Sponsor distress
Communicating with members when the sponsor is in financial distress

Glidepaths
Why are DB pensions' journeys to wind up often delayed?

Longevity
What the slowdown in longevity improvements means for schemes

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December 2017

PENSIONS Age

The leading pensions magazine

Year review: *A look back at the major pensions events from the past 12 months*

Death benefits: *How modern life is increasing the difficulty of awarding death benefit payments*

Heavy weighs the crown

The pressures facing the drawdown market

Multi-asset investment guide - how these funds can provide stable returns for pension schemes

Editorial Comment

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

A recent report from the Joseph Rowntree Foundation hardly makes for festive reading.

Since 2013, an extra 300,000 pensioners are now living in poverty, bringing the total number of impoverished pensioners to just under two million, its *UK Poverty 2017 Report* finds.

As the Pension Credit not keeping pace with rising costs has been attributed for this influx of pensioners in poverty, it would be easy to dismiss the charity's findings as not relevant to the pensions sector itself.

But the report finds new threats on the horizon for the next cohort of pensioners, such as increases in housing costs, food prices, bills and mounting debt (little wonder the foundation claimed the chances for solving the problem of poverty currently look "worrying").

The result of these challenges is people struggling to afford to save into a workplace pension – therefore continuing their financial struggles into their old age.

We may start to notice the impact of this sooner rather than later. For instance, with finances squeezed in so many directions, it will be interesting to see what opt-out rates will look like when auto-enrolment contributions rise in April.

But just as individuals themselves have to find a way to adapt to new monetary norms, so too must the industry. For instance, a recent report from Scottish Widows finds that in 15 years' time, one in eight retirees will live in rented accommodation, with 42 per cent of their income on average being used to pay the rent.

This is a concerning thought, and one that turns on its head the assumption that people will no longer have rent or mortgage costs to pay once they reach retirement.

We all already know that the majority of people are not saving enough into their pension pot to fund the 'traditional' idea of what it means to be in retirement, never mind affording a retirement with additional costs at this stage of their life.

So the industry will have to ensure it creates products that suit the changing nature of retirement. However, there is a lot of work to get to that stage.

Even drawdown – currently the 'darling' of the retirement product sector – is not without its challenges, as our cover story on p58 shows.

The main 'draw' of drawdown is the flexibility it offers in terms of retirement income. So too people enjoy the flexibility of continuing to work past retirement age if they so wish.

Therefore the pensions sector has an important role to play in ensuring savers have financial freedom enough to be able to make a choice at retirement.

The industry often highlights how people want to continue working during their retirement. I'm sure many do. But we mustn't overlook those who are forced to work past retirement age due to financial necessity.

If these people have done the 'right thing' and saved into a pension throughout their working lives and still have no choice but to continue working at pre-retirement levels throughout their pensionable years, the industry needs to stop congratulating itself on the flexibility it helps provide to better-off retirees and start looking at what its role is in helping those poorest people who use the sector's products.

After all, stripping it back to its simplest form, the whole point of saving into a pension is to generate an income at retirement that at least somewhat replaces salary – and replaces enough to not have to continue earning that salary. If that is not the case and increasing numbers of future retirees are struggling to get by, then the industry has failed in its main task.

The pensions industry is still bedding in the results of a number of fundamental changes to the way it operates. Hopefully the end result of these reforms will be a decline in the number of pensioners in poverty, instead of rises. Otherwise a Merry Christmas may be few and far between for both the industry and its savers.

Laura Blows, Editor

COVER FEATURE

Theme: The end game

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Heavy weighs the crown

Drawdown has established a firm current rule over annuities in the at-retirement market. But with an advice gap and a dangerous sequence of returns risk, is the product wearing its crown comfortably?

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NEW circulation figures

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

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Dateline - November

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

1 November Pension scheme members approaching retirement should be auto-enrolled into independent guidance before reaching retirement, former Pensions Minister **Baroness Ros Altmann** says.

2 November The **Bank of England**'s Monetary Policy Committee reveals it has increased interest rates to 0.5 per cent, up from 0.25 per cent. The decision to increase interest rates will bring a "modest boost for pensions" according to Royal London director of policy Steve Webb, who says it should signal a gradual recovery in annuity rates.

3 November Pension savers could receive advice vouchers to encourage a greater uptake of advice prior to retirement, **Royal London director of policy Steve Webb** proposes. Speaking at the House of Commons Work and Pensions Committee, the former Pensions Minister suggests advice vouchers for employees could be a way to get savers "through the door" to take advice.

6 November The Pensions Regulator launches a review into whether trustees are carrying out adequate assessments of the costs and charges paid by members. The regulator says it believes many trustees of small and micro schemes may not be properly assessing value for members. The review will consider the explanation of the value for member assessments made by 100 small and micro schemes in their chair statements.

8 November Employer covenant risk is currently the largest risk for defined benefit pension schemes, according to **PTL.** Its quarterly *DB Risk Survey*, which asked trustees to indicate their top three current DB risks, found the highest ranked risk, employer covenant, rose to 24 per cent from 14 per cent the previous quarter.

9 November The government may abandon pensions tax relief once auto-enrolment is "accepted and well embedded", a former Pensions Minister, **Ros Altmann**, says. Speaking at the Festival of Financial Planning, Altmann was asked where she sees the future of tax relief heading. "I would expect from 2019 onwards once auto-enrolment is fully rolled out there's a good chance it will be made compulsory and there will be no tax relief. The incentive will be the employer contribution," she answered.

10 November The **government** reveals it will publish draft legislation to ban pensions cold calling, including texts and emails, in early 2018. In a response to a parliamentary written question, from MP for Hornchurch and Upminster Julia Lopez, the government says it is "committed to banning pensions cold-calling".

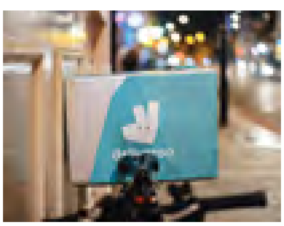
13 November Bus company Stotts Tours and its managing director Alan Stott have been prosecuted by **The Pensions Regulator** for deliberately avoiding their auto-enrolment duties. Stotts Tours (Oldham) and boss Stott were found guilty for a total of 16 offences of "wilfully" failing to comply with the law on workplace pensions. This case is the first of its kind to be prosecuted by the regulator.

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

15 November The **Independent Case Examiner's Office** declined to accept 275 complaints from women born in the 1950s and affected by changes to the state pension age, as at 3 November 2017. The Department for Work and Pensions under-secretary Caroline Dinenage says the government declined to accept the complaints "on the grounds they had not exhausted the Department for Work and Pensions complaint process".

16 November The 0.75 per cent charge cap on default funds in auto-enrolment schemes will remain the same, **Minister for Pensions and Financial Inclusion Guy Opperman** confirms.

17 November Employers are being urged to read **HMRC**'s finalised guidance on VAT on pension scheme costs, as they may be able to maximise the VAT they can recover. HMRC changed its approach to VAT on pension scheme costs following the Court of Justice of the European Union PPG litigation case in 2013. However, at the time it gave a four year transitional window, which closes on 31 December 2017.



Editorial credit: Hadrian / Shutterstock.com

20 November Workers in the gig economy may lose out on over £180m of employer pension contributions annually, **Now: Pensions** highlights. With the 3 per cent employer contribution that becomes the minimum rate in April 2019, gig workers could miss out on £182m of employer contributions per year.

21 November A survey of pension professionals finds that 55 per cent rank geopolitical risk as the biggest short- to medium-term risk to the global economy. The research undertaken by **PineBridge Investments** finds that geopolitical risk was followed by inflation concerns (20 per cent), growth rates (16 per cent) and central bank policy (7 per cent).

The Pensions Regulator

22 November The Pensions Regulator is to clarify guidance on investments with long-term investments horizons, the Budget background documents reveal. Delivering his Budget statement, Chancellor Philip Hammond revealed the government will be launching an action plan to unlock over £20bn of new investment.

24 November The Work and Pensions Committee announces plans to launch an inquiry into collective defined contribution schemes. The committee's inquiry will consider the merits of CDCs, the role that they could play in the pensions landscape, the potential benefits to savers and the wider economy and the legislative and regulatory framework that would be required to successfully implement these schemes.

27 November Tata Steel workers have been asked to decide on whether they would like to have their pension savings transferred into a default Pension Protection Fund scheme or a new arrangement. According to letters seen by *Telegraph Money*, 130,000 current and former Tata Steel pension savers have been asked to choose between remaining in the existing scheme that will move into the PPF or move their savings into an entirely new arrangement.

28 November The proposed changes to the **Universities Superannuation Scheme** would have "serious consequences" for affected universities, University of Warwick vice-chancellor, Professor Stuart Croft urges. In a blog post written to university staff, Croft notes that "alternative, more innovative solutions" should be explored regarding the USS.

30 November Existing master-trust pension schemes may have to pay £67,000 in administration fees as part of their application for authorisation from The Pensions Regulator, new plans from the **Department for Work and Pensions** reveal. In a consultation document, the government reveals plans for two one-off administration fees for master-trust pension schemes seeking regulator authorisation, including a £24,000 fee for new schemes.

News focus

Pensions left unscathed by Chancellor in Budget

The Chancellor listened to the industry's wishes to be left alone in the Autumn Budget, with Hammond resisting the urge to make cuts to pensions tax relief

Editorial credit: Sovastock / Shutterstock.com

It was welcome news for many in the pensions industry as Chancellor Philip Hammond chose to leave pensions alone in his Budget announcement.

Delivering his first Autumn Budget, the Chancellor left pensions unscathed, although minor changes were revealed in the Budget background documents. Touching briefly on the subject in his speech, the documents revealed the extent of Hammond's plans to unlock over £20bn of new investment in UK scale-up business.

In his speech, he expressed his desire to facilitate pension fund access to long-term investments, and said the UK "stand*[s]* ready to step in to replace European investment fund lending if necessary".

"Today we're publishing our action plan, to unlock over £20bn of new investment in UK scale-up businesses. Including through a new fund in the British Business Bank, seeded with £2.5bn of public money [and] by facilitating pension fund access to long-term investments," he said.

In the documents it was revealed The Pensions Regulator is to clarify guidance on investments with long-term investments horizons. The government said it will also support long-term investment by giving pension funds confidence that they can invest in assets supporting innovative firms as part of a diverse portfolio. Further information was also revealed in the Treasury's response to its consultation on Financing Growth in Innovative Firms.

"The Pensions Regulator will clarify guidance on how trustees can include investment in assets with long-term investment horizons, such as venture capital, infrastructure and other illiquid assets, in a diverse portfolio. HM Treasury will establish a working group of institutional investors and fund managers to increase the supply of patient capital, including tackling continuing barriers holding back DC pension savers from investing in illiquid assets," it said.

The government believes the changes will give pension funds confidence to invest in assets supporting innovative firms as part of a diverse portfolio. "With over £2trn in UK pension funds, small changes in investment have the potential to transform the supply of capital to innovative firms," the government said.

However, Royal London director of policy, and a former Pensions Minister, Steve Webb, said if the government is serious about unlocking more pension fund money to spend on infrastructure, "this Budget announcement is likely to be a damp squib".

"The small print of the Budget says that all this amounts to is simply asking The Pensions Regulator to 'clarify the guidance' given to pension funds about long-term investment. If we want to see serious money being invested by pension funds in infrastructure we need a supply of projects that pension funds can invest in, not minor tweaks to rules and guidelines."

It may not have been a Budget for pensions, but it was one aimed at the young, with Hammond declaring his policies will make a "Britain we can be proud of, a country fit for the future". Continuing the theme, he pledged his commitment to build more homes to make the "dream of home ownership a reality for all generations" and abolished stamp duty for first-time buyers for properties under £300,000.

As part of the plan to bring more fairness between the generations, there had been rumours the Chancellor would shake up tax relief, bringing about a cut in tax relief for older people to fund a cut in National Insurance for the young. However, the Chancellor chose to leave pensions tax relief alone, for now.

The background documents confirmed the lifetime allowance will rise in line with CPI (rounded to the nearest £100) to £1,030,000 for 2018-19, in April.

As outlined in the Budget Costings, pensions tax relief for the annual allowance will remain fixed at £40,000 and the pensions tax relief for the tapered annual allowance will remain for individuals with income over £150,000, including pension contributions. Furthermore, pensions tax relief for the Money Purchase Annual Allowance also remains fixed at £4,000.

Prudential retirement expert Les Cameron said: "It's good to see the lifetime allowance increase is going ahead as planned. This will see a saving of up to £16,500 for those with large funds."

Aegon head of pensions Kate Smith shared a similar view: "Fortunately there was no U-turn in the lifetime allowance increase, which has been confirmed to increase to £1,030,000 from next April. Following a series of reductions, this is good news for savers, even if on the surface the increase isn't large. A small increase is welcome for those nearing the limit, but this is a complex area and people should seek financial advice to avoid paying unnecessary tax."

Overall, the Chancellor's decision to leave pensions alone was welcomed by many in the industry. "No news is good news for pension investors," Hargreaves Lansdown head of policy Tom McPhail said. "The stability of no change is a welcome relief after years of political interference and the salami-slicing of reliefs and allowances."

AJ Bell senior analyst Tom Selby agreed, describing the lack of pensions changes as "a welcome respite for UK savers".

"The pension freedoms are still less than three years old and a period of stability to allow them to bed in is an unusually pragmatic decision from a Chancellor who could easily have taken the axe to pension incentives to curb the increasing cost of tax relief to the Exchequer," he added.

However, according to Quantum Advisory partner and actuary Stuart Price, "although we can breathe a sigh of relief now, given the suggested economic benefits of revising the current tax relief system for pensions, I'd say we can't rule out changes in the not too distant future".

PMI president Robert Branagh expressed disappointment at the "missed opportunity" to improve standards of pension provision using the Budget.

"Concerns about pension tax relief and rebalancing intergenerational unfairness have failed to materialise, despite the government's aim to help younger voters," he said.

"The opportunity to encourage more savings in the workplace has also been missed and we are now even more concerned that the government is not interested in pensions and long-term savings over the remainder of this parliament, as it is focused on other issues."

Written by Natalie Tuck, Talya Misiri and Laura Blows

NEWS IN BRIEF

Barnett Waddingham has agreed a further five-year contract with GBST to power the administration of its SIPPs. As its core technology partner, GBST has provided SIPP administration support through its Composer platform to Barnett Waddingham since 2013. GBST head of EMEA David Simpson said: "GBST's technology has powered the administration of Barnett Waddingham's SIPPs since 2013 and we are delighted to continue working with them."

Broadstone Group, the benefits and pensions consultant, has broadened its scope through the acquisition of independent actuarial consulting company Mitchell Consulting and independent trustee business 2020 Trustees. The acquisitions take Broadstone's employee headcount to 170 staff and extend its UK network across five areas.

The Pensions Regulator signed up to the Disability Confident scheme as part of its commitment to improving employment opportunities for people with disabilities. The scheme helps employers to recruit and retain people as a result of their skills and talents, disregarding disability. Of the three levels in the scheme (committed, employer and leader), TPR has achieved a Level 1 certification as a 'Disability Confident committed employer'.

The combined deficit of schemes in the **PPF 7800 Index** has dropped to £149.8bn over October, the Pension Protection Fund has revealed. It is a fall of £8.2bn, down from £158bn, at the end of September 2017. The position has also improved from the previous year, when a deficit of £275.9bn was recorded.

VIEW FROM TPR

We have long called for much stricter regulatory controls for master trust schemes. The success of automatic enrolment has led to a significant growth in the master-trust market – there are now 7.1 million savers using such schemes, an increase of more than 2,000 per cent since 2010.

So the DWP consultation on the master-trust regulations is a very welcome next step in the development of a safe and sustainable market.

The Pensions Schemes Act 2017, gives us tough new powers to authorise, supervise and de-authorise master trust schemes.

To get authorisation schemes will have to meet a number of criteria including around systems and processes, financial sustainability and making sure that people running the schemes are fit and proper.

We believe that authorised master trusts will be the lynchpin in the development of a sustainable and safe occupational defined contribution (DC) schemes market.

The DWP's consultation on the regulations will last for six weeks and I urge trustees and providers to take part. After that we will publish a Code of Practice for consultation early next year on how authorisation will work and how the criteria should be met.

We have been in active discussions with the industry for over a year. Our goal is to ensure those responsible for the running and governing of master trusts understand the requirements and are ready to apply for authorisation, which is expected from October 2018.

