and talent needs to be paid for, but only insofar as it serves client outcomes.

Local authorities, quite naturally, are sensitive to costs and to the value they get out of their service providers. Brunel, as a pool, is therefore required to demonstrate a positive, highly-proactive approach towards its cost transparency programme. It is also important for the pool to show that it understands the complexities involved in cost transparency in general. This involves addressing the topic through Brunel's broader responsible investing principles.

Brunel has identified three

component parts to integrating cost transparency into its decision-making: how it selects managers; how it monitors its assets; and how it manages the asset managers on an ongoing basis. All of this is wrapped up in our Responsible Investment Principles.

How does Brunel's pooling structure make ensuring cost transparency different to traditional pension scheme structures?

During the cost transparency review process, Brunel grew to understand that our situation and set up was unique. Pooling, for example, is still relatively new and, even within that, Brunel realised it was different from other pools. It therefore found it difficult to take a dataset and compare it to its peers, which were operating quite differently. We realised that, while the cost transparency information we were getting was important in terms of building blocks, we also needed to use that information in the right way.

As a result of its advanced due diligence and its prioritisation of cost transparency, the external managers Brunel works with are now much better placed and further up the curve in providing information. There is still room to improve with some managers, however, where the quality of data could be better. Managing this process is one of the key benefits of having Caceis as an outsourcing partner.

What are the benefits and shortcomings of the CTI templates?

At Brunel, we believe the CTI templates provide good building blocks for progress. However, we recognise that clients need to gain sight of any cost savings sooner rather than later. This means that Brunel needs to make quick use of the CTI data in further analysis. We also needs to ensure our reporting is of maximum value to clients, as we look to identify and report on cost trends over the longer term.

The CTI template, however, does not cater to the specific details of Brunel's pooling structure. As a pool, it also needs to factor in outsourced administration costs and the ongoing fees it charges its underlying clients. In trying to be as accurate and transparent as possible, Brunel has had to incorporate workarounds on the CTI template. It therefore believes that, over time, the CTI will need to evolve.

How can cost transparency help find value for members?

Initial reviews show Brunel is already considerably below post-consolidation Dutch or Caceis averages on costs. This means the company is delivering a core part of the pooling agenda. It is, of course, still early days and Brunel will seek to share more detail in future years.

Aggregating all costs is also meaningful because Brunel can now see how the different mandates are delivering on value, relative to each other, and because some costs might not be immediately transparent, such as transaction costs.

Brunel also observed that there are many strands to the institutional market that need to be brought together in order to develop a consistent methodology and approach to costs. It therefore believes the industry will benefit from a more centralised, collaborative model with a set of principles. This will be important in driving more consistency across the industry and this is what pension schemes need and now expect.

In addition, we felt it was important to link cost transparency to our values. This included making long-term, sustainable investments, supported by robust and transparent processes.

Cost transparency is not just a means to lower costs – it's also about finding value. Brunel's focus on forging better futures aligns to its deep societal responsibility and the role that robust cost transparency can play in creating fair value for all members. This is because everything eventually flows down to the pension members – for LGPS', this means all local government workers. This ensures their pension liabilities are met and excess savings are released back into the local government budget.

Written by Jack Gray

20 years of the PPI

Chris Curry looks back at all the significant changes that have occurred across the pensions landscape during the Pensions Policy Institute's 20 years

The world was a different place 20 years ago. Tony Blair was still in his first term as the New Labour Prime Minister, with the opposition led by the quiet man, Iain Duncan Smith. The Secretary of State in the newly-formed Department for Work and Pensions (a merger of the Departments of Social Security and Employment) was Alistair Darling, and Ian McCartney took over from Jeff Rooker as the Minister for Pensions (the first in what for a while seemed like regular changes in that post).

The state pension age was 65 for men and 60 for women, although this was set to be equalised at age 65 by 2020 according to legislation passed a few years earlier. The basic state pension was £67.50 a week, and a married woman might be able to get £40.40 based on her husband's contributions. In the private pensions world, there were more active members in DB schemes than in DC schemes, but most people in work didn't have a private pension.

Public service pension schemes were final salary, and the latest innovation in the pensions market were stakeholder pensions – low charging, flexible arrangements that most employers had to make available to their employees but didn't have to contribute.

PPI launch

And also in 2001, the members of the Pensions Provision Group (PPG) – originally formed by the DSS in 1997 to determine the current levels of pension provision in the UK, and likely future trends – launched a new educational research charity called the Pensions Policy Institute (PPI).

The remit given to the PPI was to continue the work of the PPG, who published a forerunner to the Pensions Commissions reports in 1998 called *We all need pensions*. This report had identified the gaps in the state pension system, increasing reliance on means-testing in retirement and the partial coverage of the private pension system. But the group also identified a need for better data and independent analysis, providing a firm base of evidence on which to basis future policy decisions.

And it seems like the PPI was launched at the perfect time. The early research was based heavily around state pensions, with our first published work looking at the issues surrounding potential increases to state pension age, which of course was later to become a central recommendation of the Pensions Commission. Both the coverage and level of the basic state pension were also the subject of analysis, as well as the role of earnings-related state pensions at a time when the state second pension was increasingly expected to evolve into another flat rate pension. Simplicity seemed a long way away at that point.

Following on from the Pensions Commissions' proposals for automatic enrolment, the state pension system came under further scrutiny and in particular examining the relationship between workplace pension saving and means-testing, and the impact on incentives to save. This would of course eventually result in the introduction of the flat-rate single state pension, rolling up the complexities of a system built up over decades – although of course with a very long transition period.

But it wasn't long before the private pension system was being subjected to the same examination by the PPI. The PPI has a strong history of looking at who does well and who does badly in the UK pension system, and frequently monitors the situation of those who are under-pensioned and more likely to have low incomes when they retire. Specific analysis has highlighted the issues for women, those from ethnic minorities, those with disabilities and those who aren't in permanent full time employment (including the self employed). By looking away from the average and stereotypes, you get a much better idea of just how well they system is working.

DC

DC schemes came more sharply into focus as they caught up with, and then overtook, DB schemes in terms of active members – although of course DB schemes will provide more retirement income for many years to come. That doesn't mean that DB has been ignored, and managing the continued payment of pensions from schemes that are not having money paid in to them is a challenge, either with or without the advent of new forms of consolidation.

Given that the risks of DC typically fall more squarely in the individual, there has been a lot of analysis of the specifics on how DC operates – how much they cost, how they are charged for and the value for money they represent, how they are invested, how they are governed and in particular how they are accessed. While early research looked at the possibility of withdrawing money early for uses other than retirement, that was of course all overtaken by the radical shake up in 2014 that lead to the end of compulsory annuitisation and pension freedoms.

Pension freedoms in turn have cast a light into other areas of the system. The taxation of the withdrawal of DC pensions is only facet of the tax treatment of pension saving that has evolved over time, been analysed many times, and comes under intense scrutiny at this time every year (and this year is no different). And the choices opened up to individuals not just at the time that they choose to retire, but throughout their retirement as money is managed against a backdrop of decline in both physical and cognitive health has led to study of individual behaviours, engagement and the role of guidance and advice.

Perhaps the biggest change to the pensions landscape in the 20 years since the PPI was formed has been the successful introduction of automatic enrolment. Not only has this significantly increased the amount of money being saved in workplace pensions and the number of people saving, it has also acted as a catalyst for many other of the changes to the system already highlighted.

But successful as it has been, there are still challenges for automatic enrolment. Are people saving enough? If they need more, should it be achieved through higher compulsory contributions, or engagement to save on top? What will be the impact of the multitude of small pension pots created by the system? How will individuals keep track of a more fragmented pension system?

And this highlights why the PPI is likely to be just as busy in just as many areas in the next 20 years as it has been in the past 20. The pensions landscape will continue to evolve, just as the world around us evolves.

There will be obvious challenges – the impact of Covid-19, the role of pensions, savings and investments in addressing climate change, the continued inequality in pension outcomes – and some which are not obvious now but will become very important. Another Pension Schemes Bill has just passed through parliament, collective DC is now possible, as is DB consolidation. Pensions dashboards are on the way.

As the amount of money invested in DC increases, how that money is invested will come under increasing scrutiny. Funding retirement is becoming more complex with more interactions between pensions, savings, other forms of wealth (such as housing) and work. Each new generation faces a different set of challenges. Will the UK pensions system deliver better outcomes in the future? The only thing that is certain is that things will look very different again in two decades time.

And we have come almost full circle with state pension age again about to be a big topic of discussion. The next independent review of state pension age is due to conclude in 2023, but this time with considerable uncertainty about longevity set against challenging government finances.

While many things are now very different, the remit of the PPI remains the same – and just as important – today, as it did 20 years ago.

Written by PPI director, Chris Curry

Summary
• A recent IFoA report has found a wide gap between transfer values and commutation rates given to members.
• The gap occurs for a number of reasons, including different rules for setting the amounts and varying valuations by actuaries.
• The factors for determining the transfer values and commutation rates should be reviewed regularly.
• Industry-wide benchmarking of transfer values and commutation rates may help reduce the differences in amounts.
• Trustees play a vital role in setting the amounts, so greater engagement with the process is encouraged.

Making sense of the numbers

Actuarial valuations of transfer values and commutation rates for members can differ widely, which the IFoA has recently highlighted as a cause of concern. Laura Blows explores why this difference occurs and the level of trustee engagement in setting the amounts

Actuaries play a vital role in the effective running of a DB scheme; however, the work they do is usually hidden behind the scenes, calculating overall scheme funding. Yet there are two areas where an actuary can have an upfront and immediate impact to an individual member – with calculating cash-equivalent transfer values (CETVs), and with commutation rates for the up to 25 per cent tax-free lump sum that can be taken at retirement.

It is because of this public interest, the Institute and Faculty of Actuaries (IFoA) senior review actuary, David Gordon, says, that the IFoA carried out its first thematic review into the actuarial factors used to calculate benefits in UK pension schemes in December 2020.

The *Thematic Review Report* looks at the work of 63 individual scheme actuaries from 19 organisations of all sizes, and "we found that the advice was generally at a very high standard", Gordon says.

However, the report discovers a wide gap between transfer values and commutation rates. It finds that the median transfer value at age 65 for £1 per annum pension is £29; the equivalent median commutation rate at the same age is £18.

"We are concerned that the quality of actuarial advice in some instances may be contributing to commutation rates being well below transfer values, which may lead to poor value to members," IFoA Regulation Board lay chair, Neil Buckley, says in the report.

"The difference between transfer values and commutation rates is not new," Gordon adds, "but this review shines a spotlight on how wide the gap can be. Setting these factors is an area where actuaries directly influence member benefits. Although the ultimate decision often rests with the trustees, the advice provided by the actuary is critical."

Setting amounts

A key reason for the difference is that setting transfer values and commutation rates are subject to different requirements.

A transfer value must be at least a 'best estimate' according to regulations, which can only be deviated from if the scheme has a significant deficit. Determining the 'best estimate' is subject to a variety of factors, such as trustee expectations of future investment returns and predicted longevity of members.

"Transfer values are meant to represent the best estimate of what the value of the benefits are if the member stayed in the scheme. These two numbers are meant to be the same; we are not looking to make a profit or loss," Dalriada Trustees director, Vassos Vassou, says.

In contrast, commutation rates have no 'official' rules other than what is said in scheme documents, usually that the rate is 'reasonable' and set by the trustees based upon advice.

Therefore, considerations taken by trustees when determining commutation rates, such as selection risk and market volatility, should be subject to further research, the IFoA advises.

"This is particularly important where commutation rates are materially below an equivalent best estimate transfer value *[IFoA research finds that in most cases actuaries advised trustees to set commutation rates below best estimate]*, which may result in poor value to the scheme member taking the commutation option. There are reasons why these factors may differ at an individual scheme level: "Actuaries need to explain the rationale for this, in line with technical actuarial standards," the report states.

One such reason for these below best estimate recommendations, the report finds, is to reflect recent lower yields, "as it might be difficult to reduce *[commutation rates]* again in future should yields rise".

PwC global head of retirement and pensions consulting, Raj Mody, states that he is fine with the difference between transfer values and commutation rates as, unlike transfer values, the majority of members take the tax-free lump sum, so keeping rates steady provides them with certainty in the run up to retirement.

However, he is more concerned that if the commutation rate is set too low or too high, trustees will be "benefitting one set of members over another".

Reviews

Commutation rates are usually reviewed every three years, at the same time as the scheme's triennial valuation, which the IFoA suggests should be the maximum time between reviews.

"This is crucial to ensure that the basis underlying the latest advice does not become out of date and lead to poor outcomes for members," it states.

Ross Trustees trustee director, Richard Cousins, suggests that larger schemes should review the factors for determining transfer values and commutation rates annually.

In contrast, Vassou states that he has come across a scheme that did not review the determining factors for commutation rates for a couple of valuation cycles, resulting in the amounts offered being "too low by quite a margin". This created the conundrum of "whether to increase the rate, by quite a high jump, leading to the issue of fairness for members who had retired with the old rate recently" or to gradually increase the amount.

Trustee engagement

Mody states that transfer values and commutation rates should be "a live trustee agenda item in their own right, not just a bolt-on to the triennial valuation".

There is too much focus on the calculations and not enough on the governance of the factors determining transfer values and commutation rates, he adds.

Therefore, when determining transfer rates and valuations, Mody recommends that trustees understand the different possible ways any legal requirements that setting the rates could be interpreted. He also suggests that trustees understand the limitations of advice given.

As Cousins says, trustees regularly review all their advisers, including actuaries, on the basis of cost-effectiveness and timeliness, "but whether they review and challenge the advice actually being given is a different question".

The IFoA finds that actuaries tend to use their own company's benchmarking, meaning that there can be quite a "marked difference" with benchmarks between different actuarial firms.

"If you are a client of one of these consultancies you probably do not get the full picture of what is being done across the industry, even though actuaries often explain the limitations of their benchmarking," Gordon says. "The IFoA is calling for industry-wide benchmarking to be compiled, as then there is a chance that trustees can make improved decisions through being able to see what everyone else is doing."

The IFoA is also calling for improved actuary communication generally. "Actuaries tend to write lengthy, detailed reports," Gordon says, "but they are not so good at just answering simple questions of what changes to suggest and why, and how that will affect members and funding."

Vassou agrees that an actuary with both good technical and communication skills is rare. "Actuaries need to talk the trustees' language more," he adds.

However, he notes that there has been more engagement from trustees with actuaries in recent years.

"Seven to eight years ago, actuaries would just print a report and the trustee would just say fine. Nowadays trustees are more likely to be asking questions about the impact of the report's findings," he explains.

The possibility for member complaints of unsuitable transfer values or commutation rates are unlikely to succeed, DLA Piper pensions partner, Matthew Swynnerton, says.

"Whilst there is always a possibility of complaints being raised, provided trustees have correctly followed the procedure under their rules, including taking appropriate advice where required, agreed a calculation basis that is not perverse and then correctly applied it, such complaints are unlikely to succeed. It was largely for these reasons that The Pensions Ombudsman rejected the class action steelworker complaints against the British Steel Pension Scheme in relation to CETVs and early retirement factors," he explains.

However, it is not for fears of a legal fallout that trustees should be engaged in setting in transfer values and commutation rates, Mody advises, "but because it affects the member forever".