Nicola Parish, executive director of frontline regulation, TPR

The Pensions Regulator

Govt against introducing mandatory pensions guidance

The idea had been mooted by several people in the industry, including Ros Altmann, a former Pensions Minister, who told the Work and Pensions Committee mandatory guidance would be a step forward

Pensions Minister Guy Opperman has said the government is not in favour of introducing mandatory pensions guidance.

Editorial credit: dominika zarzycka / Shutterstock.com

Speaking during a Work and Pensions Committee session, as part of its inquiry into the pension freedoms, Opperman was asked whether the government is considering default guidance to increase the take up of Pension Wise.

In response, Opperman said: "There are three points to make I suppose. The first is that there is already guidance by reason of the notification that does appear on the situation whereby you are given advice, and secondly, we don't believe that mandation is the appropriate way forward. But we acknowledge and accept that there is a legitimate and correct debate as to how we can improve the quality of guidance in these circumstances."

However, he referred the Committee back to the Financial Guidance and Claims Bill, notably an amendment by Lord Sharkey, which Opperman said the government is considering.

The amendment suggested the Financial Conduct Authority (FCA) include a requirement for the trustees or managers of a relevant pension scheme to ask members of the scheme or survivors of members of the scheme, at the point at which they require access to or individual transfer of their pension assets, if they have received the information and guidance available under section 3 of the Financial Guidance and Claims Act 2017.

If they have not received such information and guidance the FCA may require the relevant trustee or manager to provide access to such information and guidance before proceeding.

"It is not our proposal to reject that, to try and answer the chairman's point, but it is definitely our proposal to consider it, sit down with the FCA, and consider it with parliament because we're not totally convinced that the wording is ultimately as it should be. But the reality is, we've gone from what could be described as a soft nudge at the present situation, to a slightly harder nudge by reason of the Sharkey amendment[…]we accept that principle we are just working on the fine detail," Opperman explained.

Part of the committee's inquiry is to look at whether the pension freedoms have made people more vulnerable to scams, and how to crack down on scams.

As part of the government's efforts Economic Secretary to the Treasury Stephen Barclay confirmed the intention to bring forward draft legislation early next year, and the ambition to have legislation in place before 2020.

Despite this, Barclay declined to commit to a specific date on which we can expect the ban: "I'm not going to give a commitment because I think in politics people give commitments that are not met, if they give a firm date," he said.

Written by Natalie Tuck

TPR prosecutes bus company and boss for AE avoidance

The Pensions Regulator has also revealed the number of unpaid contribution notices it issued has increased by 100 since the previous quarter of 2017

The Pensions Regulator

Bus company Stotts Tours and its managing director Alan Stott have been prosecuted by The Pensions Regulator for deliberately avoiding their auto-enrolment duties.

Stotts Tours (Oldham) and boss Stott were found guilty for a total of 16 offences of "wilfully" failing to comply with the law on workplace pensions. This case is the first of its kind to be prosecuted by the regulator.

The firm was due to auto-enrol 36 staff members in a workplace pension and begin paying contributions from June 2015. TPR concluded that Stotts Tours' failure to comply was deliberate, thus meriting criminal prosecution of both the company and its managing director.

Under section 3(2) auto-enrolment duty of the Pensions Act 2008, Stotts Tours and its boss pleaded guilty to eight counts of wilful failure to comply. This is contrary to section 45(1) of the same Act, when the case was heard by the Brighton Magistrates' Court on 10 November, TPR noted.

In addition, the regulator is separately pursuing Stotts Tours for £14,000 in civil fines imposed for non-compliance.

TPR director of automatic enrolment Darren Ryder said: "Dozens of staff at the company were entitled to workplace pensions but were denied them because their employer deliberately failed to set them up. Auto-enrolment is not an option, it is the law. Employers should be in no doubt that if they wilfully refuse to become compliant they could end up with a criminal record – and will still have to give their staff the pensions they are due."

The regulator has also revealed that the number of unpaid contribution notices it has issued has increased by 100 since the previous quarter of 2017. In its latest compliance and enforcement bulletin, the regulator said it has issued 753 unpaid contribution notices between July and September 2017, compared to 653 in the previous quarter. In this quarter the number of unpaid contribution notices issued accounted for 25 per cent of all auto-enrolment enforcement actions taken. These notices require an employer to ensure all backdated contributions are paid within 28 days.

Commenting, Ryder said that it is not enough to just comply with auto-enrolment laws by setting up the staff scheme. He added that employers must also meet their duties to contribute into their employees' pensions every month.

In addition, the regulator has announced it is to begin spot checks in the South of England to ensure employers are complying with auto-enrolment.

Written by Natalie Tuck and Talya Misiri

VIEW FROM THE AMNT

What better news to kick off the festive season than to hear that Frank Field's Work and Pensions Select Committee is launching an inquiry into collective DC pensions. That's worth a celebratory drink all on its own.

Since former Pensions Minister Ros Altmann scuppered the introduction of CDC we have seen a rapid expansion in master trusts, pension schemes often run by private companies with no member representation on their trustee boards – a major flaw.

Trustees of DC schemes continue to worry about the kind of retirement their members are heading for. In addition to the huge issue of not enough money being saved there are structural issues such as placing on individual members the responsibility of how their money is invested.

Many ordinary workers saving for retirement in a DC scheme would prefer the same set up that is enjoyed by DB scheme members: they want to know roughly how much they're going to get when they retire and they would rather not have to make investment decisions themselves. Added to that is growing research that highlights the weaknesses of the traditional DC model such as, according to Nest, people who have recently joined a scheme being put off by early losses incurred and opting out. There has to be a better way.

So well done Frank Field for refusing to accept that there is no alternative to the status quo. AMNT will of course be making a submission.

Written by AMNT co-chair Janice Turner

AMNT Association of Member Nominated Trustees

VIEW FROM THE PLSA

One of the themes of the recent PLSA Annual Conference was what the UK can learn from Australia.

I had the pleasure of chairing a discussion with leaders from the Australian 'Super' industry, and it was very apparent that they are ahead of us on a series of issues, from scale to diversity, robo-advice and engaging young people with pension saving.

One area in which we could adopt Aussie-style thinking concerns how we talk to people about how much they need to save for retirement. In the UK we tend to use 'minimum income standards ' and 'target replacement ratios'. Both have their merits, but they are designed more as tools for the industry than as user-friendly guides for the layman.

Our counterparts at the Association of Superannuation Funds of Australia (ASFA) have developed the 'ASFA Retirement Standards', which outline three levels of retirement income: the state pension (or 'Age Pension'), then 'modest' and 'comfortable'. For each level, ASFA show the kind of goods and services that singles and couples on those incomes could afford.

The targets allow people to see what kind of retirement lifestyle they will get for a specific level of income.

We think the UK should adopt the Australian targets, with 'minimum, 'modest' and 'comfortable' levels. Integrate this with developments, such as the pension dashboard, and it will be easier for people to get to grips with saving – and easier for the industry to help them.

The question is how the targets should be set and we are looking for input on that – full details on the PLSA website. Let the debate begin.

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

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DWP proposes £67k admin fee for master trust authorisation

The £67,000 fee will be for existing master trust schemes, whereas there will be a fee of £24,000 for new master trust schemes seeking authorisation from the regulator

Existing master trust defined contribution pension schemes may have to pay £67,000 in administration fees as part of their application for authorisation from The Pensions Regulator, new plans from the Department for Work and Pensions have revealed.

In a consultation document the government revealed plans for two one-off administration fees for master trust pension schemes seeking authorisation from the regulator. There will be a flat fee of £24,000 for new master trust schemes, and £67,000 for transitional master trust schemes. The document explained that two fees have been chosen because it is expected that the work involved in processing existing master trust applications will be substantially higher than processing a new application, requiring a higher fee.

"The reasoning for this includes, for example, the regulator's intention to have higher engagement with existing master trust schemes, reflecting market risk, known issues and the greater likelihood of additional information being required during the processing window," the consultation said. Schemes have no option but to pay the fee to secure authorisation, and those who do not, or who are not eligible, will be required to transfer their members to another scheme and wind up.

The proposal is part of the draft regulations, which will fully commence the new authorisation and supervisory regime for master trust schemes under the provisions of the Pension Schemes Act 2017 (the 2017 Act). The new master trust regime will be administered by the

regulator, which will produce detailed practical support for schemes through operational guidance and a Code of Practice. The Code of Practice will be published in draft and will be subject to a separate public consultation. Writing a foreword for the consultation, Pensions Minister Guy Opperman said he is passionate about auto-enrolment, and that it must work for "savers and employers alike".

"To support this, there must be trust and confidence in the pensions system. The authorisation and supervisory regime introduced by the Pension Schemes Act 2017 will ensure that the over seven million people saving for their pensions through master trust schemes will have equivalent protection to members of other pension schemes."

Commenting on the consultation, PLSA DC policy lead Tim Gosling said: "Master trusts have been essential to the success of automatic enrolment. Currently, over eight million people are saving for retirement in these schemes. DWP has built on the Pension Schemes Act 2017 with a regulatory package that will protect consumers while taking account of the diversity of the market."

Written by Natalie Tuck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VIEW FROM PPI

The PPI looked at the potential benefit to future UK pensioners of pooling assets in DC schemes. This is not 'collective' DC, where there is potential cross subsidy between the members in different generations, but rather increasing the scale of investment vehicles by bringing assets together.

In theory, larger DC funds can benefit from economies of scale leading to lower charges, the ability to invest in different, often illiquid, assets and improved governance.

While there has been support for asset pooling in the UK in DB schemes, the idea has not been extensively considered for DC. Partly this is because of regulatory barriers – such as requirements for actuarial certificates, or for individual member consent – or more operational issues, such as the need for daily pricing.

The current DWP consultation on bulk transfers without member consent could remove some barriers. But even if it was possible to pool DC assets in the UK, would it improve outcomes for members?

The international evidence is mixed. Looking at Australia, Mexico, Italy and South Africa, where asset pooling is possible, there is no consistent correlation between the scale of funds and higher returns or lower charges. This may be in part because of regulations and economic circumstances in each country. In some cases, however, scale has led to better outcomes, allowing schemes to follow alternative investment strategies that have performed well, to improve governance, and (all else remaining equal) lower charges. Scale in itself might not be enough, but intelligent use of scale might be.

Chris Curry, director, PPI

PENSIONS POLICY INSTITUTE
PPI

University staff are balloted on strike action over pensions

In other pension fund news, BT's pension deficit has decreased by £300m, but it looks set to close the scheme, and AB Foods has revealed its scheme has a surplus of £126m

Staff at 50 universities are voting on strike action over plans to move university employees to a defined contribution scheme.

The University and College Union (UCU) announced that proposed action will include a series of strikes during February, as well as other measures such as refusing to cover or reschedule classes, or cover for sick colleagues. The dispute is over plans by the Universities Superannuation Scheme (USS) to increase contributions, as well as plans from Universities UK (UUK) to replace a DB scheme with a DC one.

The union pointed to analysis commissioned by USS itself, which shows that most universities have the ability to pay extra in order to safeguard existing benefits. UCU added that it did not believe the plans had the support of the majority of universities. Two rounds of cuts in USS benefits since 2011 have already left these staff in receipt of pensions that are worth less than those of school teachers and academics in non-USS universities, the union stated.

UCU is currently seeking actuarial advice on what exactly the changes would mean for different types of scheme members.

UCU general secretary Sally Hunt said: "After months of negotiations these plans are a bolt from the blue and would effectively destroy the USS scheme. It is categorically the worst proposal I have received from universities on any issue in 20 years of representing university staff. These plans would remove members' guarantees in retirement and leave them facing years of stress about whether their pension investments are returning enough income to live on. Staff always put their students first but their goodwill has been taken for granted for too long. If universities continue to pursue this action, they will face disruption on campus of a kind never seen before."

The ballot will open 27 November and close on 19 January.

In other news, BT's defined benefit IAS 19 pension deficit decreased by £300m in quarter three of 2017, from £9.6bn to £9.3bn, gross of tax. It comes as reports emerged that BT is planning on closing its DB pension scheme to future accrual. In its half year results, the company said a review of its future pension benefits continues and it expects to consult with affected employees on the proposed changes shortly.

"We continue to review the future pension benefits under our main DB and DC schemes in the UK, with the objective of providing fair, flexible and affordable pensions. Discussions with our unions are continuing and we expect to undertake a 60-day consultation with our affected employees shortly. A court hearing will also take place in early December to determine the appropriate approach for the future indexation of benefits for members of Section C of the BTPS.

In addition, Primark owner Associated British Foods reported a defined benefit pension scheme surplus of £126m for the year ending 16 September 2017. In its annual results announcement, AB Foods highlighted that the group's DB schemes were in surplus by £126m at the end of the financial year in comparison to a net deficit of £303m in 2016.

Written by Natalie Tuck and Talya Misiri

VIEW FROM THE ABI

How to best support vulnerable customers is an issue of continuing importance to the long-term savings market. According to the FCA, 50 per cent of consumers (or 25.6 million people) currently show one or more characteristics of potential vulnerability, such as below average literacy and numeracy skills. Developments in the retirement market have created new challenges for all customers; challenges that may be more pronounced for those who are potentially vulnerable.

In response, the ABI has published a new guide setting out principles, good practice and case studies to help providers better identify and support vulnerable customers.

Its objective is to act as a reference point to help firms improve their own processes for dealing with vulnerable customers, by learning from their peers and other sectors about what works well. It also aims to create some commonality in the industry, as some individuals may be customers of more than one provider.

Alongside the guide, the ABI's long-term savings members are making three commitments to ensure the progress already made continues. The guide recommends that firms implement a vulnerability policy, if they do not already have one, by January 2018; provide regular staff training on vulnerability awareness, and continue to share good practice through the ABI.

While there is already much good practice in the industry, this guide will help all firms better identify those customers who need more support to help them make the right financial decisions.

Henry Thompson, policy adviser, Association of British Insurers

ABI Association of British Insurers

Market commentary: Investing in 2018

With 2017 quickly drawing to a close, investment managers are predicting what asset classes are likely to deliver the best returns to prepare for the year ahead.

Focusing specifically on pension fund investments, a number of investment managers share the opinion that pensions are likely to benefit from equities in 2018.

Union Investment chief investment officer Jens Wilhelm explained: "We believe that opportunity-oriented asset classes will remain especially attractive in 2018. Particularly equities. The price rises so far are, above all, due to improved valuations. This factor will now fall out of the equation but will be offset by rising profits. Many companies will do even better in 2018 than they did in 2017. We expect profits to go up by between 6 and 8 per cent."

SSGA EMEA investment solutions group head of strategy and research Altaf Kassam shared a similar opinion: "This economic backdrop supports earnings growth: Unless wage inflation picks up sharply the profit share could remain higher through this cycle than we would typically expect. As such, we believe equities are likely to deliver the best returns for pension fund investments in 2018."

Also commenting on the most attractive markets for 2018, PineBridge portfolio manager, global multi-asset Hani Redha pointed out that "productivity-focused equities" such as "providers of technology for productivity-enhancing purposes, which are benefiting from rising corporate confidence and investment activity" are likely to be prosperous investments.

Moreover, it is predicted that emerging markets investments are also likely to be successful in 2018. Charles Stanley AM CIO Jon Cunliffe stated: "We feel that emerging-market equities should generate the best returns in 2018. Widening growth differentials in emerging markets, a strong pickup in corporate earnings combined with relatively cheap valuations and undervalued currencies are a positive for the asset class. In particular we like Asia, as it is best placed to benefit from ongoing strength in technology."

Kassam agreed that emerging-market equities are looking to be strong in the coming year. "2018 should be pivotal for China as the government prepares for an orderly process of de-leveraging and a shift to domestic demand. We think the market is under-pricing this and are looking to the Chinese equity market to deliver strong returns next year."

Adding to these predictions, Wilhelm suggested that: "From a regional perspective… shares from the euro area, Japan and emerging markets are favoured".

In terms of European investments, Royal London AM head of global high yield Azhar Hussain noted that while government bond yields are low, many higher-yield bonds "should still offer relatively attractive value".

"Pension schemes should keep their high yield duration short. European high-yield bonds look attractive for UK pension schemes relative to their American counterparts," Hussain said.

In contrast, Wilhelm noted that "safe" fixed-income investments are predicted to deliver low returns in 2018. Also looking at diminishing returns, BlueBay AM head of credit strategy David Riley added that as a result of rising inflation and interest rates, government bond benchmarks "are likely to post negative returns in 2018 for the first time since 2013".