"The actuary has a calculator role," he adds, "but trustees look at the context of what transfer values and commutation rates are designed to do. The member is giving up some or all of their DB pension security for one lump-sum amount.

"That is why it is important to ensure that this is not just an actuarial, purely prudent, process."

Written by Laura Blows

Spaghetti junction: Pension de-risking

Summary
- The pension de-risking market is growing, with another £30 billion of bulk annuity transactions expected in 2021, in what could be another record-breaking year.
- Despite Covid-19, the market still performed strongly in 2020, with widening credit spreads providing opportunities for well-prepared schemes.
- A 'spaghetti junction' of options are now available to schemes, in addition to the traditional buyouts, buy-ins and longevity swaps; choice is good for schemes.
- When it comes to de-risking, preparation is key.

2020 was the second biggest year on record for bulk annuities, with transactions totalling £30 billion and new de-risking options coming to the market. Natalie Tuck looks at what is in store for the pension risk transfer market in 2021

The pensions de-risking market is showing no signs of slowing down. According to Hymans Robertson's *2021 Risk Transfer Report,* 2020 was the second biggest year on record for bulk annuities with transactions totalling £30 billion.

That does not include other types of transactions, such as longevity swaps, which recorded around £24 billion in 2020. According to Hymans Robertson's report, buy-ins, buyouts and longevity swaps have insured £0.3 trillion of risk from DB pension schemes since 2007. This is expected to increase by £0.7 trillion between now and the end of 2031.

Covid-19 impact

Reflecting on 2020 is not possible without mentioning Covid-19, but what was its impact on the pension risk transfer market? Speaking at a recent webinar, Prudential Retirement head of international transactions for longevity risk transfer, Rohit Mathur, said widening credit spreads resulted in attractive risk transfer pricing during the year.

"We believe that those pension schemes and sponsors that were in a position to transact and were actively monitoring the market, were able to execute their transactions despite the market turmoil we saw last year." Mercer head of risk transfer, Andrew Ward, expands on this, stating that such schemes were able to "secure more

advantageous terms on bulk annuities than they ever thought was possible."

For Legal & General (L&G) head of origination and execution, pension risk transfer team, Dominic Moret, last year demonstrated the "fundamental purpose of insurance and the strength of the regulatory regime", which he thinks should give comfort to trustees and sponsors looking to de-risk their pension schemes.

Whether there is any long-term impact on longevity as a result of Covid-19 remains to be seen. However, in a press statement, Aon's Risk Settlement Group head of demographic horizons, Tim Gordon, said a poll conducted at a recent Aon webinar for insurers and reinsurers found around 40 per cent of participants thought the longevity outlook from mid-2021 onwards was broadly the same as before the pandemic, with 30 per cent thinking it was slightly worse and 30 per cent thinking it was better.

Striking a more cautious note, Mathur said that as we look ahead the long-term impact of the pandemic is unclear: "The risk is heightened, there is more uncertainty on the path that future longevity improvements can taken. Each time that happens, each time there is greater uncertainty, we believe hedging is more valuable, whether by longevity swaps, or pension risk transfer transactions."

2021: A record year?

While the jury is still out on whether this year will see more records broken, Mathur said many consultants that Prudential Retirement works with predict the market will be around £25-£30 billion this year, which is roughly in line with 2020's figures.

Other experts back this up. However, Moret warns that current market conditions, consisting of low interest rates and tight credit spreads, may affect affordability for some schemes. Appetite remains though for schemes that are well hedged and well funded.

Mercer UK head of bulk pensions insurance, David Ellis, says that 2021 started "a little slowly" but there is every expectation from insurers that business will pick up. "Our pipeline is strong, I imagine others' pipelines are strong… It's just going to grow, so again we're predicting another strong year as part of a strong decade." Ward adds that there is every possibility that 2021 could be a record year, as the "latent demand" is so big.

There is also the question of insurer capacity. Canada Life director of retirement propositions, Nick Flynn, says the firm has seen "significant activity" in February, which he expects to continue. "This may reduce insurer availability later in the year, however, it is too early to tell at the current time."

However, Ward says the industry should be careful with the message of "buy now, while stocks last". Ultimately, he says, capacity centres on assets, and he believes that insurers will be able to "find capital from backers in the medium and long term".

"There may be times where there is a squeeze in demand, that might be driven as much by people capacity as much as anything. All you really need to do is make sure that the process is well run, well managed and well thought through so you can get the attention of insurers. What we say to schemes is the better we can position them in the market, the more competition there will be and the better outcomes they will get," Ward explains.

Long term, the market may look a little different. As Ellis notes, currently there are only eight insurers in the market. However, he does not believe any other companies are planning on entering the market in the short term, with current development centring instead on existing insurers expanding their offerings. Long term though, this may change.

"To think that hundreds of billions or even one or more trillions of assets over the next 50 years will transfer to just eight insurers – it might, but it's quite a concentration. They are of course spreading it out to lots of reinsurers and there's more reinsurers in the market, but we are seeing some of the existing insurers upping their game, taking on different types of liabilities, so there's growth within that part of the market. For example, some insurers were only insuring pensioners; now they are taking on deferred members as well."

Spaghetti junction

Full buyout is often the endgame for schemes on a de-risking journey with some schemes undertaking several buy-ins or longevity swaps in order to get there. However, the market has seen some new types of transactions come onto the scene.

"What's interesting about this year is that in previous years we were talking about those three options, now there is a whole spaghetti junction of different approaches, we've got a spectrum of consolidation options out there," Ward notes.

New options include a capital-backed solution, which is like an investment product with capital backing to underpin returns needed for an agreed journey plan. L&G has also introduced two new products to the market, known as an Assured Payment Policy (APP) and Insured Self-Sufficiency (ISS). An APP, Moret explains simply, is a buy-in without longevity risk cover – the opposite of longevity insurance.

"In return for a premium it provides a pre-agreed series of cash flows which don't vary with longevity or other demographic experience (so the demographic risk stays with the pension scheme). As a result, an APP can be around 15-20 per cent more affordable than buy-in for deferred members," he explains.

"An ISS brings together the toolkit from across L&G – giving access to the investment management and asset sourcing capabilities of LGIM and the risk management framework of the insurance business. Unlike a bulk annuity, the assets and liabilities stay within the pension scheme. Then we introduce two support pillars: a low-risk and holistic cashflow-matched strategy… and a substantial capital buffer on top of that to protect against adverse experience." Moret adds that L&G typically expects ISS to be 10-15 per cent more affordable than a bulk annuity, but adds that it does provide a different form of risk protection.

Since their launch, L&G has completed two APP transactions, covering £650 million of pension obligations, and has a growing pipeline of potential new clients ranging from less than £50 million to around £1 billion. It is also in discussions with a number of schemes in relation to ISS that may result in a first transaction in 2021.

Superfund impact

Although not part of the de-risking market, pension superfunds could soon offer an alternative for some schemes. In 2020, The Pensions Regulator issued new guidance on the superfund regime, which was welcomed by many in the industry. But what impact will they have on the de-risking market?

"I expect the additional competition will continue to help with competitive pricing for buy-ins that cover deferred members. The competition is also likely to create more innovation as insurers, and other capital providers, develop solutions that remove the majority of risks but still share some of the risks with the pension scheme and so can be more affordable than a full buyout," Mullins says.

However, Canada Life director of retirement propositions, Nick Flynn, says that superfunds are targeted at a different sector of the market than bulk annuities. "Superfunds may be the right choice for schemes where buyout is not a realistic prospect over the long term, but where schemes and employers can afford to reach buyout over time the security of an insurance policy is the best way to protect members benefits."

Ward thinks that superfunds could have the biggest impact on schemes that may otherwise end up in the Pension Protection Fund (PPF).

"In a normal circumstance the choice is between employer covenant and potentially getting to buyout or going into a superfund… If the choice is the PPF, or you can exit the PPF, and the key bit, members get a higher level of benefit by going into a superfund… then members could actually get real higher benefits and they have still got a secure regime behind them," he explains.

Choice is positive

With an ever-expanding choice, is this a good thing or will schemes get lost in spaghetti junction? "We like the choice because no one size fits all and every scheme has a unique set of circumstances," Ellis responds. "This is serious stuff, this is individual's livelihoods in retirement, so choice is good. I don't think that the whole market will split, I still think there'll be these main ideas of the bulk annuities and longevity swaps but there will be plenty of schemes that want something just a bit different."

Despite these new products entering the market, the experts agree that buyouts and buy-ins will remain the most popular transactions for schemes. Hymans Robertson head of risk solutions, James Mullins, predicts a "growing trend" of pension schemes being able to afford full buyout. He also expects to see more repeat transactions, where a pension scheme completes its second or third buy-in.

On the longevity swap side, he believes transactions will likely increasingly cover deferred members, as well and pensioners, and the trend of converting historic longevity swaps into buy-ins is likely to continue.

Preparation is key

Fail to prepare, prepare to fail, as the old saying goes, is vital when it comes to pension de-risking.

"Insurance companies hold 'triage' meetings each week to discuss the quotation requests they have received over the last week. Pension schemes need to demonstrate to the insurers why they are a brilliant case for them to focus their efforts on and deliver their best pricing to," Mullins says.

Moret offers schemes some practical advice such as establishing a joint working group between the sponsor and the trustee, which helps ensure that interests are aligned and leads to more efficient decision-making as the project reaches a conclusion. Related to this, he says, is a nimble governance process, which will be essential to take advantage of pricing opportunities that may be short lived.

Schemes are also advised to carry out a feasibility exercise and enlist help from a specialist de-risking adviser, as well as having a clear plan of execution in order to bring together the governance plan and pricing targets. Clean an accurate data is also key and a legally reviewed benefit specification can reduce the risk of benefit errors arising after the transaction, he notes.

Moret adds that working with a specialist adviser to ensure the scheme's asset portfolio is as insurer friendly as possible can deliver pricing benefits and ensure a more efficient transaction process. In addition, early engagement with insurers can assist with knowledge on the process and build relationships ahead of requesting a formal quotation.

Preparation is clearly key. The de-risking journey is no small feat and full buyout, equivalent to closing down the scheme, is often the end goal, which as Ellis concludes is "usually the biggest decision that pension trustees will make".

Written by Natalie Tuck

Summary
- The impact of the pandemic on DB investment strategies has varied greatly, but many schemes will be facing increased deficits and sponsor covenant concerns.
- The Pensions Regulator's (TPR) DB funding code has placed further focus on sponsor covenant, as trustees also predict an increased reliance on deficit contributions.
- 2020 represented a lost year for funding progress in an already maturing market, with scheme trustees urged to review funding levels and investment strategies now.

Making up for lost time

As industry research prompts concerns as to how DB investment strategies have fared amid the pandemic, Sophie Smith explores the impact of the 'lost year' and what considerations trustees should bear in mind for the year ahead

Following the pandemic, many will be reconsidering the plans they had for the future, whether it be weddings, travel, or their financial positioning. Pension schemes are not ones to buck the trend, with a recent survey, commissioned by the Pensions Management Institute (PMI) and River and Mercantile, revealing that the vast majority (95.7 per cent) of DB scheme trustees believe they need to consider re-aligning their investment strategy to achieve long-term funding objectives following the market volatility seen amid the Covid-19 crisis, with 91.5 per cent prioritising this for 2021.

"2020 was a challenging period for pension schemes, given the swings in global markets and the impact that had on scheme funding," acknowledges River and Mercantile co-head of solutions, Ajeet Manjrekar, warning that whilst many schemes ended up in a similar or slightly weakened funding position at the end of 2020, they may have found their GBP deficit to have increased, depending on the level of exposure to on-risk assets and the extent of liability hedging.

Arlo International head of global advice, Toby Band, also describes a "stark contrast" in how DB pension scheme investment strategies have fared, explaining that those schemes with high allocations of UK equities and non-inflation-linked gilts, resulting in higher liabilities, will have been worse hit. "In contrast," he says, "investment strategies that leveraged their liability-matching bonds, diversified investments globally and steered away from an inherent bias to the UK all achieved reasonable returns and were less affected by the pandemic."

A strong foundation

However, it is not only pension scheme investments that have been impacted during the pandemic, as Manjrekar points out that some sectors will have seen a "seismic shift" in covenant strength.

"It is clear that in a post-Covid world, many sponsors will be constrained from a cashflow standpoint and therefore less able to support significant deficit contributions," states Manjrekar, arguing that schemes should evolve their approach to be more self-sufficient to address near-term liquidity needs.

Indeed, Lincoln Pensions managing director, Michael Bushnell, notes that such concerns over covenant strength have already prompted some trustees to review their investment strategies and their approach to journey planning.

"Some schemes have seen minimal impact while others, such as those with sponsors exposed to automotive or hospitality sectors, have seen a rapid deterioration in the covenant and have responded by de-risking their investment portfolio," he explains. "Some schemes have used strong recent market performance to lock in gains and give sponsors more certainty on pension risks while they engineer a recovery."

There are also steps that trustees can take going forward, however, as BlackRock head of UK fiduciary Business, Sion Cole, recommends that the scheme revisit its funding objective, if the pandemic has adversely impacted a scheme's sponsor covenant but is expected to be short term. "For example, they may consider extending their target date to reach their long-term funding objective if the sponsor has to temporarily reduce or suspend contributions," he explains. In contrast, if it is expected to be a longer-term impact, Cole suggests that the scheme reassess whether the level of investment risk it is taking can be supported by the sponsor, and to reduce this if not.

Looking for alternatives

However, despite concerns over covenant strength, the recent research from PMI and River and Mercantile also found that nearly three-quarters (71.3 per cent) of trustees expect to become increasingly reliant on deficit recovery contributions to meet pensions cashflow or invest in income-generating assets if they do not sell growth assets, with 68.1 per cent highlighting this as a priority for 2021.

Considering this, Cole predicts pension schemes will invest more in income-generating assets as they become more cashflow negative and seek to reduce reliance on their sponsor. "For example," he explains, "as schemes de-risk and increase their allocation to matching assets, the liability-driven investment (LDI) portfolio will evolve to become a 'cashflow aware' portfolio that invests in government bonds, LDI and high-quality income-generating assets like investment grade corporate bonds and asset-backed securities." In addition to this, he also anticipates that those schemes targeting long term self-sufficiency will make greater use of higher quality illiquid private market assets, such as infrastructure debt, real-estate debt and private direct lending, arguing that these assets offer "significant diversification benefits" versus public markets and generate contractual income over long periods. Adding to this, Manjrekar suggests that trustees work with advisers to forecast their liquidity management needs, emphasising that these should be evaluated in both a normal and stressed environment to ensure adequate cushioning. "We believe that trustees need to evaluate covenant strength and affordability not just today, but to forecast over the next five to 10 years," he adds, emphasising that this should consider both financial metrics and other risk factors, such as environmental, social and governance (ESG).

Building pressure

The visibility schemes have on sponsor covenant in the medium term has been bought into sharper focus by TPR's consultation on the DB funding code, according to Cole, who suggests that even schemes with strong sponsors should seek to reduce their reliance on their sponsor beyond three to five years, which may mean taking more investment risk now, when it the sponsor can support it.

"The draft UK DB funding code's intention is to "create greater transparency and accountability around the risks taken by UK DB pension schemes", Cole says, continuing: "In order to do this, trustees will need to focus on their long term, strategic issues, while moving towards maturity.