Written by Talya Misiri

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People on the move


Jenny Yoe

State Street Global Advisors (SSGA) has appointed Jenny Yoe as head of UK pensions.
Based in London, Yoe will be responsible for strengthening existing relationships, as well developing new business and will report to Andrew Benton, head of UK institutional.
She has 20 years of financial service experience and joins from River and Mercantile Asset Management, where she was head of UK institutional. Prior to this, Yoe was director for UK distribution for AMG Limited and has held positions at Goodhart Partners and Investec Asset Management.
Commenting on Yoe's appointment, Benton said: "We are pleased to have secured a hire of Jenny's calibre and experience. As we look to further develop our UK business Jenny's experience and leadership will allow us to leverage the full breadth of our capabilities from index to active management and outcome-oriented solutions to the benefit of clients and the firm."


Andy Flynn

The National Pension Trust has appointed Andy Flynn as head of DC communications. Flynn joins from Zurich where he was workplace marketing manager. Before this he worked at Prudential and AXA as campaign and product manager. In the new role, Flynn will work to strengthen the team and build on NPT's defined contribution offering. He also acknowledges the importance of education and engagement and looks to work on these.


Steve Charlton

SEI has hired Steve Charlton as DC managing director. He will work as part of the insititutional leadership team in the UK and will report into managing director of SEI's Institutional Business Patrick Disney. Charlton will work to develop SEI's DC proposition across EMEA and Asia while building on the SEI DC master trust. He joins with over 30 years of experience in the pensions industry and joins from Vanguard.


James Riley

KPMG has promoted James Riley and David O'Hara from within its pensions team to partner, while Iain McLellan, Kerry Oakes, Claire Whittaker, James Keclik and Laura Higgins have all been appointed as directors. Riley works with some of the largest private sector pension schemes in the UK, including many FTSE 100 companies and David O'Hara provides investment advisory solutions to both the private and public sector.


Philip Dawes

BNP Paribas has appointed Philip Dawes as head of institional sales for the UK & Ireland. In the new role, Dawes is based in London and is reporting into head of institutional sales for Europe Charles Janssen. He will be responsible for developing BNP Paribas Asset Management's business across UK insititutional clients including insurers and pension funds as well as developing its product strategy.


Henry Tapper

The Transparency Task Force has appointed Pension PlayPen founder Henry Tapper as its ambassador. "The genius of the task force is its ability to bring together experienced investment industry professionals who have a deep conviction about putting customer interests first," Tapper says. The Transparency Task Force is a campaigning community dedicated to driving up the levels of transparency in financial services.


Wes Jones

Xafinity Group, the pensions actuarial, consulting, investment and administration services firm, has announced the appointment of Wes Jones as head of the Manchester Office. He joins from Conduent HR Services, where he was a principal and senior consulting actuary.
With over 18 years' experience in actuarial consulting, Jones has held a number of roles during his time in the industry within organisations such as PwC and Mercer. Jones also spent over three years as UK pensions manager at Tesco.
Commenting on the appointment, Xafinity head of pensions Jonathan Bernstein said: "We are really happy to have Wes join us here at Xafinity. He brings with him a huge amount of knowledge and experience, both as an actuary and as a pensions manager, meaning he will be a great asset to the Xafinity Group. His unusually broad range of senior experience will be invaluable in leading the Manchester team, working on existing clients and developing new business for the firm."

VIEW FROM THE ACA

Speaking at our association's annual dinner, I outlined what I see as the remaining weaknesses in the UK's pension system and, amongst other reforms, I called for a national standard scheme design to help in the process of consolidating defined benefit schemes.

Our recent survey of pension trends found over eight out of ten employers said the law should be changed so that defined benefit schemes can reduce pension increases if continuing to provide increases at the level of scheme rules will severely and adversely affect the employer. Certainly, we hope that the upcoming DB White Paper will commit to legislation introducing this kind of flexibility.

Separately, the PLSA, The Pensions Regulator and others have advocated consolidation of legacy DB schemes as a way to address a range of issues from poor governance to disproportionate costs. We strongly suggest that a necessary precursor to effective consolidation is a mechanism for simplifying legacy benefit structures.

A plain vanilla defined benefit scheme set up in the 1970s will have something like ten different service periods with different statutory revaluation rates and pension increase rates – and most will have made amendments to their scheme over the years as well.

Moving to a national standard scheme design via a clearly defined conversion process would have many benefits – including, perhaps for the first time, members understanding what actually their pension entitlement is. It would also be easier to display on a pensions dashboard.

Bob Scott is chairman of the ACA

ASSOCIATION OF CONSULTING ACTUARIES

Diary: December 2017 and beyond

Aon Pension Conference 2018
20 February 2018
London

The 2018 Aon Pension Conference has been designed for trustees of pension schemes and pensions, HR and finance professionals who make decisions about their company's pension scheme.
The conference offers experts' views and ideas on how to manage defined benefit and defined contribution pension schemes in an uncertain marketplace. Attendees will receive 4/5 CPD points for full day attendance.
For more information, visit:
Aon.com/unitedkingdom/events

Pensions Age Awards 2018
22 February 2018
London Marriott Hotel, Grosvenor Square

Now in their fifth year, the Pensions Age Awards celebrate excellence within the UK pensions industry by rewarding both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The Pensions Age Awards are unique in celebrating the excellence of both pension funds, as well as suppliers to those funds, in one big gala event.
For more information, visit:
Pensionsage.com/awards/

Sustainability Summit
1 March 2018
De Vere Grand Connaught Rooms, London

The Sustainability Summit offers fund managers within pension funds, insurance companies, charities and corporates the opportunity to both learn and network alongside their peers at such a key time for the sustainable investment industry. The event will offer knowledge and guidance to help them understand all aspects of the sustainable market – from negative screening to impact investment, to meet members' needs.
For more information, visit:
Pensionsage.com/sustainability/

PLSA Investment Conference
7-9 March 2018
EICC, Edinburgh

The Investment Conference, titled 'Driving the Economic Machine', will consider ways to secure the role of investment as the engine of a prosperous, fair and sustainable economic model. Climate concerns are in the spotlight and increased regulatory focus on the pensions sector has the potential to affect great change in the industry. Sessions will offer insights on the geopolitical climate that has left capital markets open to a variety of risks.
For more information, visit:
Plsa.co.uk/Events-Investment-Conference

Visit www.pensionsage.com for more diary listings

Month in numbers

275 complaints

The Independent Case Examiner's Office declined to accept 275 complaints from women born in the 1950s and affected by changes to the state pension age.
Department for Work and Pensions under-secretary Caroline Dinenage explained that as at 3 November 2017, the ICE Office declined to accept 275 complaints from Waspi women "on the grounds they had not exhausted the Department for Work and Pensions complaint process".

£3 billion

The cost of public service pensions is forecast to grow by £3bn between 2020 and 2022, Budget documents have revealed. Net public service pension expenditure for the Treasury is expected to rise from £13.6bn to £16.6bn in 2020 to 2022.

93%

Ninety-three per cent of savers felt more informed of their pension options following appointments with Pension Wise, a report finds.

VIEW FROM THE SPP

In the run up to Christmas, much is made of wish lists. They can be really helpful when you don't know what to buy someone (and pension administrators in particular are notoriously difficult to buy for). I have therefore taken the liberty of drawing up my wish list for perfect scheme administration.

Dear Santa,

Please can I have all of the below:

1. Retirement quotations generated by members from online self-service portals where the variables (the retirement date, the proportion of tax-free cash etc.) can be tweaked before they are guided through the retirement process.
2. A simple system where members can make their elections and confirm their identities online, with no certificates required.
3. Clear guidance through lifetime allowance information, before being asked to provide an electronic signature.
4. A clear process where, if the member does not understand a part of the process, they can open a Live Chat and speak to an administrator through the web.
5. Retirement requests that automatically trigger the necessary activity in the system; a payroll record is created, a cash payment generated and accounting records updated.
6. Workflow cases that are presented to an administrator for review before the retirement process is authorised and completed all in a timely fashion.
7. Automatically-generated emails that confirm the retirement details.
8. Automatically-generated text messages or push notifications to the member on the day when the cash sum is paid.
9. Regular payments and online payslips delivered on the correct date.

This isn't too much to ask is it?

Yours,

Barry Mack, member of SPP's administration committee

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In my opinion: Budget special

On the lack of major pensions reform in the Autumn Budget

"This was very much a steady as you go Budget, with no major surprises – in fact there were no new pension related changes whatsoever in the chancellors' address to the House. Hammond has tried to address the issue of intergenerational unfairness through other means than pensions this Budget – changes to stamp duty for first-time buyers and the extension of eligibility for young persons discounted rail card."

Barnett Waddingham senior consultant Malcolm McLean

On neglected pension areas in the Autumn Budget

"Concerns about pension tax relief and rebalancing intergenerational unfairness have failed to materialise despite the government's aim to help younger voters. The opportunity to encourage more savings in the workplace has also been missed and we are now even more concerned that the government is not interested in pensions and long-term savings over the remainder of this parliament, as it is focused on other issues."

PMI president Robert Branagh

On the government's decision to move business rates from RPI to CPI in the Autumn Budget

"The move to link business rates to CPI rather than RPI reinforces the argument for DB schemes, accidentally stuck with the outdated measure, to switch to the cheaper modern standard."

SPP president Hugh Nolan

On the decision to increase the state pension in line with inflation in 2018

"As expected, the Budget confirmed that the state pension will increase by 3 per cent next April from £159.55 to at least £164.37. However, those who reached state pension age before 6 April 2015 and are on the old basic state pension will only see their state pension increase from £122.30 to £125.97 a week, giving an annual increase of only £191."

Aegon head of pensions Kate Smith

On the untouched pension tax relief following the Budget

"No further tweaking of pension tax relief provides some welcome stability for pension savers after the salami slicing of recent years. There are still strong arguments for a fundamental overhaul of pension tax relief to make it fairer and more sustainable but it is the right decision by the Chancellor not to be tempted by piecemeal changes."

ABI director general Huw Evans

On the government's plan to facilitate pension fund access to long-term investments, announced in the Budget

"This Budget announcement is likely to be a damp squib... The small print of the Budget says that all this amounts to is simply asking The Pensions Regulator to 'clarify the guidance' given to pension funds about long-term investment. If we want to see serious money being invested by pension funds in infrastructure we need a supply of projects that pension funds can invest in, not minor tweaks to rules and guidelines."

Royal London director of policy, and a former Pensions Minister, Steve Webb

Soapbox: Top of the class

The end of the year is always a good time for reflection; it is a chance to think back about the work that has been achieved within the pensions industry this year.

Although 2017 has seen nothing revolutionary, behind the scenes those within the industry have been working hard all year.

Some things that come to mind are the creation of the pensions dashboard prototype, the review of auto-enrolment and the responses submitted to many other consultations. And, as you all know, there is a constant dialogue going on between various stakeholders in the industry, aimed at improving pensions.

Recognition should also be given, however, to a group of people who, although are not 'full time' members of the pensions industry, have worked exceedingly hard – the Work and Pensions Committee. Those that have been at the receiving end of one of its grillings may not feel the same way, but the committee has played its part in the industry superbly.

It is there to examine the policies, administration and expenditure of Department for Work and Pensions and other public bodies. Since the appointment of its chair, MP Frank Field, in 2015, the Work and Pensions Committee has ramped up the number of inquiries concerned with the pensions industry, with its interests clearly aligned with members of the public.

Over the past two years, the committee has conducted inquiries into intergenerational fairness, the Pension Protection Fund, The Pensions Regulator, the gig economy and BHS, to name a few. It has also begun an inquiry into the pension freedoms, concerned with the vulnerability of people to scams.

Not only does the committee launch inquiries when things go wrong, but its most recent inquiry announcement, into collective defined contribution (CDC) pension schemes, shows that it also aims to be proactive. The government scrapped plans for CDC schemes in 2015, as it wanted to focus on the pension freedoms and auto-enrolment, but two years later, the committee has turned its attention to them, bringing the idea back into focus.

Recently, someone close to the DWP told me that whenever it receives a question from Field it has to make sure the answer given is meticulous down to the final detail, because Field, who has been an MP for many years, won't stand for anything less.

It is also clear from the hearing sessions that Field is no pushover. Last year he took on retail tycoon Philip Green over the BHS pensions saga, which saw Green threaten him with legal action. Field, however, did not let this phase him.

It is not just Field who has done such a superb job on the committee. In a recent hearing session, Conservative member Heidi Allen was adamant in pressing the government for dates on a when a cold-calling ban for pensions will be introduced. In the same session, fellow Conservative Alex Burghart put it to the Financial Conduct Authority that it is being "complacent" with regards to the lack of people taking financial advice.

It is not afraid to hold those in the industry, whether governmental or private sector, to account, and serves as a reminder that everything should be done in the interests and for the benefit of pensioners and future pensioners.

That's why the Work and Pensions Committee are top of the class for 2017.

Written by Natalie Tuck

VIEW FROM THE PMI

There are some very interesting conversations currently taking place about small schemes. In the regulator's 2016 pensions landscape document on DB schemes, approximately 2,000 schemes – one third of the DB scheme population – had fewer than 100 members. In September, the regulator confirmed it wanted to help these schemes by making its expectations of trustees clearer and by enforcing against non-compliance.

Interestingly, TPR was disappointed that small to medium schemes tended to show poor governance standards. For instance, they place less focus on training, regular board assessments, effective internal controls and oversight of third parties. Additionally, many small and medium DC schemes, including those used for auto-enrolment, are not meeting administration standards such as ensuring prompt and accurate transactions, investments (e.g. setting appropriate investment strategy for the default fund) and value for members, such as assessing quality of services provided.

TPR will combine support for small scheme trustees with more enforcement against those not meeting required standards. It will investigate how consolidation might play a part in driving up quality amongst small schemes that consistently fail to meet standards.

A more recent review of small schemes considers outcomes for members, particularly around member charges. The probe's findings are scheduled to be published in the summer of 2018.

Too much stick and not enough carrot is not conducive to better scheme governance. What trustees need is help and support and it is up to us as an industry to provide them with the appropriate tools and solutions.

Robert Brannagh, president, Pensions Management Institute

Musings of a MNT

Clawback: Bah! Humbug!

Charles Dickens in *A Christmas Carol* sets out early his opposing two world views that are at the heart of the novel; the first outlined by Scrooge's nephew:

"A kind, forgiving, charitable, pleasant time; the only time I know of, in the long calendar of the year, when men and women seem by one consent to open their shut-up hearts freely, and to think of people below them as if they really were fellow passengers to the grave and not another race of creatures bound on other journeys…"

The second by Scrooge himself:

"I can't afford to make idle people merry. I help to support the establishments – they cost enough; it's not my business; it's enough for a man to understand his own business, and not to interfere with other people. Mine occupies me constantly…"

Pension trustees have to act 'in the way that a prudent person would in their own affairs'; a prudent person of business not unlike Scrooge.

Also as a trustee, we must consider the interests of all the classes of beneficiary covered by the trust deed and rules and act impartially. This does not necessarily mean we should treat all classes in the same way; we need to strike a balance so that, depending on the issue we are considering, we give appropriate weight to the interests of each class, not unlike Scrooge's nephew; a person of conscience. Sometimes these duties rub against one another.

State pension adjustment – more often called 'clawback'– is a widely condemned practice that allows employers to reduce the income workers get from their company pension schemes when they retire. This practice still exists in many large companies, regrettably including mine. In the 1990s trade unions campaigned to remove this iniquitous practice and were partially successful, but hundreds of pensioners and prospective pensioners are still subject to this iniquity. Since then, the financial crisis, coupled with pension fund deficits, has taken this subject off the radar.

Many of our duties as a trustee arise from trust law. These are our 'fiduciary' duties. Our powers derive from the trust deed and rules of the scheme.

These fiduciary duties are used on occasions as the reasons why trustees should not exercise any discretionary powers they may have through the trust deeds. Removing clawback is often a potential discretionary power, either of the trustees, employer or a combination of both.

Two such duties tend to frame debate over removing clawback. Firstly, that we should treat all classes of beneficiary in the same way, so removing clawback would benefit one specific class of beneficiary. This a fallacious argument as the removal of clawback simply restores the pension of those affected to that being received by the majority of pensioners. It does not give an 'extra' benefit.