"We believe in some cases, scheme investment strategies will need to reduce risk and reduce reliance on sponsor covenant, as well as ensuring they have suitable journey plans in place. Some schemes will adjust elements of their portfolios to fit with prescriptive fast-track terms."

Adding to this, Manjrekar describes the expectation that DB scheme investment strategies will de-risk progressively over time to have higher levels of risk management and cashflow management as "implicit" in the code. "Whilst this should be welcomed," he clarifies, "we would advocate a measured approach to how quickly schemes de-risk, given this will have longer-term implications to reaching their ultimate end-game."

An ageing market

Indeed, amid shrinking time horizons, Manjrekar describes 2020 as a "lost year" in making funding progress for DB pension schemes, highlighting scheme maturity as an increasingly significant issue. He continues: "Ultimately, DB schemes need a regular and predictable source of cashflow to meet their regular pension payments, alongside any elevation in transfer value activity. This needs to be balanced with generating an appropriate level of return today to improve scheme funding and member security."

Cardano client portfolio manager, Nigel Sillis, also emphasises that, as schemes progress towards their endgame, their investment priorities change as growth is de-emphasised, whilst cash matching becomes more important and illiquidity can become a hindrance rather than a source of excess return. "We are already seeing greater interest in the incorporation of cash-matching considerations into schemes' portfolio solutions," he says, clarifying, however, that cash matching should be seen as "a part of the solution" and not the "be all and end all" of the answer to portfolio construction dilemmas.

"Moving too deeply into cash matching too soon can lead to an inflexibility in the overall resultant portfolio," he warns. "Cash matching should be incorporated when appropriate and should be averaged into the overall portfolio construction mix over time. This enables schemes to stay liquid for longer and allows them to retain flexibility."

Band echoes these concerns, emphasising that whilst DB schemes must allocate more of their asset pool to short-term investments as they mature to ensure stability in the short term, this can leave schemes in deficit. "This means they must take greater investment risks, which is a very difficult position to navigate, particularly during an economic downturn and with people's livelihoods in retirement at stake," he warns.

Re-aligning amid a crisis

Cole, meanwhile, points to diversification as the main consideration for pension scheme trustees looking to realign their investment strategies. "Covid-19 has accelerated geopolitical shifts that were already starting to bubble up," he explains. "Furthermore, as the timeline of economic restart varies greatly by region, we see direct exposure to multiple regions as integral."

Agreeing, Band says that too many schemes have a bias to the UK, leaving them open to added risk and huge underperformance. "For example, in 2020, the UK was the only developed-world stock market to end in negative territory after the shock of the pandemic," he says. Given this, he recommends DB schemes focus more on growth, stating that liability-matching bonds in a scheme allows liabilities to be matched with a smaller percentage of the asset pool. "The scheme can then invest a greater percentage in growth assets, resulting in a much higher chance of reducing the deficit while ensuring long-term liabilities are met," he emphasises. "More complex strategies like volatility-sensitive equity investing and put options could also be considered."

A post-Covid-19 recovery is not the only consideration, however, as Cole argues that the pandemic has also added fuel to pre-existing structural trends, stating in particular that there has been "much greater interest" in sustainability.

"ESG and climate risk are high on trustee agenda," agrees Manjrekar, stating that whilst trustees near-term focus is to get scheme funding back on track, this area will dominate agendas as they look to evolve their investment arrangement.

Recognising the risk

However, just as the impact of the pandemic varied from scheme to scheme, Band emphasises that so too will the impact of the pandemic passing, arguing that whilst there is hope that the pandemic does push schemes to take a more active stance on managing their DB liabilities, it remains to be seen whether the 'pensions black hole' has truly been comprehended. "Some schemes in deficit won't be aware of the need to change strategy and will continue to just pump money into the scheme without any thought about how to ensure scheme sustainability outside of contributions," he says.

Uncertainty more broadly may also prove to be an issue, as Sillis warns that the global macroeconomic conditions that will exist when the pandemic passes will be "unlike anything that has been seen in the past 60-70 years", with the World War II environment cited as the closest comparison.

"Co-ordinated monetary and fiscal policy will continue for some time and, as a consequence, policy settings will err towards a pro-cyclical tendency," he explains, stating that this will have profound implications for the investment landscape and strategies that should most effectively deployed.

In particular, he predicts a generally elevated inflationary environment, that is not countered by the textbook monetary policy response, alongside conditions that threaten to weaken the negative correlation between equities and bonds.

"So, whilst a recovery will emerge, economic outcomes will be less certain and market reactions will be less predictable than at times in the recent past," he warns. "The new paradigm will be fragile. Shocks and discontinuities will abound, and portfolios need to be prepared to weather downside risks as well as be responsive enough to capture upside when opportunities are presented."

Written by Sophie Smith

CDC: Within reach

While the recent Pension Schemes Act has brought CDC schemes one step closer to reality in the UK, there is still some way to go, writes Francesca Fabrizi

The Pension Schemes Bill has finally been granted Royal Assent to become the Pension Schemes Act 2021, bringing with it the promise of a better pensions regime across a number of key areas.

One such area relates to scheme design, with the act enabling the creation of collective defined contribution (CDC) schemes in the UK, which are effectively a variant of the DC and DB schemes currently on offer. This could, says Willis Towers Watson senior consulting actuary, Shriti Jadav, alter the future of the UK pensions scene by offering "a real alternative to traditional DB and individual DC schemes". New regulations due to be published later this year will provide further clarity on CDC as an option, she confirms.

These schemes, says AJ Bell senior analyst, Tom Selby, are designed to offer a "third way" between guaranteed DB pensions, where all risks are shouldered by the employer, and DC, where risks are shouldered by the member. "Under CDC, the employer and employee contribute to a collective fund from which the employee draws a retirement income. The funding risk is shared collectively, in a similar way to old-style with-profits pensions," says Selby.

CDC schemes, from a global perspective, are nothing new and are currently in operation in countries such as the Netherlands, Denmark and Canada. But for the UK, they offer a real opportunity argues Aon head of UK retirement policy, Matthew Arends. "This legislation brings CDC schemes into reality and with the increasing decline in the private sector of DB schemes, it offers the possibility for DC savers to achieve an income for life from their DC savings in both an efficient way and without having to make complex investment decisions."

The most ardent supporters, says Selby, "often paint a picture of retirement mecca, with CDC savers benefiting from bigger pensions and lower investment volatility". Others, he says, argue the schemes "risk becoming an albatross around the necks of the next generation, with sons and daughters asked to make bigger contributions to pay for their parents' pensions".

One clear supporter, though, is the Royal Mail, which has already committed to offering CDC to its members in place of its DB scheme. An agreement was reached between Royal Mail and the Communication Workers Union (CWU) in 2018, both believing that a CDC pension would meet their mutual objectives of providing sustainable, affordable and secure future retirement arrangements for employees.

In response to the Royal Assent declaration, Royal Mail confirmed it was keen to launch its Collective Pension Plan "in the second half of the next financial year". Additionally, Royal Mail acknowledged that, while the new act brings them "one step closer towards making CDC pension schemes a reality for Royal Mail and its people", there is still work to be done. It stated: "We will continue to work with the CWU and others on our new plan going forward. We look to work with government on the passage of the necessary secondary legislation, including tax changes, in a way that will allow our plan to begin accepting contributions. It will also require authorisation from The Pensions Regulator (TPR)."

A spokesperson for TPR agreed that there is still some way to go, stating: "It is early days and there is much still to be developed. We are working with government and other stakeholders to build an effective, clear and efficient authorisation and supervisory regime. In the coming months there will be a further consultation from the Department for Work and Pensions (DWP) on the regulations to support the regime, followed by a consultation on a code of practice."

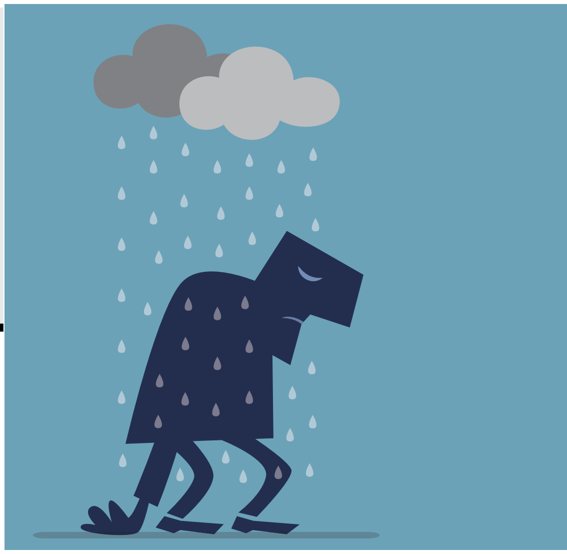
All in all, despite the additional work that is needed, the new act could lead to real innovation in the UK, and while the new regulation opens up the opportunity to enable single employer CDC plans, it should not stop there, argues Arends.

"The path should now be open for government and the DWP to move ahead at pace with the second phase of enabling legislation. This would provide wider-reaching options, making CDC accessible in a variety of ways, potentially including CDC master trusts, decumulation-only CDC platforms, and industry-wide or multi-employer CDC plans."

Indeed, Willis Towers Watson has already seen interest from organisations in the UK looking to consider the feasibility of CDC for their employees, says Jadav. "Conversations have largely been with those in the utilities or industrials sector who wish to provide employees with a regular income in retirement, but at a fixed cost for the employer." For some of these, she adds, CDC may only be possible further down the line, in the event that multi-employer CDC schemes or master trusts are introduced. "CDC is still developing in the UK and it will be exciting to see how far it can go."

Written by Francesca Fabrizi

Summary
- Covid-19 has further impacted the issue of vulnerability in the UK.
- Recent research from the FCA revealed that 27.7 million adults in the UK now have characteristics of vulnerability.
- Some employers and trustees are leading the way in recognising and addressing vulnerability among their employees/members, but more can be done.
- Providing financial education and guidance helps ensure members receive the right support at the right time.
- Speaking to members using clear, simple language is key.



Vulnerability under the spotlight

The issue of vulnerability is more acute than ever, given recent events. Francesca Fabrizi explores what this means for the pensions space

We don't need official figures to tell us that the recent pandemic has had a sweeping negative impact on consumers globally, but seeing the numbers in black and white offers a stark reminder of how severe the problem of vulnerability is in the UK; and raises the question of what we as an industry should be doing about it.

The Financial Conduct Authority's (FCA's) recent *Financial Lives* research revealed that 27.7 million adults in the UK now have characteristics of vulnerability (such as poor health, experiencing negative life events, low financial resilience or low capability). These numbers cannot be ignored by firms operating in the financial sector as the FCA is clear in its message: It will hold firms to account for their treatment of vulnerable customers, and firms can expect to be asked to demonstrate how their business models, the actions they have taken and their culture ensure the fair treatment of all customers, including those who are vulnerable.

The FCA defines a vulnerable customer as someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care; and, off the back of its recent research, has published guidance clarifying its expectations of firms on the fair treatment of vulnerable customers.

Firms should understand what harms their customers are likely to be vulnerable to and ensure that customers in vulnerable circumstances can receive the same fair treatment and outcomes as others. This needs to happen through the whole customer journey, says the FCA, from product design through to customer engagement and communications.

FCA director of consumer and retail policy, Nisha Arora, comments: "Protecting vulnerable consumers remains a key focus for us and given the impact of the coronavirus pandemic, it is more important than ever that firms get this right.

"While some firms have made significant progress, we want to see all firms across sectors taking steps to understand and respond to the needs of their customers, particularly those who are most vulnerable to harm."

This is as relevant to the pensions sector as any other. In its report, the FCA offers the example of firms that advise on investments and pensions stating that they "have an older customer base, so common characteristics of vulnerability may involve health and life events associated with old age".

But it is not just the older customer that can be vulnerable – any pension scheme member can be vulnerable and this needs to be recognised by those managing their scheme. Additionally, the term 'vulnerable customers' covers many more members than some realise, argues CCTL professional trustee, Andy Cheseldine: "Anyone with reading or aural disabilities – visual or cognitive, cognitive impairment (age-driven or otherwise), who has been made redundant (or furloughed), bereaved, or is simply under excessive stress (and that alone could be half the population) qualifies. So, our processes need to be flexible and we need to be really good at listening to members' concerns."

Pensions and the pandemic

Of course, the potential vulnerability of pension scheme members has been a concern for many years, having been catapulted into the spotlight by the introduction of pension freedoms in

2015. The pandemic, however, is making the problem worse.

Canada Life technical director, Andrew Tully, comments: "The issue of helping vulnerable clients is not new, but it has become particularly prevalent in the wake of the pension freedoms where more people still have money invested later in life, or risk becoming a victim of scams.

"Those who are financially vulnerable can be a key target of scammers, and unfortunately the pandemic has provided perfect camouflage for the scammers to increase their activity as they prey on the elderly, vulnerable and financially stretched."

Given that the pandemic has undoubtedly led to an increase in the numbers of vulnerable members of pension schemes, it is important that pension scheme members aren't left to go it alone during this difficult period, urges Wealth at work director, Jonathan Watts-Lay: "With many households surviving on a reduced income, affordability issues could make it very tempting for them to try and make ends meet by reducing or pausing their pension contributions."

Also, he adds, the industry has seen record numbers of the over-55s accessing their defined contribution (DC) pensions since the pandemic. "It is thought that this may be due to some looking at their pension savings to supplement a shortfall in income. Coupled with this, there will be individuals who are made redundant and decide to take retirement earlier than planned, with the knock-on impact of funding more years in retirement."

So, what should the industry be doing about it, and what help is at hand?

First and foremost, says PTL client director, Richard Butcher, well-run pension schemes should already be onto this: "I'm not sure the pandemic should be changing our behaviour when it comes to vulnerable customers. All that the pandemic has done is increase their number. We have always had vulnerable customers and we should have robust systems and processes to help protect them and to help them make informed decisions."

The pandemic does remind us, though, that we need to remain flexible in our approach, reiterates Cheseldine: "All providers have templates and protocols in place to ensure consistency and fairness, but we need to be very aware that circumstances have changed enormously over the year – who knew that 'furlough' or 'shielding' or 'self-isolating' would be some of the most used vocabulary of 2020/21?"

The responsibility falls on all of us – providers, employers and trustees, he argues. "In some cases, the trustees do not have resources, but they do have the power to influence providers and employers."

To help wrap the right support around vulnerable members, Standard Life head of workplace deployment, Donna Walsh, says we need to listen and understand their circumstances, adapt our support and make things easier for them. "These are stressful times and anxiety is heightened amongst many. We have a role to play in providing that calm, guiding light and being there for members when they need us."

It is important that we help members evaluate their options and consider their decisions within a short- and long-term context too, she argues: "We also look to protect members, and alerting them to the increase in scams is something the industry should continue to focus on as people in vulnerable circumstances can feel desperate and be more susceptible to scammers."