Secondly, that when the pension fund is in deficit, we should not be seeking to increase liabilities. This has a greater resonance as it chimes with trustees' and sponsors' shared concerns. However the amount needed to restore a full pension to those suffering clawback has diminished over time and now represents, particularly for larger schemes, no longer a significant figure compared to other liabilities and costs.

Trustees can exercise such discretions even when the fund is in deficit, provided they undertake a responsible and judicious review of all aspects taking appropriate advice; as proven in the recent British Airways case.

I urge all trustee and sponsors to review their stance on clawback, as like Scrooge's nephew understood, "we are all passengers on the same journey", and then as Tiny Tim observed: "God bless us everyone!"

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

Raising cashflow awareness

Graham Moles explores methods of effective cashflow management for DB pension schemes

As defined benefit (DB) pension schemes mature and become cashflow negative, schemes may be better off focusing on being cashflow aware than being cashflow matched.

What is causing the cashflow issue?
DB pension schemes are maturing. According to Mercer[1], over half of UK DB pension schemes are cashflow negative or soon will be, with 85 per cent of cashflow positive schemes expected to turn cashflow negative within 10 years.

At the same time, there are other pressures that mean precisely matching all benefits is not necessarily possible or ideal. These include underfunding, longevity risk and sponsor/covenant risk.

What can schemes do to manage their cashflows better?
The most important aspect of managing cashflows is getting the broad asset allocation right – trustees should not lose sight of the big picture. We recommend examining the long-term distribution of outcomes the scheme might face using a model that takes into account the scheme's circumstances, including how cashflow negative the scheme is. Success is either paying all pensions as they fall due or paying as high a percentage of those pensions as possible.

Trustees can choose the investment strategy with the most attractive profile of future outcomes and decide how much to allocate across broad asset classes. However this is not the whole story – assets should also be structured in a cashflow aware way, subject to this broad split.

We suggest the following additional steps:

1) Prepare for expected cashflows
a) Target cashflows in the short to medium term
We recommend structuring assets so that a high proportion of cashflows are met by natural cashflow generation from assets for approximately the first 10 years.

b) Turn on the taps – use all natural cashflows
Bonds and some real assets generate contractual cashflows. These can help reduce scheme risk even if the cashflow match is imperfect. Although they are not contractual, dividends from equities can also be aligned with pension payments.

c) Use an appropriate growth strategy to meet long-term cashflows
There is a variety of different approaches available to trustees targeting a more cashflow aware growth strategy. These include income-generating multi-asset funds and equity strategies that focus on selecting companies with sustainable dividends that grow with inflation.

2) Prepare for unexpected cashflows
a) Pre-emptively increase liquidity
There are various potential ways of increasing liquidity in a pension scheme without compromising its risk-return profile:

- Increase flexibility and efficiency of leverage: LDI offers leveraged exposure to rates/inflation and therefore frees up cash
- Consider tailoring growth asset exposure: adopt a cashflow aware strategy and avoid excessive allocations to illiquid assets
- Consider using uncorrelated funds or market neutral funds with a low expected maximum drawdown as a safety net

b) If asset sales are needed, allow for costs and any active views
Most schemes currently use up cash and then increase leverage in their LDI portfolio to meet unexpected cashflows. If this is not sufficient or leverage levels are already high, they may also make use of cashflows available from growth strategies.

Once these avenues are exhausted, it is likely that the scheme may need to sell assets, possibly in stressed conditions. Schemes should sell assets that move the scheme towards the most attractive asset allocation today (allowing for any carefully researched active views) but bearing in mind transaction costs.

3) Be proportionate
A simple plan or priority order may sometimes be appropriate, especially if schemes have a limited governance budget. For example, some trustees might consider selling relatively liquid growth assets first, followed by LDI and leaving the sale of illiquid assets as a last resort. Others might prefer to reduce their hedge ratio before selling growth assets.

Written by Graham Moles, head of portfolio solutions, LGIM

[1] Mercer European Asset Allocation Survey 2017

Pensions history

A momentous and revolutionary decision

It was 70 years ago in 1947 that saw the arrival of a 36 year old actuary, by the name of George Ross Goobey, to take up the position of pension manager at the Bristol based Imperial Tobacco Pension Fund. He remained with Imperial Tobacco for the rest of his career, eventually being elected to the board of directors of the company, as well as becoming a highly-respected figure in the world of pension fund investment and in the City of London.

He is most commonly associated with the development of an equity investment policy within Imperial Tobacco and subsequently allocating the entirety of the fund's investments to equities. He became credited with starting the cult of equity investment amongst pension funds. The Pensions Archive is very fortunate in having been donated his collection of speeches and papers, which were recovered from the garage of his home in

North Somerset. The early papers plot the way the Imperial Tobacco Fund moved to this all-equity strategy.

The first significant change in investment policy he succeeded in putting through was the sale of the 2.5 per cent Treasury Stock despite the fund having to take a substantial capital loss. Had the sale been postponed the loss would have been much greater. From 1949 no further gilt purchases were made.

In October 1953 he wrote a paper promoting the place of ordinary stocks and shares in the portfolios of large funds. It was around this time it was agreed to invest all new money in ordinary stock. In 1954 a further step was taken by selling low-yielding gilts and investing the proceeds in ordinary stocks. Ross Goobey mentions that the decision to allocate the entire Imperial Pension Fund to equities was taken after the presentation of a memorandum dated 30 August 1955, which was prepared to enable the (Investment) Committee to "arrive at this momentous and perhaps revolutionary decision".

If you would like more information about the George Ross Goobey collection go to http://www.pensionsarchive.org.uk/ and click "Our Collections". You can contact us through the website or via: alanherbert@btconnect.com

Written by Alan Herbert, chairman, The Pensions Archive Trust

Freedom and choice two years on

It is now over two years since the introduction of pensions 'freedom and choice', which finally ended any requirement (notional though this had become) to buy an annuity with a pension fund at retirement. Retirees were now freed to access their money – and, let's not forget, it is their money – in any amount, and at any time. This was perhaps the biggest change to pensions in a generation, moving at a stroke from a patrician regime of 'nanny knows best' to a completely libertarian position whereby people were given total personal responsibility for their own actions with respect to one of the biggest assets they were ever likely to own.

Just recently, some voices are saying that 'unintended consequences' may flow from this and that, in particular, people may run out of money in retirement. Suggestions have been made that, perhaps, the policy should be re-examined or even reversed. This strikes me as attempting to put the proverbial genie back in the proverbial bottle. I know from my own postbag when the policy was announced, to great surprise, in 2014, that non-pension people were enthusiastic in their response, and felt re-engaged with their pension arrangements. Pension saving was suddenly seen as flexible, meshing with people's real lives rather than their lives as we, in the industry, would wish them to be.

Listening in to pension call centres, it is clear to me that, by and large, people are doing sensible things with their pension funds, using them to, for example, pay off debt. Yes, some people are taking their fund and putting it in the bank, suffering taxation and earning low interest rates. But it is their money, and their choice. We should not, as an industry, be seeking to deny them that choice. It is their money, after all.

Written by Malcolm Small, founder, Retirement Income Alliance

All aboard

Richard Williams explores the journey JLT has taken to increase pensions education and awareness amongst employees

The industry has, for a long time now (and especially since the launch of freedom and choice), been banging the drum of financial education and the importance of saving for the future. But, while we may be making a noise, is anybody listening?

In a quest to find the answer, JLT has been looking at the general level of financial education amongst employees, including their knowledge of the benefits a pension can provide, in conjunction with other saving vehicles.

We are aware that throughout an employee's working life, there will be many different financial strains placed upon them, which may cause 'saving for retirement' to drop down their list of priorities.

This may be 'common knowledge' – an experience we have either all experienced first hand, or seen occur with friends/family/colleagues, as other priorities, such as saving for a house deposit or funding children's education, occur. But we believe working to assumptions generates inefficient results. Therefore we at JLT were keen to find out first hand what people's knowledge, experience and questions were regarding pension savings.

To this end, in September JLT Employee Benefits joined Pension Geeks and Scottish Widows onboard the Pension Awareness Day Bus Tour (PAD 17), calling at major cities to offer free pensions guidance.

Commenting on the tour, JLT director Richard Williams notes: "Being on-board the Pension Awareness bus allowed me to see first hand how much

of an impact this campaign is having and how much collectively we've been able to help the general public."

Around 200-300 people were consulted on the bus each day, resulting in several thousand people receiving support and information throughout the bus tour – people who may otherwise not have searched for answers to their queries elsewhere and may have been disengaged from the concept of retirement saving.

We spoke with many people who were close to retirement, and some had seen our adverts on Facebook the night before and came to us fully prepared with all their pension paperwork ready for a conversation. This was really encouraging to see and what the principal of the campaign is about.

But while many users came prepared with paperwork and armed with some existing pension knowledge, the majority unfortunately lacked any knowledge about pensions and their choices. Some of the recurring queries included:

- Knowing where to go to obtain help
- How and where to find lost pension plans
- Where to obtain information about existing plans
- Where to go to help consolidate numerous pensions
- Where to obtain financial advice

This clearly shows there is a need for greater education and this is something we need to work together as an industry to bridge. During the PAD17 tour we found that collaboration between a financial planner, Pension Wise and the DWP worked really well. Having the various elements of the pensions sector work together seems to be key to provide a coherent savings journey for members.

An example of this was one of our visitors, aged 64, who had recently completed blood tests due to a potential illness that could force him to finish work and leave him a year gap before drawing his state pension.

He had an old personal pension plan worth about £14,000 and we wanted to discuss whether it was worth him cashing it in to provide an income for this year. By discussing this with the DWP and Pension Wise, and using the local Citizens Advice Bureau to help with the paperwork, we were able to answer his queries and get him to a point where he could find help without any charges.

Most of our visitors had very simple needs that could have been resolved with greater signposting to available resources. We're pleased to have provided this service during the Pensions Awareness Week and will be continuing to offer pension guidance through our new Pension Decision Service.

As an industry we are all keen to ensure members are on their correct journey for a successful retirement. A key part of this now and in the future will be communicating with members, providing education, working with their employers and sometimes simply pointing members in the right direction to access the information they need – in time hopefully without the aid of a bus!

Richard Williams, head of Pension Decision Service, JLT Employee Benefits

General data protection regulation

Matthew Swynnerton looks at the implications for trustees of new data protection laws that come into force next year

As data controllers, trustees of occupational pension schemes will need to ensure that they are ready to comply with a new EU General Data Protection Regulation (GDPR), which comes into force on 25 May 2018 and will apply in the UK without the need for implementing national legislation. Whilst many of the main concepts and principles of the GDPR are similar to those in the current data protection legislation, there are also some significant differences.

In this article we highlight some of the key action points that trustees will need to consider as part of their preparations. There may only be one or two full trustee meetings scheduled to take place before the GDPR comes into force and therefore trustees should consider whether to establish a GDPR sub-committee to deal with this issue in between trustee board meetings.

• Trustees should complete a data mapping exercise to assess what data the scheme holds, how it was obtained, why it is held, and who it is shared with. In addition, trustees should contact administrators, advisers and any other third parties who process data for them to ask what steps the data processors are taking to ensure compliance with the GDPR.

• Trustees will need to ensure that there is a lawful basis for each processing activity. The potential lawful bases for processing personal data under the GDPR include bases relating to the legal obligations of the trustees and legitimate interests pursued by the trustees. Special categories of personal data (such as data concerning health) can only be processed if one of a list of conditions is met, which include that the data subject has given explicit consent. The GDPR sets a higher standard for consent than the current legislation, including that an indication of consent must be unambiguous and a positive indication of agreement and individuals will also have the right to withdraw consent. If consent is used as the basis for any processing, it must be ensured that the way the trustees obtain and record consent meets the higher standards in the GDPR.

• The information that has to be provided to data subjects about the processing of their data is more extensive under the GDPR than the current legislation, and the GDPR also states that the information must be provided in a concise, transparent, intelligible and easily accessible form, using clear and plain language. Trustees will therefore need to review the privacy notices for their scheme and update them where necessary.

• The GDPR makes more extensive provision about the content of contracts between controllers and processors. Trustees will therefore need to review contracts with their data processors, such as administrators, and ensure that any necessary amendments are negotiated, agreed and in place by 25 May.

• The GDPR includes a new principle of accountability, which requires the data controller to be able to demonstrate compliance with the principles relating to the processing of personal data. It also requires data controllers to maintain records of processing activities. Trustees will therefore need to ensure that appropriate records and policies are in place to meet these requirements.

• The GDPR introduces duties to notify the relevant supervisory authority (which in the UK is the Information Commissioner's Office) within 72 hours of becoming aware of a personal data breach if the breach is likely to result in a risk to the rights and freedoms of individuals. Trustees will need to ensure that they have policies and arrangements with administrators in place so that they can comply with this obligation.

With less than six months to go until the GDPR is in force: trustees who have already started their preparations should check that they are on track with their project plans and that their plans cover all the necessary activities; and trustees who have not yet started to look at this issue should take action now as time is running out. There is a lot for trustees to do and therefore steps to ensure compliance with the GDPR are likely to feature heavily in all trustees' work plans over the next few months.

Written by Matthew Swynnerton, partner in the pensions practice, DLA Piper

A year in review

For a year that has seen Brexit take over the agenda, it has still been a busy one for pensions. From the appointment of a new Pensions Minister, to government reviews and consultations, pension scheme closures and court rulings, Natalie Tuck looks back at some of the themes of 2017

Welcome, Mr Opperman

Following the General Election in June, Prime Minister Theresa May took the opportunity to appoint a new Pensions Minister. So as the industry waved goodbye to Richard Harrington, who served in the role for 11 months, it welcomed Guy Opperman. However, the role was renamed Parliamentary Under Secretary for Pensions and Financial Inclusion, a new role within the Department for Work and Pensions. This prompted some in the industry to question whether pensions has been downgraded by the government, although he seems to have plenty of work to do. He made his debut speech to the industry five months later, when he addressed delegates at the Pensions and Lifetime Savings Association's annual conference, where he revealed that the Department for Work and Pensions had taken over the development of the pensions dashboard.

A Budget 'double whammy'

There were two Budgets this year, but as the industry requested, pensions were left largely untouched, at least from any major changes. In the Spring Budget,

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to the disappointment of many, the government confirmed it was going ahead with a cut to the Money Purchase Annual Allowance. It was cut down to £4,000 from £10,000, despite receiving negative feedback in a consultation from the industry. The Autumn Budget followed was also quiet on the pensions front, leaving the industry breathing a sigh of relief. The big headline in the Autumn Budget was that The Pensions Regulator will be clarifying guidance on investments with long-term horizons, as part of the government's action plan to unlock £20 billion of new investment. The industry was also pleased to see there were no further cuts to the lifetime and annual allowances, nor a big shake-up of pensions tax relief altogether.

A crack down on scams

Towards the end of 2016, the government launched a consultation on pension scams, proposing to ban pensions cold calling, along with texts and emails too. Since the introduction of the pension freedoms, scams have become a bigger issue for the industry. Even before the freedoms, cold calling has always played an important role for scammers; figures from the Department for Work and Pensions noted that in 2013, 97 per cent of pension fraud cases brought to Citizens Advice stemmed from cold calling. It was originally intended that such a ban would be legislated for in the Financial Guidance and Claims Bill, however, this plan was abandoned, in part, as a result of the General Election. Since then, the government has made more progress with bringing in the ban and has committed to publish draft legislation on the ban in 2018. Unfortunately, it has said the final legislation may not be in place until 2020.

A winning year for equal pension rights

It was a busy year for pensions in court, but two cases stand out for their landmark rulings that have paved the way for more equality with regards to pension rights. In February the Supreme Court ruled that an unmarried woman, who lived with her partner, is eligible

to receive a survivor's pension from her deceased partner. Later on in the year, in a different case, the Supreme Court ruled that same-sex couples should have the same pension rights as straight couples. John Walker, who successfully won the latter case, securing pension rights for his husband, said it was a "victory for basic fairness and decency". As the ruling was made under European Union law, however, there are concerns these rights could be overturned after Brexit.

Pensions freedoms under the microscope

The pension freedoms celebrated their second birthday in April 2017, but many in the industry still have their concerns. For example, on the anniversary Just group communications director Stephen Lowe noted that, "pension freedom is certainly happening, but we are a long way from knowing if it is working". These concerns are shared by the Work and Pensions Committee, which recently launched an inquiry into the freedoms to gauge whether change is required to protect savers from "unscrupulous scam artists". The inquiry will look at what savers are doing with their retirement income, how they decide upon their chosen option, the information and guidance available and the operation of the pension product market. The review will also consider those who want to transfer out of a defined benefit scheme in order to use the freedoms, which has been described as a the next 'mis-selling scandal' by some in the industry.