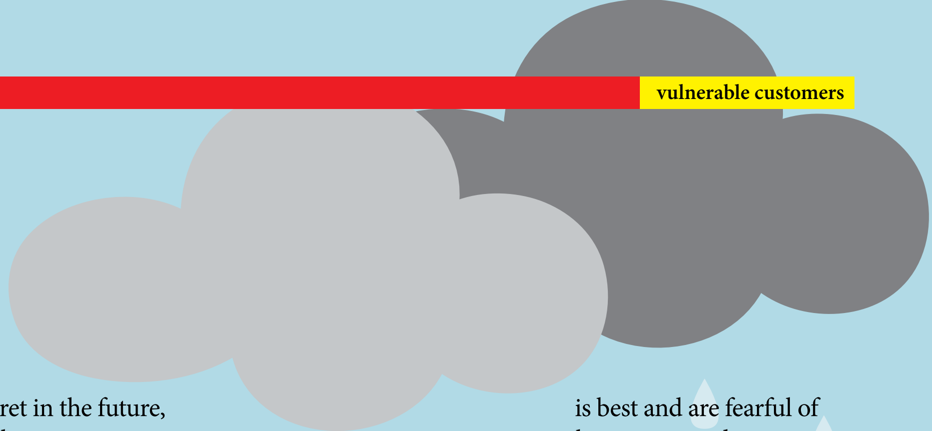
Of course, much is already being done across the industry. Structures are in place and help is at hand in the forms of various guidance, such as that published by the FCA. In January, the Personal Finance Society also launched an independent Financial Vulnerability Taskforce, with the aim of supporting the profession to better recognise and address the various forms of consumer vulnerability, improve client outcomes and increase access to financial advice.

February then saw the publication of the Altus white paper, *A Vulnerability Travelcard for the Financial Services Industry*, which reviews the vulnerable customers' challenge from a wide array of angles, from technology, impact on employees, behavioural insights to data and measurements. As the paper states, while some progress has already been made, there is much more to be done, and going forward, data (GDPR), systems (integration) and technology will be key to identifying and supporting vulnerable customers and delivering mass personalisation at scale.

One area of focus in the white paper is vulnerability in later life. Altus head of retirement strategy, Jon Dean, writes: "The FCA's *Financial Lives* survey shows most of us becoming more financially resilient with age, which perhaps goes some way to explaining why older consumers are less likely to be scam victims. However, after age 65 that resilience decreases, health deteriorates and vulnerability rises but in different ways."

Financial services providers, he continues, must address vulnerability across all age groups and as individuals progress through life, vulnerability evolves, "meaning that each group presents different needs that the industry must fully assess as it prepares to support its vulnerable customers".

From a pensions-specific perspective,



The Pensions Regulator (TPR) is also very much alive to the risk vulnerability poses to good pension outcomes, says executive director of regulatory policy, analysis and advice, David Fairs, which is why its impact will be reflected in the final version of TPR's *Corporate Strategy*, to be published in March. "The strategy puts savers at the heart of what we do. Its core aim is to protect and enhance the retirement incomes of millions of people," says Fairs.

Sadly, he acknowledges, the coronavirus pandemic is likely to have increased the risks for many vulnerable savers, as well as putting more savers into vulnerable positions. TPR has already worked hand-in-hand with industry to produce the pledge to combat pensions scams, asking schemes and providers to do all they can to protect savers including vulnerable customers. "As members of the UK Regulators Network, we are also interested in supporting a consistent approach to improving outcomes for vulnerable customers across the regulatory family," he confirms.

TPR has also issued new guidance urging trustees to prepare now for the possibility that their sponsoring employer faces difficulties. "As part of our clearer, quicker and tougher approach, we expect schemes to be treated fairly by employers. So, trustees must be ready to engage with a sponsor's management team regularly and quickly when they spot any risks. The faster they act, the more options and greater time they'll have to protect members' retirements," says Fairs.

Many employers and trustees are also leading the way by providing financial education and guidance and facilitating access to regulated financial advice, to ensure members receive the right support at the right time, says Watts-Lay.

"Implementing financial education initiatives is especially important right now – it can help the workforce explore ways in which their daily finances can be supported and prevent them from falling into financial hardship, or even from making decisions that they may regret in the future, such as stopping pension contributions or accessing their pension early when they may not need to."

Wealth at work also recently launched a new online platform called the Financial Healthcheck. This helps employees build their knowledge on a range of financial matters based on an interactive diagnostic tool covering four key areas: debt and money management, managing savings, retirement and health, and financial protection. Having completed a few simple questions around their chosen area, the Financial Healthcheck produces their personal dashboard, providing access to a range of resources such as watching a webcast or animation, completing a budgeting tool or booking an online seminar.

The firm also provides support for those who need help at retirement by delivering virtual one-on-one guidance sessions via a video call or telephone.

Employers, trustees and providers all have a role to play when it comes to supporting vulnerable members through communications and conversations, says Walsh. "Additional support can range from signposting to third-party support offered by charities and other specialist organisations, to offering flexibility in standard processes and taking a personalised approach to members' circumstances," she adds.

Keeping it simple

As an industry, one way we can help vulnerable customers is by simplifying the complexity of pensions and talking to members in a language they understand, says Gallagher director, retirement communications, Karen Bolan.

"A lot of members fear pensions as they are complex. This is the main reason many people use default options. They presume that the trustees know what is best and are fearful of making a wrong decision themselves. Scammers prey on this fear. They prey on insecurity and the complex nature of pensions makes pension scheme members the ideal target. Added to this is the fact that pension pots built over many years mean there are attractively large sums available."

Unlike many in the industry, continues Bolan, scammers use simple language: "They position themselves as the member's friend. Increased communication, however, can help. We should be openly talking about scams and how to spot them. If it sounds too good to be true, it probably is. We need to raise awareness of scams by mentioning them in ongoing communications."

A further difficulty is that there still exists a level of mistrust about pensions, adds Bolan. "This is largely due to misleading and unhelpful stories in the press together with 'characters' like Philip Green who help keep a negative message around pensions appearing as headline news. Attention-grabbing headlines live long in members' memories."

Looking ahead, it's clear that the topic of vulnerability is not going anywhere. In fact, it is likely to become even more acute over time, says Butcher: "We have an aging society with a chronic pension saving adequacy problem. This means more people are going to be retiring later. Add to this the impact of freedom and choice, which means members are having to make complex decisions later into life and the persistence of pension scammers. In summary, schemes will have more older members, grappling with complex decisions, who are increasingly vulnerable."

Written by Francesca Fabrizi

Gender pensions gap: Too simplistic?

Recent research has found that, while the gender pensions gap persists, there can be quite a wide variation between different age groups, with women saving more for a pension than men in some instances. *Pensions Age* asks: Is the pension gender gap conversation sometimes too simplistic and how can the industry attempt to close the gaps within different age groups?

The gender pensions gap is a reality that we need to address. However, it is often looked at through too simplistic a lens.

Career breaks can be a major cause of the gap, with many women returning to work on a part-time basis. We need to educate members about the impact of career breaks and help them mitigate the effects. This needs to be done both at the start and end of any career break to ensure that no time is lost.

Women also often prioritise their family over their own needs. We should be communicating with women in a way that acknowledges this and help them make all-round appropriate financial decisions.

Targeted communication rather than one-size-fits-all is key. We should be using communication to target messages to people based on their behaviour rather than on their gender or age. We can identify where retirement savings are likely to be inadequate and should target those members.

Traditionally, it is also true that women have often relied on their husband's pension savings. Hopefully this is changing. However, I was once told "A man is not a financial plan". They seemed like wise words.

Of course, it is not about only targeting women, we owe it to everyone to help them achieve a decent income in retirement.

Gallagher director, retirement communications, Karen Bolan

The gender pensions gap in the UK stands at 35 per cent, against an OECD average of 25 per cent, largely as a result of women's generally shorter working lives. While there is significant variation across age cohorts, women, on average, retire with smaller pension incomes than men. Granted, the gap should narrow over time given women's ever-greater participation in the labour force, the recent equalisation of state pension age (SPA) and planned increases in the SPA, yet more action is needed. Widening the auto-enrolment net would certainly help as would the use of simple behavioural interventions. These could innovatively encourage not only greater but more enduring levels of saving, better investment decision making and more informed choices at and in retirement. After all, pension outcomes depend on all three of these actions.