A review of auto-enrolment

With the roll out of auto-enrolment to be completed during 2018, along with an increase to the minimum contribution, the government decided to take steps to explore how the policy can be developed. The review of auto-enrolment began early in 2017, looking at three themes; coverage, engagement and contribution levels. It is widely believed that the policy should be rolled out to the self-employed, something that the government has expressed an interest in. The outcome should be published in December.

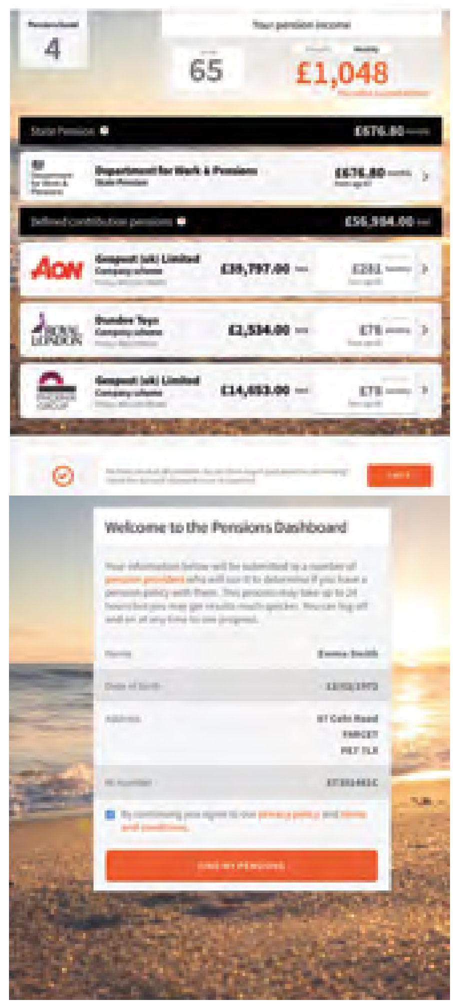
The Pensions Regulator

TPR becomes 'quicker, clearer and tougher'

On the back of the BHS pension scheme saga, The Pensions Regulator faced criticism from the Work and Pensions Committee, who said that had it been a "nimbler, more assertive, and more proactive regulator", it might never have been necessary to get to the stage of having to reach a deal with Philip Green. As a result, the regulator has revealed a strategy to become 'quicker, clearer and tougher', and has been more vocal in how and when it is using its powers. In November, it revealed it has prosecuted bus company Stotts Tours, and its managing director, for deliberately avoiding its auto-enrolment duties. It has also started publishing fines it has issued, such as the £1,000 fine to the London Borough of Barnet Pension Fund for failing to submit its 2016 scheme return.

Pension dashboards get off the ground – slightly

There was some furore when it became clear that the pension dashboard, was in fact, pension dashboards, and there wasn't just going to be one dashboard. However, the Association of British Insurers, along with others in the industry, successfully delivered a prototype of the dashboard in March. After the delivery of the prototype there seemed to be a stall in the development, with the ABI and others calling for the government to take action to put in place the necessary regulation and legislation to get the dashboard up and



running by its 2019 target. There has been calls by some in the industry to make it compulsory to provide data for the dashboard. Despite this, Pensions Minister Guy Opperman has declined to comment on whether this will happen, now that the government has said it has taken over the development.

DB schemes in the spotlight

Defined benefit schemes have certainly been in the spotlight this year, with the publication of a green paper by the government on the security and sustainability of the schemes. One of the government's proposals is to introduce conditional indexation for stressed defined benefit schemes so an employer could suspend increases to pension payments if it was in a stressed financial position. The proposal would mean that no increases would be paid if the scheme was in deficit and the sponsor was unable to make up the deficit, and the trustees were satisfied that the best interests of members would be served by suspending indexation to allow the employer to strengthen its corporate finances. The government noted that increases could be recommenced in the future, once the employer had recovered. There will be a follow up white paper, which the DWP has said it will publish this winter, although that could be as late as February 2018.

Pensions on strike

The Automatic Weapons Establishment, Capita, BMW and Fujitsu are just some of the companies that have seen their staff on the picket lines over planned closures to their defined benefit pension schemes this year. However, it has been the proposed closure of the Royal Mail defined benefit scheme that has dominated headlines; staff were ready to strike, until it was called off by the High Court due it not being legal. More recently attention has turned to university academics, who are currently being balloted on strike action, which could take place in February 2018.

The triple lock is here to stay

Prior to the General Election, it looked as though the triple lock was ready for the axe, especially as Sir John Cridland suggested it be scrapped from 2020, in his independent review of the state pension age. But, the twists and turns of politics, leading to a minority government backed by the DUP, have saved the policy – for now. The new Conservative minority government was however able to follow Cridland's advice on the state pension age. Despite the General Election causing a delay, in July the government announced it is increasing the state pension age to 68, seven years earlier than planned, bringing it forward to 2039. Secretary of State for Work and Pensions David Gauke said the plans are about "taking responsible action in response to growing demographic and fiscal pressures".

Written by Natalie Tuck

A helping hand

Talya Misiri speaks to National Federation of Occupational Pensioners CEO Malcolm Booth on the NFOP's influence on pensioners, schemes and trustees

Can you give us an overview of what the NFOP is and does?
The National Federation of Occupational Pensioners (NFOP) provides help and support to people in receipt of a company or private or pension via a number of member benefits and services. Founded in 1930, NFOP is the oldest and largest occupational pensioner organisation in the UK. It currently has just over 60,000 members with over 120 local groups across the country.

Groups meet on a regular basis and offer a social interaction, as well as an opportunity for members to voice their opinions or concerns on issues relating to older people in today's society.

Membership benefits include helplines on legal, tax, computer and financial issues, in addition to member discounts on a range of products and services such as electrical, private audiology, insurance and motor services.

Members receive a magazine six times a year, which provides lifestyle articles and updates on issues affecting pensions and the NFOP's interaction with government on wider pensioner matters.

What does the NFOP offer that pensions schemes' welfare services do not?
NFOP has a separate charity called the NFOP Welfare Fund, which provides support to members who find it difficult to replace household items that fail or who require specialist equipment or changes to their homes due to deteriorating health.

NFOP has developed a network of organisations to provide support to members and is independent from the scheme. It can assist in areas that a scheme welfare fund may not be able to do. As NFOP is funded by membership subscriptions, it is not as constrained in its activities as a scheme welfare fund may be.

Scheme welfare services are however more likely to be able to provide a one-to-one welfare officer service, which NFOP is not in a position to provide.

What kind of assistance does the NFOP provide for members of bigger schemes – for example for BT, Kingfisher and British Steel scheme members?
Over many years working with the pensions schemes, NFOP provides a supportive link to the administrators and trustees. The primary concern of scheme members is 'will I receive my next pension payment?' Any change or perceived threat to those payments automatically and understandably generates concern. NFOP strives to educate members on key issues, dismiss myths and reassure.

Where a member has a specific issue relating to their pension, NFOP will use its contacts with the scheme to facilitate a solution and avoid complaints.

What are the key pension areas that NFOP members seek help on?
The majority of our pensioner members, as with most of the population, don't have an understanding of how pensions work – their primary focus is the payment arriving in their account. Any suggestion that this may be at risk prompts concern. Commentary in the national media about any scheme sponsor often triggers calls asking if the pension is safe.

Sadly, when a member dies we are often contacted by their surviving partner unsure of what their pension entitlement will be. In some cases the expectation of a 'half pension' is not met because the arrangements to guarantee 'half pension' had not been taken at the time of the legislative change.

Pension Incentive Exercises and any other 'out of the ordinary' communication can also prompt contact from members, sometimes seeking 'advice' that we are unable to provide or, in other circumstances, simply reassurance that this it is not a scam.

In general, we have found that our member's confidence in dealing with more complex matters declines the longer they are retired and NFOP believes that it can and does provide a source of reassurance and comfort for our members.

What impact did the introduction of the freedom and choice reform have on the federation?
There has been little direct impact on the federation as membership would not be affected should they choose to go down that route. NFOP is concerned there

is a risk that members may choose to move from their defined benefit scheme without taking full account of the impact on survivor benefits and with the risk that they may fall victim to one of the many scams that are operating in this area.

How are services tailored to members?
We listen to our members' feedback and add new services and benefits based on what our members say to us. Feedback comes to us by phone or letter (either directly or via the editor of our magazine). We are also seeing an increase in email traffic as members are adopting this as a communication method, which is especially helpful when sending out our e-newsletter with updates on services and benefit discounts.

The AGM and annual conference provides the opportunity for local groups to voice the views of members and set the direction of NFOP's work and activities. We take feedback seriously and review our benefits and services on a regular basis.

How does the NFOP assist trustees? (Indirectly and/or directly)
Scheme trustees are facing a challenging time with increasing focus on their work by the regulator. As part of this, their interaction with scheme members is also becoming a more prominent issue. NFOP's experience over the past 80 years provides a valuable insight into how pensioners can react and identify possible unforeseen reactions.

NFOP can provide the 'caring face of the scheme', which may not be in the remit of the trustees.

Will the NFOP be introducing any new initiatives in 2018?
We are always looking for new services which could be attractive to our members and their families. We are working on some health and fitness benefits and making some of our existing benefits even more enticing by offering additional discounts and money-off incentives that are not available to non-members. We are also seeking to encourage smaller pensioner groups to join with NFOP, while maintaining their autonomy, so that they can access the benefits for their members and provide a stronger voice for their concerns.

Written by Talya Misiri

About the NFOP

The NFOP was created in the 1930s as an independent, not-for-profit organisation.

The organisation represents close to 70,000 people across the UK, with membership comprising of individuals who have saved for a pension, whether in receipt of or have a deferred pension.

NFOP's focus is on the pension scheme member, with a large number of its membership being from BT, Royal Mail, Kingfisher and British Steel, among smaller pension schemes.

The NFOP can present trustees with the ability to provide their scheme members with support post-work whilst reducing their own level of risk.

In addition to having access to a number of membership benefits, such as legal and tax advice, members can also be part of a local group, a 'branch' where they can meet and socialise with members.

The NFOP Welfare Fund is a charity that can provide financial support to members in need.

The founder of the NFOP was a retired member of the General Post Office who had the aim of establishing a friendly and social society that provided support to fellow ex-GPO staff during retirement.

As more GPO staff became members of the organisation, it grew into a national federation of GPO pensioners with thousands of members.

From this, a welfare fund was set up to provide financial support for members in need that was completley funded by fellow members and still exists today.

As GPO expanded into separate entities, the name evolved to become the National Federation of Royal Mail and BT Pensioners.

Following this, the Federation merged with the National Association of British Steel Pensioners.

As other occupational pensioners continued to show interest in the organisation, the name was changed to reflect the continued growth and then came to be known as the National Federation of Occupational Pensioners.

The NFOP was a founder in joint venture company the Retirement Income Alliance (RIA) last year.

Discussing distress

When a scheme sponsor is in distress, trustees must communicate carefully with both members and the sponsor, finds Maggie Williams

Summary
• When the scheme sponsor is in distress, trustees need to carefully consider the messages they give to members.
• The tone needs to be calm and timing right – it is important not to panic members into making poor decisions about their pension.
• Good ongoing communications between the trustees and the sponsor are the bedrock of solid negotiations if something goes wrong.
• Negotiations are best handled by a sub-committee of the trustee board, and must be with decision makers from the sponsor side.

According to the Pensions Institute's 2015 research paper *The Greatest Good for the Greatest Number*, there are around 1,000 stressed defined benefit (DB) schemes in the UK that are unlikely to be able to pay their member benefits in full.

In the most extreme cases, those business may fail entirely and the pension scheme fall into the Pension Protection Fund (PPF). Others may be able to agree restructuring exercises that keep the sponsor solvent and deliver benefits at a 'PPF Plus' level – offering an improvement over PPF entitlements, but not matching the full value of the benefits that would be paid out if the scheme remained fully solvent.

Recent high-profile stressed scheme cases such as BHS, the British Steel Pension Scheme and the 2016 restructuring of the Halcrow pension scheme have helped to shine a spotlight on trustees' and sponsors' options and responsibilities when the risk of administration looms large.

That risk raises a whole new set of challenges for the trustee board, particularly when it comes to negotiating and communicating. Giving members the right amount of information at the right time, and making sure that negotiations between the trustee board and sponsor are as effective as possible, are both vital.

Member communications

Establishing how and when to keep members in the loop is a critical factor in handling scheme distress. "This is one of the most difficult elements of sponsor distress for trustees to manage and make decisions around," says 2020 Trustees director Naomi L'Estrange. "First, the main focus must be on the trustees themselves understanding the position. They can't know what to do until then," she adds.

There is a fine line on getting this right, and trustees can feel that they will attract criticism either way. They need to be honest about the strength of the scheme, and enable members to make informed choices – but not drive them to make panicked decisions.

Trustees are also limited to some extent in what they can tell members. Any information that is passed onto them can't be viewed as confidential any more. Deferred members who may now be working for a competitor will receive it, as well as active members who may then worry that their job is at risk. Lincoln Pensions managing director Richard Farr cautions: "Telling members anything could prejudice everything. What you tell members is effectively leaked information. There is a balance between communications and the best result for members."

However, if stories are already circulating in the media about a company's performance, trustees may feel they need to issue some communications. JLT Employee Benefits head of trustee proposition James Auty says: "Trustees might need to communicate that the situation is being looked into. Members won't know about the regular routine covenant assessment that the trustees undertake. If information is in the media, members will otherwise draw their own conclusions."

But not keeping members informed has risks too. Engineering firm Halcrow and its owners CH2M Hill found that out when the scheme negotiated a Regulated Apportionment Arrangement (RAA) in 2016. The scheme's 3,300 members were given the choice of transferring to a new company scheme on a fixed-income basis, or being transferred into the Pension Protection Fund. The Halcrow Pensioners Association launched a legal challenge against the deal, claiming that they had been given insufficient detail about the changes, and no opportunity for consultation.

Farr believes that Halcrow may not be the last legal challenge raised by members. "We may see more instances of lawyers acting for members as a class, particularly in high-profile cases." "Members need to feel that someone is on their side," agrees Auty. "Trustee communications should take that into account."

Communicating with the sponsor

While the challenge of what to tell members and when can be a new decision point for trustees, the process of communicating with the sponsor should be embedded into any well-run scheme. "Building a strong relationship with the sponsor, having open conversations, sharing information at regular intervals and taking action as early as possible are fundamental skills," says L'Estrange.

"Trustees need to dig into the detail, understand the risks to the business and when it's clear there are problems, to look objectively and ask if there is a deal that could or should be done – and also if there are actions the sponsor could be make that would have material detriment to the scheme."

That should all be business as usual for trustees, argues Auty. "Trustees should be regularly speaking to the employer. They need to have a good relationship where information is freely shared and confidentiality is respected. Being given flowery figures and told that everything is fine is no good – trustees need the real detail."

When the sponsor is preparing for the worst and administration looks inevitable, trustees' negotiating tactics need to be at their very best. Farr advises that the whole board does not need to be involved. Discussions are best handled by a sub-committee with excellent negotiating skills, rather than the whole board or a single individual. Crucially, they need to really understand the issues, and have the trust of the rest of the board. The chair of trustees should be part of that sub-committee.

The selected sub-committee also needs to have a clearly defined brief, including details such as how often they will report back to the main trustee board, and whether they are empowered to do a deal with the sponsor.

"Trustees also need to make sure they are negotiating with the right person from the sponsor company," adds Farr. He says that should generally be the CEO – although in some instances, the finance director may represent the sponsor. "Negotiations will lock up if you are talking with the wrong person," he cautions. While The Pensions Regulator can act as a referee if one side believes they are being unfairly treated, its role is not to arbitrate.

"Look calmly and objectively at the situation for members," advises L'Estrange. "Ask if insolvency is inevitable, or if there are alternatives to the PPF for members." Auty adds that trustees need to be sympathetic, and open to options. "When the employer starts to struggle, there is a risk that trustees who are former employees can take a line of 'it wasn't like this in my day' – but they need to be sympathetic to the current state of the company."