Columbia Threadneedle Investments head of pensions and investment education, Chris Wagstaff

Although there is evidence that a greater proportion of women than men are currently saving in some age groups, this may be a temporary consequence of the pandemic. The gender pensions gap is not just about the number of women saving, but how much money they are saving into their pots. The overall gender pensions gap remains stark and this is largely due to the motherhood penalty. We know that women tend to carry the weight of childcare responsibilities and many either reduce their hours or stop work entirely so they can raise their children, without fully appreciating what this will mean to their future retirement income.

Research that we recently conducted raised the question of whether pension providers should specifically communicate with women from their mid-forties onwards, to inform them that increasing work by either one or two days a week would boost their pension pot considerably over the long term.

The People's Pension director of policy, Phil Brown

The pensions gender gap is a result of many things – pension participation, contribution levels and also pay and workforce participation. And while it is helpful to have a simple metric, the pensions gender gap combines areas the industry can influence with those that require more societal change. More than that, for occupational schemes, it's the employer who ultimately determines the contributions, so while the industry has influence it doesn't have direct control.

So what can the pensions industry do? Well, there are actually two issues here – the pensions gender gap and the fact that most pension scheme members aren't saving enough. Addressing the gender gap is therefore not enough. We need to address both challenges. To do this, two immediate actions spring to mind. Firstly, encourage greater engagement with pensions generally and amongst women in particular. There's no doubt that the dashboard has a vital to play here. Secondly, the industry can encourage the government to expedite the implementation of the auto-enrolment review. Improving pensions for the lower paid will benefit all but have a greater benefit to women.

Society of Pension Professionals president, James Riley

Pensions history

What sort of equities?

Addressing the Investors Chronicle Conference 60 years ago, on 22 March 1961, George Ross Goobey referred to the greater freedom being introduced by the forthcoming Trustee Act, for trustees to invest part of their trust funds in equities. He had chosen for the title of his talk: ‘What sort of equities?’ He then went on to explain that it was his task to endeavour to help delegates make the choice of which particular companies or types of companies in which to invest.

One of his criticisms of the Trustee Act was the limitation by size of company, namely, that the authorised and issued share capital had to exceed £1 million. This restriction must have excluded many good companies. Nevertheless, there would have been a number of smaller and lesser-known companies around the country that did just qualify from the size point of view.

With the increase in wages and the more holidays with pay, which were being granted, the entertainment industry struck him as one with tremendous potential. Included in this was the holiday camp movement, which provided very good value for money. He, therefore, could recommend both Pontins and Butlins. Then there was also the hire purchase business, which was still a very promising ‘industry’, in spite of the setbacks one or two companies had recently experienced.

In his concluding remarks he said: “The industry in which I would imagine the majority of your investments will find a home is engineering, if only because this group is the one which offers most investment opportunities. Britain is still a leader in the world in engineering and it is therefore natural to find that of the 4,641 companies listed under commercial and industrial in the official list, no less than 913 are engaged in engineering of one sort or another.”

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

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Answer at bottom of page

I know that face... Answer: Smart Pension group managing director, Will Wynne

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PENSIONS Age JOBS

Pensions Age JOBS service – getting the best candidates for your key roles

Pensions Age is the leading media for the pensions market
(please see our main media kit for circulation statistics and breakdowns).

We can offer recruiters:-

- Vacancy advertised on our daily email newsletter which reaches over 25,000+ subscribers every day.
- Vacancy advertised at www.pensionsage.com the leading news portal for the pensions sector.
- Vacancy advertised in Pensions Age print, which has a circulation of over 15,000+ in print and 25,000+ tablet.

Please contact us for details.

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Camilla Capece +44 207 562 2438, camilla.capece@perspectivepublishing.com

Abenefit2u
Recruitment Specialist

Contactus@abenefit2u.com
Call us on 0207 243 3201

Abenefit2u
Specialists in Pensions & Benefits Recruitment.
We can assist with 'one-off' recruitment needs or ongoing staff requirements; on a permanent, contract or temporary basis.

Abenefit2u recruits from trainee administration level upward through to executive management, providing both contingency and executive search services.

www.abenefit2u.com

Finding you the perfect fit...

In-house Pensions Lead
Up to 37k | Home & Kent Mix | DB14951

In-house Risk Assess/Compliance Temp
DOE | Home/Office Mix | DB14976

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DOE | Home/Office Mix | DB14977

In-house x 2 Pensions Administrators
Up to 30k | Home Working* | DB14964

Pension Fund Accountant
£DOE | Flexible | CE14975

Pensions Covenant Consultant
£DOE | Flexible | CE14922

Client Relationship Manager
£Competitive | Flexible | CE14898

Experienced Pension Administrators
£DOE | Leeds / Hampshire | TD14924

DC Implementation Project Consultant
£DOE | Kent | TD14970

Pensions Administration Manager
£DOE | Berkshire | TD14932

*2 days each calendar month on site required

BWF
BranWell Ford
Pensions & Legal Recruitment

EXPERT ADVISERS IN
PENSIONS RECRUITMENT

01279 859000

Recruitment & Employment Confederation

christine@branwellford.co.uk

Two DB Consultants
Ref: HB17805 | South East | £38,000 - £50,000 pa
Due to continued success and business growth, our client is seeking two pensions' professionals to work as part of a team, managing and advising on a portfolio of corporate and trustee clients. There is scope within this role to work remotely on a permanent basis.

Head of Proposition
Ref: HB17818 | London | £Negotiable
Are you able to demonstrate a proven background in proposition development and strategy implementation? Focusing on Workplace pensions you will be responsible for the creation and delivery of a development strategy ensuring the firm is a market-leading and innovative proposition.

Head of Pensions
Ref: HB17822 | Wales with scope to work from home | To £80,000 pa
Outstanding senior appointment to support the delivery of the pensions' agenda which is a growing and ambitious part of the business. You will drive Pensions strategy and policies, ensure good governance and lead on new pension initiatives. APMI qualified is advantageous.

hayley@branwellford.co.uk

Senior Communications Consultant
Ref: HB17817 | Avon | £Negotiable
We are seeking a dynamic individual with a creative flair who is looking to play a leading role in shaping the communications strategy for this rapidly expanding team for a market-leading pensions consultancy.

Pensions Administration Manager (2-3 year FTC)
Ref: HB17810 | North West | To £45,000 pa
Manage the day to day running of this in house pensions' administration team. You will oversee complex administration tasks, ensure effective communication with all members, attend trustee meetings to capture requirements and manage relationships with Trustees.

Senior Pensions Technician
Ref: CB17785 | Working From Home | £35,000 - £45,000pa
Based from home, you will work on a variety of occupational pension schemes with the ability to lead on the delivery of assigned projects and schemes. You will be working within the GMP equalisation team so you must be technically strong with advanced Excel skills.

pip@branwellford.co.uk

Client Relationship Manager
Ref: CB17789 | Across the UK / Home Based | £Negotiable
We are excited to be working with an award-winning client on a busy role which will see you providing client relationship management to pensions administration schemes. You should possess strong technical skills with the ability to manage client relationships at a senior level.

Senior Pensions Administrator
Ref: CB17731 | Leeds | £Neg DOE
This is a great opportunity for an in-house or TPA pensions administrator to join this market leading Actuarial and Pensions Consultancy team. Reporting directly to the Pensions Team Leader, you will be allocated a portfolio of DB pension schemes responsible for providing a full admin service.

Pensions Implementation Analyst
Ref: CB17828 | Home Based or South Yorks. | Up to £30,000 pa
You will attend meetings with clients during the implementation cycle to understand their requirements, undertake scheme analysis and system configuration, support the production of requirement documentation and undertake data analysis and testing tasks. You should have strong pensions and technical skills.

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