He suggests discussing options such as whether the sponsor has property that could provide an income stream, or an intangible asset such as a trade mark that could be handed over to the pension scheme to provide more revenue. "They also have to be aware of negative pledges that could affect the scheme, such as continuing to pay a dividend when cashflow falls below a certain level. However, trustees must also keep in mind that if they take too much money, they might be jeopardising the company even more."

Entering the PPF

"If trustees and the scheme is getting to the point where insolvency is looking unavoidable, trustees need to be appointing advisors and talking to The Pensions Regulator," says PPF director, restructuring and insolvency Malcolm Weir. "If there is a PPF risk, or a restructuring option, they mustn't weaken the scheme's hand further."

At that point, the nature and type of communications change for members, between the sponsor and the trustee board and possibly within the board itself, with the introduction of PPF-approved panel trustees to help guide the process.

The PPF has a selection of standard templates that can be used for member communications. The advantage of the PPF's templates is that members receive information in a consistent format – but the flipside is limited flexibility and messages will not be tailored to a specific membership profile. "The messages tell members that the PPF's processes have started, what that means for benefits, and contact numbers to call. Members can then be given more nuanced information over the phone," says L'Estrange.

At present, options are limited for schemes looking for alternatives to entering the PPF. There is interest and pressure from government and from the pensions industry to find a more flexible approach to sponsor distress. But the best advice for any scheme and trustee board is to make sure there is an open, honest relationship – and that both sides trust each other. That holds true, even if the scheme is not in trouble. "The strength of the employer covenant can change over time," concludes Weir. "Even if it's strong today it may not always be so."

Written by Maggie Williams, a freelance journalist

Summary
- DB pension glidepaths frequently have a bumpy ride, with lower than expected investment returns and changes to a scheme's liabilities.
- Most glidepaths have a trigger for action to get back on course or lock in profits.
- The trigger should be reviewed every time it is exercised.
- Liability reduction exercises have an important part to play.
- The scheme administrator should be involved throughout the process.

Not quite turbo charged?

Why are DB pensions' journeys to wind up often delayed? Stephanie Hawthorne reports

Passengers using Southern Rail over the past two years will know that timetables are not always adhered too. It is just the same for pension schemes aiming for wind up and buyout or going into run off, with glidepaths or journey plans that are often overly optimistic.

Lincoln Pensions actuary and senior adviser, Francis Fernandes, explains: "Like all plans, things happen to take you off track. And DB pension scheme journey plans are no different – 'stuff' happens! The assumptions underlying some journey plans may not have been borne out in practice. For example: long-dated interest rates may have stayed lower for longer than expected; running expenses might have been much higher than expected; actual sponsor contributions over the period may not have been in line with those expected under the journey plan; assets may have underperformed the returns assumed under the plan; changes in legislation may have added to the scheme's liabilities or running costs."

No avoiding turbulence

KPMG partner David Fairs says: "Trustees often imagine a glidepath, not dissimilar to a plane coming gently into land with the plane smoothly arriving at the destination. The reality might be a little more bumpy. The first element is the strength of the covenant of the employer, both now and in the short to medium term, and its ability to underwrite investment risk and funding risk. A rock solid covenant might well facilitate a less conservative investment strategy or a lower margin for prudence in funding assumptions, resulting in lower recovery plan contributions. Although the annual funding statement from The Pensions Regulator now steers trustees to getting the money when they can and as soon as they can."

Turbulent international financial markets have undeniably made achieving buyout for many schemes more challenging. Plans laid out 10 years ago have had to adapt to an unpredictable economic and political outlook. Trafalgar House director, Daniel Taylor, points out: "For some schemes, this has meant that achieving full-funding on a targeted 10-year buyout trajectory has not been achievable."

However, there is wide variability across the piste. PLSA head of investment and governance Joe Dabrowski says: "On the whole, the average length of a recovery plan – the agreed time (with TPR) by which trustees and employers seek to fund schemes to Technical Provisions *[a measure that is much weaker than buyout]* – has remained about the same, at eight years. Across the same period scheme funding has on the whole remained at about the same level, despite close to £400 billion being put into schemes, £120 billion of which has been special contributions."

"It has become increasingly common for glidepaths to have a 'dynamic' overlay where the pace of derisking is varied from the central glidepath to react to changes in the scheme's funding level or investment market conditions"

A 'classic' glidepath typically targets a reduction in the level of investment risk/ return over a period of 10-15 years, say, possibly with an initial period during which investment risk is held constant before derisking starts. Willis Towers Watson consulting actuary Graham McLean says: "A range of structures are used – some schemes have a higher level of initial risk that reduces relatively quickly, whereas others take a lower initial level of risk, but run that on for longer, and the timeframe for reaching the target level of risk can vary quite significantly from scheme to scheme. It's important to find a structure that fits the trustees' funding and investment beliefs and their view of the sponsor's covenant and the extent to which they wish to rely on it."

He adds: "Over recent years it has become increasingly common for glidepaths to have a 'dynamic' overlay where the pace of derisking is varied from the central glidepath to react to changes in the scheme's funding level or investment market conditions."

Trigger for action

Most schemes have trigger points for action to get back on course or lock in profits. Fairs says: "We are now seeing trustees put in place contingent mechanisms that are triggered if the scheme experience deviates too far from the desired position. Critically, the scheme needs to monitor covenant, investment and funding and react to significant adverse experience, whether that is collective or just in relation to one of those items."

Schemes might have multiple triggers around covenant strength such as free cashflow of the business, profitability, credit rating etc. There could be triggers around funding position (which can reflect actual scheme experience), length of recovery plans to funding of technical provisions or self-sufficiency and there can be investment triggers such as VaR. There might also be contribution triggers relating to corporate performance or dividend payments. These triggers can be both for upside and downside experience.

Monitoring software is now affordable for the majority of schemes.

Fairs adds: "Where monitoring software is in place, it is easy to get real-time information on these factors, although it would be unrealistic to react to changes on a daily basis. It would be more common to put in place monitoring on a monthly or quarterly

basis and less frequently only in extremis – the challenge is one of not wanting to take action due to a particular short-term spike in experience."

Capturing growth

Hymans Robertson head of investment consultancy John Walbaum explains more on the trigger process: "In relation to growth assets, the aim will be to reduce exposure when the assets have outperformed expectations, the aim being to capture that growth and reduce the risk of adverse market movements leading to slipping back. There may be triggers in place to increase exposure if assets fall, the aim being to capture any rebound in asset values thereafter. In the hedging area triggers will seek to prompt increases in interest rate or inflation protection if interest rates increase to agreed levels where the funding position has improved due to a lower value being placed on the liabilities. Increasing the hedge again captures some of that value and reduces the risk of rates moving against the scheme, and the same logic applies in the case of inflation (ie. triggers will seek to capture lower inflation and protect against future rises)."

Most schemes will carry out an annual review to check the triggers remain fit for purpose, perhaps with a more formal review triennial valuations. LCP partner Clive Wellsteed says: "It also makes sense to informally review the trigger levels each time a trigger is hit."

Don't forget the liabilities

Many schemes have glidepaths that only look at one side of the problem – the assets. They put in place investment strategies that seek to de-risk the assets. But JLT Employee Benefits director Rob Dales says: "Glidepaths should also include strategies that de-risk the liabilities, such as member option exercises, including transfer values at retirement and pension increases exchange. With the introduction of freedom and choice, many members are transferring their benefits out of the scheme at retirement. In our experience, based on 16,500 members taking benefits at retirement in the first half of 2017, 16 per cent transferred their benefits out of the scheme. A transfer out settles the liability in full and moves the scheme closer to ultimate buyout."

"Glidepaths should also include strategies that de-risk the liabilities"

Dales also suggests trivial commutation exercises, whereby small benefits that are expensive to administer and pay are settled in full again, moving the scheme closer to buyout and benefit conversions.

"Most schemes have very complex benefit structures, including elements that are expensive to buy out, but which have little or no value to the member. By simplifying the benefit structure to one that members understand and an insurer can price without excessive margins, buyout becomes more affordable," he says.

Leave no stone unturned

Buyout is a goal for many closed DB schemes, but the ones most likely to achieve it are those with realistic plans and clean data. Schemes with good scheme and member data have greater certainty and are therefore more attractive to insurers. They are also better able to act quickly to transact when the time is right, thus wasting less time and money on abortive exercises. As a postscript, PASA deputy chair Kim Gubler, concludes: "It is important to involve the scheme administrator at an early stage as they can help ensure a smooth process. Too often they are brought it at the last minute with no chance to positively influence the outcome."

Written by Stephanie Hawthorne, a freelance journalist

Multi-asset investment guide 2017: Flexible approach, stable returns

Featuring:

- The popularity of multi-asset funds and how they are evolving to meet the changing needs of pension fund investors
- How the management of risk is at the heart of delivering consistent, stable multi-asset returns
- How a combination of member profiling and applying a risk-first investment approach improves member outcomes
- How diversified, absolute-return strategies can help meet the return requirements demanded by pension schemes, without sharply raising their overall risk profile
- Why pension schemes should look to external funds when implementing multi-asset investment

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NATIXIS INVESTMENT MANAGERS

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A wider investment world

***Pensions Age* explores the popularity of multi-asset funds and how they are evolving to meet the changing needs of pension fund investors**

Given the increased focus on, and popularity of, multi-asset funds over the past couple of years, you would be forgiven for thinking they were the latest innovative product to hit the market. And yet pension funds have been multi-asset managers themselves for years.

"In the vast majority of cases, pension scheme portfolios are already multi-asset funds in their own right," M&G fund manager, macro investment business, Tony Finding says. "The concept of diversification has been a crucial foundation for strategic asset allocation within schemes for many decades now."

While Finding claims that "multi-asset funds are clearly not an asset class in their own right" with pension funds already accessing the diversification benefits through their own asset allocation choices, "signs of profound changes in the investment environment suggest that more dynamic active asset allocation is likely to be required than has been the case for much of the recent past".

At the same time, the changing needs of pension schemes as they mature, as well as an increasing range of alternative assets and investment strategies now available, mean that external multi-asset funds have far more to offer pension funds today, he adds.

However, these external multi-asset funds have been around and helping pension schemes for the past 10 years, with their popularity showing no signs of abating.

As Investec multi-asset team investment director Atul Shinh says: "Modern multi-asset strategies continue to occupy the attention of institutional pension funds a decade on from when these strategies first started to become in vogue".

But just what are these strategies?

Multi-asset funds – which contain a number of different types of assets within the one fund in order to achieve equity-like returns but with smoother volatility – can take many forms, from diversified growth funds, to absolute return strategies, to multi-asset credit on the fixed income side.

"Three key designs are already established within *[the multi-asset]* space, namely multi-asset funds that evolved from balanced mandates, hedge fund-like strategies that incorporate long and short positions, and strategies using risk parity principles," Lombard Odier Investment Managers head of solutions for institutional investors Ritesh Bamania states. "However, there continues to be innovation even within these categories and relating to strategies that mix some aspects of the various existing designs."

Whatever their individual design, multi-asset funds aim to deliver absolute returns across all market conditions.

To achieve this, Unigestion head of macro and dynamic allocation Guilhem Savry recommends that a truly broad investment universe is harnessed, along with a dynamic approach to asset allocation. Finally, the definition of risk should be comprehensive and focus on more than just volatility in order to deliver smooth returns.

Natixis Investment Managers head of UK DC strategy and sales, Nick Groom, agrees that risk is an important consideration of any multi-asset fund. He advocates a risk-first investment approach to asset allocation within a multi-asset fund, in order to manage volatility. The result, he says, is added predictability and ultimately, durability, within the portfolio.

This predictability is appreciated by pension schemes, as with the current economic and financial uncertainty, institutional investors have been looking to diversify their portfolios to protect their assets.

Growing interest

CQS chief executive and senior investment officer Sir Michael Hintze notes that he has seen a pick up in pension fund interest in multi-asset formats due to them being seen as part of the solution to achieving through-cycle returns.

Multi-asset funds' alpha-seeking investment focus, combined with the potential to manage downside risks and market volatility, could help meet the return requirements demanded by pension schemes without sharply raising the overall risk profile, Amundi client portfolio manager David Greene explains.

PLSA policy lead, investment and defined benefit, Caroline Escott, finds that multi-asset funds allow pension schemes to diversify in a low-governance way, "which is particularly important for smaller schemes that might not necessarily have access to significant investment expertise and resource".

However, "it is important that diversification serves the purpose of enhancing risk-adjusted returns as opposed to dampening growth", Columbia Threadneedle client relationship director Andrew Brown warns.

So, with its diversification benefits, multi-asset funds are now being used by pension funds to outperform liabilities and close funding gaps, the role historically played by equities, Aviva Investors head of investment strategy for global investment solutions John Dewey explains.

However, in periods where equity markets perform well and generate high returns, there can be pressure on trustees to justify multi-asset allocations, "as the risk reduction component gets less focus, as investors become complacent about equity market volatility", Pictet Asset Management senior business development manager Tim Bird warns.

Lagging equity peaks in return for smoother volatility seems a price worth paying for pension funds, judging by the popularity of multi-asset funds. So much so, in fact, that new ways in which to implement multi-asset funds within different investment areas are increasingly being explored.

New opportunities

"New multi-asset products increasingly access private markets, providing exposure to liquidity premia through both debt and equity investments in real assets," Dewey says.

Hintze highlights how alternative credit in a multi-asset format has become an attractive solution for schemes to de-risk from equities, while maintaining reasonable expected returns.

This trend has also been spotted by Escott. She states that an increased take up in multi-asset credit strategies has occurred as maturing DB schemes "try to de-risk by selling some of their equity exposure and moving away from government bonds into a wider range of credit classes, such as corporate bonds and emerging-markets debt".

For Shinh, many of the recent new business opportunities for multi-asset fund investment has come from both DB and DC investors making their first foray into this space, along with "a number of opportunities from investors re-brokering existing DGF allocations".

The DC market in particular has become an area of growth, with multi-asset funds increasingly being used within default fund design.

"Products have been developed for the DC market that aim to provide smoother returns with less volatility than equities, principally through the use of dynamic asset allocation and exposure to to a wider range of asset classes," Brown says.

Changes

Whether used for DB or DC, multi-asset funds will continue to respond and change to investors' needs.

Bamania sees evolution arising from regulatory changes, such as increased disclosure requirements, which could impact some of the more complex strategies. "Another example is of regulatory changes is in relation to collateral requirements linked to use of some derivatives, which means greater amounts of cash needs to be held," he says.

"Increased uncertainty due to unknown cashflow requirements, leading to more frequent selling of such funds, could also test the liquidity buffers in some funds," Bamania warns.

Environmental, social and governance factor within multi-asset funds will also face growing scrutiny, Shinh predicts, as these considerations have become "a topic at the forefront of conversations with our clients recently".

However they may change, one thing seems clear: pension funds' love of multi-asset investment looks set to continue.

Smoothly navigating all market conditions

Unigestion's cross-asset solutions team believes that the management of risk is at the heart of delivering consistent, stable multi-asset returns

Many multi-asset products seek to deliver absolute returns across all market environments, but this is not always a straightforward objective. At Unigestion, we believe three factors are needed to achieve this aim:

1. A **truly broad investment universe** – this should include a large range of traditional and alternative risk premia, which enhances the ability to harvest more independent sources of return and therefore improve diversification.
2. A **dynamic asset allocation approach** - macroeconomic regimes determine the returns and behaviour of risk premia over the long run. While these long-term regimes are of essence, we believe the short term matters as well, so it is essential that a portfolio can be modified to reflect both views.
3. The definition of risk should be comprehensive and focus on more than just volatility; this is essential in being able to deliver smooth returns. The **ultimate risk for us is the loss of capital.**

Our Cross Asset Navigator strategy, better known as 'Navigator', is built around these three principles and seeks to deliver consistent, risk-adjusted returns over a 3-5 year cycle, targeting a return of cash + 4 per cent per annum net of fees while delivering significantly lower long-term risk than the equity market.

The team behind our Navigator strategy draws from a combined heritage of both traditional and alternative investments and this underpins our ability to build a portfolio that harvests the widest spectrum of risk premia.

We believe it is important to expand the investment universe into the alternative space to ensure we avoid being overly reliant on equities or fixed income assets, and provide extra diversification in adverse market regimes due to their low correlation to traditional risk premia.

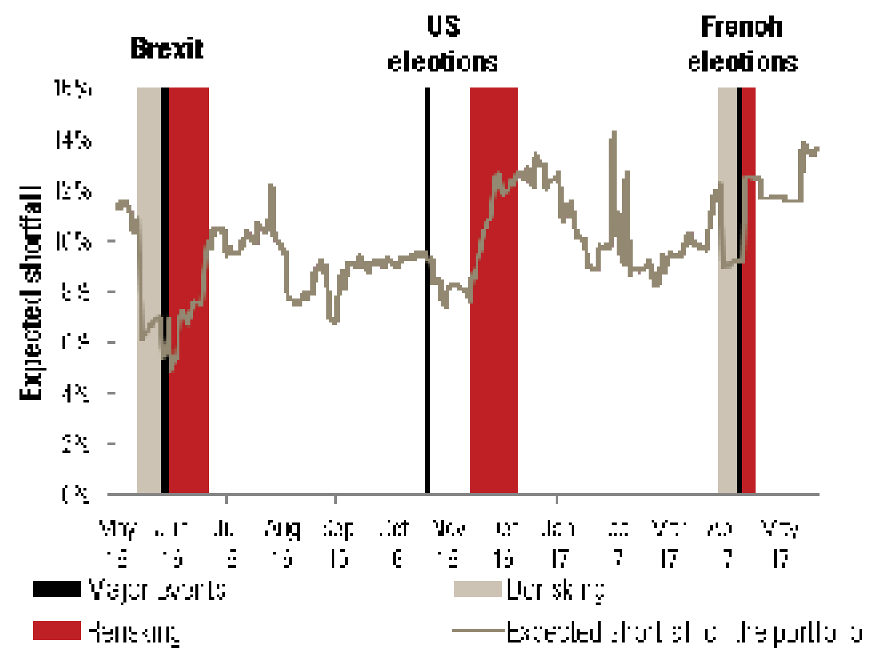
Macroeconomic framework

Our research shows that the returns of risk premia vary over time and that their performance can be linked to different macroeconomic and market conditions. Therefore, we seek to build a portfolio that is balanced across macro regimes, while also seeking diversification from our broad investment universe in order to achieve our aim of delivering smooth returns.

Our long-term, strategic allocation is systematic and anchored around strong macroeconomic analysis, which has shown that the economic cycle can be split into four macro regimes: steady

Steady growth	Recession	Inflation shock	Market stress
Equities Low-Risk + Long-Short Equity Factors + Credit Spreads + Carry Growth-biased (FX, volatility, credit, dividend)	Duration + Trend-Following + G10 FX Value + Carry Bonds	Inflation Break Even + Industrial and precious metals, Energy + Trend- Following + Carry FX	Duration + Precious metals + Trend Following + Carry Bonds + G10 FX Value

Source: Unigestion



Source: Bloomberg, Unigestion's calculations. September 2017

growth, recession, inflation shock and market stress. We have then mapped the investment universe according to these regimes to observe which assets have historically best responded to each of these market conditions. We have used this analysis to build specific portfolios of risk premia that best respond to each of these macro scenarios on a long-term, strategic basis, as illustrated in the table opposite.

Our long-term allocation is then supplemented by a shorter-term allocation strategy that seeks to allow the portfolio to dynamically adapt to the ever-changing economic market conditions over the short and medium term. It is based on proprietary indicators, called 'nowcasters', which assess conditions in real time and systematically modify the portfolio's asset allocation accordingly.

Rather than relying on a purely quantitative system to perfectly assess forward-looking risks, we complement this approach with qualitative analysis to determine relative value across and within asset classes.

Dynamic risk control

Finally, risk analysis is at the heart of our process, as we believe risk-based investing is the most robust way to manage a multi asset portfolio. We impose strict controls at the portfolio level, dynamically allocating risk rather than capital because, in our view, risk is multi-dimensional. Therefore, we focus on expected shortfall rather than volatility, allowing us to take into account more dimensions of risk, such as valuation, asymmetry, 'fat tails', or liquidity.

Furthermore, we believe risk needs to be managed on a forward, rather than backwards, looking basis. An example of this can be illustrated by our approach to Brexit, where we chose to reduce our risk exposure ahead of the referendum and maintaining upside exposure through options. When the referendum took place, the strategy's downside exposure was limited and we were able to quickly reposition the portfolio for the rebound.

Risk targeting around political events

With markets likely to become ever more challenging, the ability to generate all-weather returns and navigate volatility could prove valuable for institutional investors. We believe our approach, which has the management of risk firmly centred at the heart of its process and seeks to achieve true diversification at every stage of the process, could provide a solution to achieving these goals.

For more information please contact: clients@Unigestion.com

Written by Guilhem Savry, head of macro and dynamic allocation, Unigestion

In association with

UNIGESTION

Time to re-invent the default wheel?

Nick Groom reveals how a combination of member profiling and applying a risk-first investment approach improves member outcomes

Auto-enrolment is the most successful pension scheme mechanism to drive up participation rates since we were hoodwinked into our company's final salary scheme.

Just enroll members at the highest contribution rate and add auto-escalation and we can really celebrate!

And do you remember your first DB scheme, enrolled by stealth, stuck with this undecipherable benefit until death us do part? It was hidden towards the end of your contract of employment: "You will be automatically placed in the company's final salary pension scheme; this scheme will give you 1/60th of your final pensionable pay for every year that you work until you reach your 65th birthday. Some of your benefit may be taken as tax-free cash; this will be commuted using the following calculation: 3n/80ths. Please refer to your scheme booklet for a full description of your benefits". It all sounded like gobbledygook!

I remember my first DB scheme. I was just 24 years old in the '80s in my first financial services job, but that didn't mean I understood my pension! The language was difficult for most people to understand, so they were not unlike the DC joiners of today – pretty disengaged by the language and complicated calculations we often use, but without the safety net that we had back then.

Wow, and what a benefit a DB scheme was (still is for some), with so many people not even knowing they had this gold-plated reward until they came up to retirement. Normally they twigged it when the company held a retirement seminar with a local IFA or benefit consultant.

But then if you recall, annuity rates were so good that they headed off into the sunset with plenty of regular cash, none the wiser as to how they did it, keeping quiet just in case it was a magnificent ruse, no investment decisions to make, apart from perhaps a few who got duped into some weird and wonderful offshore investment scheme for their tax-free cash that admittedly was burning a hole in their pocket.

This is in stark contrast to now, with all of the risk transferred to the hapless employee, who is being asked to dip hard into his pocket to augment the employers' contribution, which is a small fraction of what the employer had been paying with DB – something the employer is extremely glad about!

I am going to skip a generation of early DC pioneers and arrive in my pensions Tardis at pension freedoms, now allowing greater flexibility and better death benefits than final salary schemes. Many are now heading towards taking their pension as cash to spend on things they wouldn't ordinarily have, or for the lucky ones with enough of a pot, they can consider drawing an income from it.

As a result of these changes, the DC market of default funds needs a considerable review and overhaul, given that in many cases one size does not now fit all of the needs of a workforce where circa 95 per cent invest in the default. Also, a high proportion of defaults may still be heading towards a 75/25 mix of bonds and cash, and that just won't cut it.

So as the pensions market migrates from DB to DC, and the investment risk shifts from the corporate provider to the member, there are enormous investment implications. And the DB adage of buy-and-hold may not be appropriate in the new DC world where member engagement is increasing and member investment experience is gaining in importance.

At Natixis, we believe that member profiling and member segmentation, which is the establishment of different member cohorts, are of paramount importance. One size rarely fits all of the population within a scheme and although age-based cohorts are a good start, members may more likely be as interested in cohorts built around their attitude to risk, ethical stance, domestic bias etc. And even within age-segmented cohorts there is argument that the younger cohorts may not want to invest in a buy-and-hold strategy at the highest risk level because limiting the risk of loss of capital is very important to them.

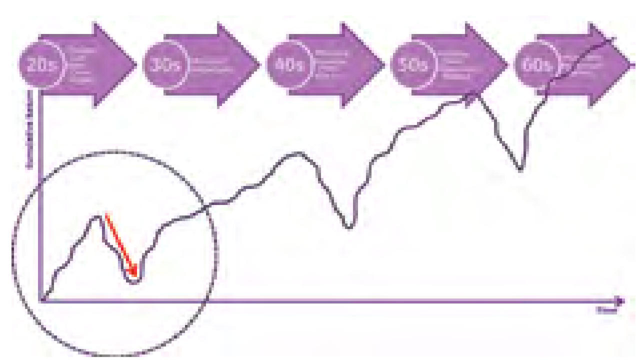
We could consider default cohorts based around the generation game; for instance centennials who are going to live forever, millennials the most knowledgeable generation. Also, there are baby boomers, all set pretty fair with DB and property, while Gen X perhaps need careful consideration as they could have either been very lucky, or very unlucky as they may have neither had a DB scheme or took advantage of early undeveloped DC. So as you can see, there are lots and lots to think about.

The younger age groups are complicated as they tend to be more mobile and with this mobility, they may be consolidating pension pools and potentially crystallising or at least seeing the effects of volatility at the wrong time. In some cases a fund might have a third of its value wiped away by a risk event. They may also be more ethically and socially aware than older cohorts.

Furthermore, the non-pension investment plans such as LISAs are going to take 'market share' from pension contributions if this cohort isn't correctly engaged and satisfied with their pension investment. In short, we believe that a combination of member profiling and applying a risk-first investment approach to our multi-asset solutions will lead to better member outcomes in both investment experience and return.

And why are we suggesting that we turn investment philosophy on its head and put risk first?

Why is understanding/managing risk important in a portfolio?



Source: Natixis Portfolio ClaritySM

Risk is a far more stable indicator of markets. In this instance, we consider the rolling annualised volatility of markets over five- or ten-year periods. When comparing this to the annualised return counterpart, we note that volatility tends to be more stable over time.

Applying this logic to specific cohorts we can better manage the risks associated for that group. In particular, we can be better placed to manage future corrections in a way that is more acceptable from a risk perspective for that group. We truly believe that it's not the members that need to be thrown a choice of cautious, moderate and aggressive risk profiles for them to choose, but for the scheme governors to do that choosing for them.

In the chart opposite, we show how the early years of a member's investment can experience considerable volatility. If this was the start point for a young person starting out on his/her career, entering with piled up student debt and looking for a deposit on a house, they could be easily put off pensions at a critical time because a high-risk strategy was wrongly chosen for this younger cohort. But it could be any cohort.

So we are advocating the use of risk parameters as the main input for asset allocation to manage volatility. For the last decade, the risk profiles of some indexes have been relatively stable – while their returns varied dramatically. Durable Portfolio Construction®, our investment methodology therefore, targets a consistent range of risk, rather than a potential range of returns.

The result is added predictability and, ultimately, durability in the portfolio. Return, and performance, analysis is important but secondary to risk. Furthermore, the global investor community has migrated from longer-term investment horizon to shorter-term horizons that tend to have greater emphasis on investment experience, where risk of loss is becoming more prevalent in investment processes.

We believe those responsible for governing employers' schemes have the appropriate knowledge of the schemes' membership (and are better placed) to build an optimum number of risk-first multi-asset default solutions based around specific cohorts that cater better for the needs of a diverse and more demanding workforce. Let's reinvent the wheel!

Written by Nick Groom, head of UK DC strategy and sales, Natixis

In association with NATIXIS INVESTMENT MANAGERS

Additional Notes

Seeking an alternative solution

David Greene describes how diversified, absolute-return strategies can help meet the return requirements demanded by pension schemes, without sharply raising their overall risk profile

Brexit, stubbornly low inflation and falling bond yields – both sovereign and corporate – are among a number of challenges that are proving painful for institutional investors and are unlikely to go away anytime soon.

With liabilities increasing and deficits widening, schemes are being forced to revisit their approach to risk and consider whether they should broaden their exposure to other asset classes in order to increase potential returns.

At Amundi, we believe diversified, absolute-return strategies that seek to generate positive returns in different market environments could provide a solution. Their alpha-seeking investment focus combined with the potential to manage downside risks and market volatility could help meet the return requirements demanded by pension schemes, without sharply raising the overall risk profile.

In order to pursue these features, we believe it is key to build an investment process that seeks to generate multiple, low correlated sources of return by investing in traditional and non-traditional asset classes.

The absolute-return strategies have been managed within the multi-asset team since 2004, with significant AUM. A robust investment process has been developed that seeks effective diversification through allocating risk across four components. We refer to these components as the 'Four Pillars' approach.

'Four Pillars' approach

The first pillar in the investment process starts with the macro strategy, the directional, top-down element that expresses the view of the world. The macro component may also include long-term structural thematic investments, such as robotics and longevity.

Risk management is a ubiquitous thread that runs through every investment decision. The second pillar is macro hedging, where an independent team of hedging specialists assess risks to the macro strategy and seeks to protect the portfolios from 'tail risks'.

The third pillar, satellite strategies, tend to be relative value in nature and invest across multiple asset classes.

Relative value investing can dramatically expand the investment universe and help to generate new sources of alpha, independent of equity and bond markets. This is a key differentiator from long-only funds that are directional in nature. Each satellite strategy has a target price and strict drawdown management levels to ensure disciplined position management.

The final pillar is selection strategies, which aims to improve diversification and generate income by investing in sovereign bonds and high-quality credit, while seeking to generate stable yields above cash rates.

For institutional investors looking to boost asset returns while continuing to protect their portfolio from downside shocks, we believe that absolute return strategies are an investment component that needs to be explored.

Written by David Greene, client portfolio manager, Amundi

Looking outwards

Tony Finding explains why pension schemes should look to external funds when implementing multi-asset investment

In the vast majority of cases, pension scheme portfolios are already multi-asset funds in their own right. The concept of diversification has been a crucial foundation for strategic asset allocation within schemes for many decades now.

Moreover, a background of strong government bond returns, as well as negative correlation between bonds and equities in periods of stock market stress has been hugely supportive for static allocations to the traditional asset classes.

So why should pension schemes consider using external multi-asset funds? There are three main reasons:

Active asset allocation

The environment that has been so supportive for traditional static asset allocations seems very unlikely to persist. Not only do extremely low yields today suggest that a repeat of the past 30 years of bond returns is close to impossible, but correlation patterns could also be far less stable.

Less faith in monetary policy's ability to solve growth challenges (particularly at low yields) limits the ability of bonds to act as insurance when equity markets are weak. Emergent challenges to globalisation could also threaten the trend for more benign inflation outcomes around the world.

Seeking diversification across asset classes is therefore likely to require more dynamism and selectivity in the future, perhaps including the use of less traditional strategies such as relative value or the use of derivatives. Experienced asset allocators would have an extremely important role to play for pension schemes in this environment.

Specific outputs

Actively managed multi-asset funds can be run so as to deliver specific outcomes that are attractive to pension trustees. For example, funds that are able to deliver growth-like returns with lower volatility can be useful for schemes seeking to de-risk their assets, while funds that deliver regular income payments can help manage cashflows in more mature schemes.

Alternative exposures

The advances in financial services over the past two decades have meant that many areas of the market that were inaccessible to all but very specialist part of the market are now far more widely available. This comes with opportunities, and with challenges.

Alternative asset classes can appear attractive at a time when traditional assets appear to be offering lower prospective returns than they have provided for much of history. Similarly, the diversification of behaviour they have delivered can be very desirable.

However, the very fact that these alternatives have become more widely used could serve to make them more correlated with other assets in periods of stress, while very few will have been tested in environments of rising interest rates.

Conclusion

Multi-asset funds are clearly not an asset class in their own right and in many instances the positive diversification characteristics that they offer will already be captured in the asset allocation of a pension scheme itself. However, signs of profound changes in the investment environment suggest that more dynamic active asset allocation is likely to be required than has been the case for much of the recent past. At the same time, the changing needs of pension schemes as they mature, as well as an increasing range of alternative assets and investment strategies now available, mean that external multi-asset funds have far more to offer pension schemes today.

Assessing external multi-asset managers offers very different challenges for trustees. When external managers have more freedom as to the universe of assets they can invest in, it is far more important to gain an understanding of their approach and how the fund can be expected to behave in relation to the rest of the scheme's portfolio. However, the rewards for getting this process right look set to be significant.

Written by Tony Finding, fund manager, macro investment business, M&G

In association with

Company Profiles

Unigestion

Unigestion is a boutique asset manager with the scale to deliver global tailor-made investment solutions for thoughtful investors. Our core values – integrity, independence, excellence and guidance – are at the heart of everything we do.

We are responsible for managing $25.9 billion in client assets across our four areas of expertise: equity, multi-asset investing, private equity and alternatives. We believe that risk management is an enduring driver of long-term investment performance, and we therefore apply a risk lens to all our strategies. In February 2017 Unigestion acquired Akina with the aim of creating a uniquely qualified specialist in global small and mid-market private equity.

Ideas drive our growth, and Unigestion strives to be always at the forefront of innovation in investment management. For us, innovation is about co-creating with our clients the investment solutions that meet their needs through a partnership approach.

Our tradition of research sets us apart. Unigestion's ongoing research focus, as well as our collaboration with the world of academia, enables us to arrive at new ideas to the benefit of our clients.

With over half of our assets managed through segregated mandates, we have a proven ability to understand clients' objectives and are trusted by them to design strategies tailored to their needs.

We are privately owned, with a majority of the equity controlled by our senior management, and we focus solely on asset management. This gives us the independence to take a long-term perspective and stay true to our convictions for the long-term benefit of clients.

This independence also means that our interests can truly be aligned with those of our clients. We demonstrate our commitment to our clients by investing our own capital in the strategies we manage for them.

Source: Unigestion. All data as at September 2017.

UNIGESTION

Natixis Investment Managers

At Natixis Investment Managers, we believe in a different way to invest, and we have built our business on the same foundation. We focus on portfolios, not products. We reject transaction-oriented, short-term thinking and have instead invested in resources that help our clients build long-term sustainable value. We believe in independent thinking, trust and transparency, and our approach is consultative, objective and rigorously insight-driven.

Behind our investment approach is a global multi-affiliate organisation with more than £716.4 billion under management[1] making us one of the world's largest asset managers.[2] Our firm is a global leader in retirement provision, with in excess of £88 billion in pensions and retirement assets under management (as of 31 December 2015), a large proportion of which is defined contribution-related.

We know retirement is a universal issue with different challenges from region to region. One thing is common: all individuals and schemes can benefit from solid advice, and consistent investment choices.

Our Durable Portfolio Construction Research Centre gives us unique insights into investor sentiment, having surveyed more than 37,000 individual and institutional investors across 29 countries, since 2010.

The UK market is undergoing a number of fundamental changes in the pensions arena, creating new hurdles for retirement clients and their investment advisers.

We believe that our experience in the retirement and DC fields around the world, alongside our diverse investment expertise from leading global investment managers within our group, offers a compelling solution to our clients and more importantly to their investors.

[1] *As of 30 September 2017.*

[2] *Cerulli Quantitative Update: Global Markets 2015 ranked Natixis Investment Managers S.A. as the 15th largest asset manager in the world based on assets under management ($877.1 billion) as of 31 December 2016.*

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[1] Source IPE "Top 400 asset managers" published in June 2017 and based on AUM as of end December 2016.
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Company Profiles

Changing perceptions

Talya Misiri talks to BNP Paribas' group pensions manager UK, Lee Sullivan, about how the scheme has worked to overcome its lack of member engagement and the importance of delivering tailored and relevant information throughout members' lifetimes

Up until recently, the BNP Paribas defined contribution scheme, although documenting universal participation, documented a significant lack of interest and understanding from its members.

While scheme uptake is large, the bank's research found that a number of employees' relationship with their pension was passive and awareness surrounding the DC scheme was low. Therefore, in order to address this, BNP Paribas overhauled its communications strategy through the launch of an engagement campaign.

Focusing on the scheme's effective campaign, BNP Paribas group pensions manager for the UK, Lee Sullivan explains to *Pensions Age* how the firm worked to overcome the lack of member engagement and deliver tailored, relevant information to keep savers more informed.

Keeping it simple

BNP Paribas highlights that one of its key reasons for launching its member engagement campaign and Vista hub was to help employees make informed decisions about their future.

Nonetheless, Sullivan states: "Just the word 'pensions' is enough to put people off and conjure up negative connotations of impenetrability and boredom." It was this "impenetrability" and lack of member interest that BNP sought to tackle and change.

"There are also a lot of pub myths that out there that pensions aren't worth bothering about and a waste of time. These were the challenges we wanted to overcome," Sullivan says.

As a result, it was these key reasons and a desire to strip pensions back that led to BNP Paribas' launch strategy, for its engagement pledge. Sullivan highlights that "this natural antipathy towards pensions led to our launch strategy which was done with no mention of the P word at all".

Talking through the process, Sullivan explains that the campaign began with an initial "intriguing teaser" across posters, the firm's intranet and TV screens, which simply said 'are you a goldfish?', 'are you a cat?', etc with no explanation or mention of pensions. Following this, employees were invited to take part in a quiz via email or intranet to find out what they are.

The survey had a view to inform both employees and their employer about what kind of saver they were without approaching members in an aggressive manner or mentioning pensions directly.

"All content was written in an informal, irreverent style and stripped of all jargon. This was definitely not a typical pensions survey and the results reflected that," Sullivan says.

Tailoring to the individual

Sullivan notes that he and his team acknowledge the fact that their employees don't need to be "pensions experts". Instead, he explains that BNP Paribas' campaign looked at assisting members to gain an understanding of the basics about their pension, to enable them to "check in from time to time".

"If you try to convince people otherwise, then you just add to the feeling that managing your pension is a chore to be suffered," Sullivan adds.

To capture members' attention, therefore, the scheme ensures that communications are specifically tailored to the individual. The pensions manager refers to the scheme's "golden rule" being that "no one receives any communication that isn't relevant to them personally".

To do this, the scheme's team uses its flex benefits platform, which holds masses of useful data on members, to segment its workforce and ultimately "target comms with pinpoint accuracy", Sullivan outlines. The scheme realised that sending blanket communications to its entire membership not only wastes time, but "can actually prevent people from switching on to messages that are salient to them."

"In taking this approach, employees learn that if we've sent them something or directed them to some information then it is worth reading," Sullivan explains.

Useful education

In line with its tailored communications, the BNP Paribas scheme has also taken an active approach to providing its members with tools for further education regarding their pension savings.

Working with a multi-disciplinary group to create its Vista hub website, BNP Paribas was able produce a platform that divides useful content into 12 bite-sized modules. The sections typically comprise of a video, infographic or carousel that gives the main headlines and is accompanied by simplified information that addresses the details.

When asked about the structure and purpose of the modules, Sullivan confirms: "The modules are all designed to be engaging and not too taxing… Each module was designed to cover a specific, narrow topic and was constructed with three elements. What are we asking an employee to 'think' about? How do we want them to 'feel'? And what do we want them to 'do'?"

When asked about member interest and response to the pensions engagement campaign and Vista hub just over a year since its launch, Sullivan proudly states: "The response was phenomenal and way beyond our expectations."

A follow up survey found that of 7,500 employees, 4,273 clicked through the quiz and 89 per cent of employees visited the micro site (which knows members' age, contribution amounts, tax band, etc.) during the campaign period.

In addition, according to an internally-conducted survey a few month after the launch, Sullivan highlights that there was a "material increase" in pensions understanding. Scores for 'I understand the value of pensions' were 21 per cent higher. Scores for 'I am confident about my financial future' and 'I understand how much I should be saving for retirement' were 29 per cent and 91 per cent higher, respectively.

As some of the companies in the BNP Paribas group offer matching contributions, the number of employees taking the full match also doubled after the launch of the campaign.

Contributing to the scheme's focus on personalisation and directly engaging with each member, Sullivan adds that his team conducts more than 300 one-to-one pension surgeries around the country each year. Commenting on these meetings, he notes that there is "a real appetite" for basic pension information.

"But, people convince themselves that it is too hard or that it probably won't make a difference. The truth is that giving them just the right amount of knowledge at the right time in their lives can transform the retirement prospects of our employees. And for relatively little sacrifice of effort in their part.

"For that reason I see education and engagement as the most important and valuable part of my job," Sullivan concludes.

Future ready

It is clear that the scheme sponsor recognises the importance and value of continually adapting to provide for its members. As a result, preparation for the future is an ongoing process to keep up with the changing pensions landscape.

Sullivan highlights the success of the scheme's "custom built, trusted site" as well as its vast employee data that enables BNP Paribas to have a "future-proof tool that can change and adapt as ours and our employees' needs do."

The scheme's team are able to review the modules on the Vista hub site, and add, update and alter modules to give members the most relevant and current information.

"It also speeds up query handling. When employees ask a question, there is a good chance we can direct them to a module that gives the answer."

Sullivan also explains that the company plans to run a number of "mini campaigns" over the next few months that will cover topic areas including AA tapering, death benefits and bonus waivers. In addition, the team has also six new modules for members and has "several more in the pipeline". Each module, as with the existing modules, is targeted at specific groups of members with tailored messaging.

When assessing the communications campaign's preparedness for the future, Sullivan surmises that when building a suite of comms similar to those used by BNP Paribas for the Vista DC scheme, it is essential to keep it "fresh and up to date".

Written by Talya Misiri

Heavy weighs the crown

Drawdown has established a firm current rule over annuities in the at-retirement market. But with an advice gap and a dangerous sequence of returns risk, is the product wearing its crown comfortably?

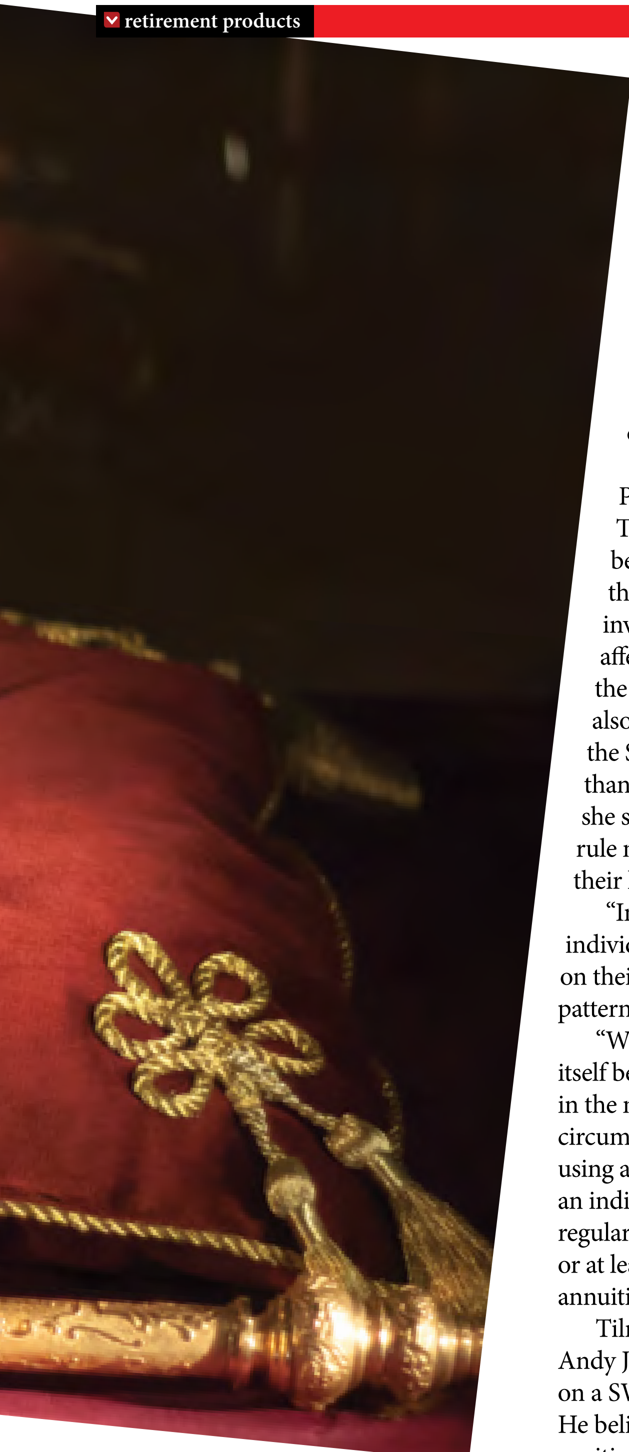
Summary

- Drawdown demand now outstrips annuities by almost three to one.
- There is no real consensus on a safe withdrawal rate anymore as plans are very much dependent on individual circumstances.
- Despite its popularity, significant risks such as sequence of returns need tackling in many drawdown plans.
- The amount of people using the product without advice is a concern and could lead to retirees running out of money sooner than expected.

When it comes to retirement products, drawdown is now king.

Figures from the Association of British Insurers (ABI) show that drawdown sales consistently beat those of annuities throughout 2016, while in September the Financial Conduct Authority (FCA) revealed that drawdown arrangements rose by 4 per cent during October 2016 to March 2017. Annuity sales fell by 16 per cent during the same time.

The period saw 33,561 annuity sales in comparison to 83,687 new drawdown



plans; a demand for the latter that almost outstripped the former by three to one.

But questions remain over drawdown's suitability for many retirees, and its crown looks, at present at least, a heavy burden.

One of the most pertinent issues facing drawdown is the current withdrawal rate. Just how do you identify a safe rate in order to create a sustainable income stream?

Historically, the so-called Safe Withdrawal Rate (SWR) of 4 per cent – created by US financial adviser William Bengen using a 50/50 split of bonds and equities – has been a standard starting point for many advisers when approaching drawdown.

However, as Intelligent Pensions technical director Fiona Tait explains, this figure may now be too high. Firstly, the data behind the SWR is based on US historical investment conditions that were not affected by hyper-inflation during the war years. The effect of charges is also not included, which means that the SWR is likely to be much lower than 4 per cent in practice. As a result, she says, consumers who follow this rule may find themselves struggling in their later years.

"In addition, the SWR will be individual to each client, depending on their investment strategy, spending patterns and potential lifespan," says Tait.

"Whatever SWR is used, it will in itself become out of date due to changes in the markets and the client's own circumstances. This is why I advocate using a more tailored approach, using an individual cashflow model that is regularly updated throughout retirement or at least up to the point of full annuitisation."

Tilney head of retirement planning Andy James says that focusing too much on a SWR can sometimes be a mistake. He believes that having a fall-back position, where retirees can reduce or cease withdrawals for a time, can allow them to take more risk and, in the long term, get higher withdrawals.

"Over the long term, higher equity content in a portfolio will give better returns and therefore allow higher withdrawals," he says.

"The problem is that higher equity levels are likely to cause more volatility and this can be an issue, particularly in the early years of drawdown."

Sequence of returns risk

The threat that volatility poses to a drawdown income has commonly been referred to as sequence of returns, or simply, sequence risk.

Prudential retirement expert Vince Smith-Hughes stressed that the danger is an acute one.

"Even if you average 4 per cent, for example, then if you took a big hit at the front, then what you're doing by taking income is effectively crystallising that loss. So that's making it doubly hard to have a successful drawdown strategy later on. Even if the fund manages to recover."

Prudential has crunched some figures based on a scenario where a fund's value falls by 5, 20 and 15 per cent; and then grows by 5, 20 and 25 per cent, in the six years following retirement. Under such circumstances, the insurer has calculated that a £100,000 pot can be reduced to £64,017, based on an annual £5,000 withdrawal figure.

However, this falls to only £77,007 if the same amount of money is withdrawn but the funds grows in the early years of retirement. The difference equates to over two years of income payments.

Smith-Hughes outlines a number of strategies that can be used to mitigate the impact of pound-cost ravaging. These include using cash or deposit-based funds for income, as well as using a range of different assets and funds, the best performing of which a retiree would then take income from each year.

He also advocates taking the natural income from a portfolio of income producing assets. This strategy, also referred to as natural yield, was recently described by Hargreaves Lansdown as an attractive option for drawdown users who have large enough savings.

The provider has estimated that the return from an average UK equity portfolio could generate £4,180 from a £100,000 pension pot. In contrast, analysis of returns from the FTSE All Share showed that if someone had withdrawn 5 per cent every year from a £100,000 pension pot from 1 January

2000, then they would have less than half of their drawdown fund left.

Natural yield could also result in further gains for retirees who have the stomach for a bit more risk, says Aon Employee Benefits DC proposition leader Debbie Falvey.

"The word withdrawal seems to indicate erosion of capital, whereas people may wish to consider taking the natural yield on the underlying investment as their withdrawal, in which case 3.5-4 per cent natural yield is not an outdated concept. Depending on people's attitude and capacity for risk, this natural yield figure spread could be widened."

Whichever way retirees choose to handle their drawdown arrangements, Smith-Hughes argues that they will need regular reviews with an adviser to stay on top of their finances.

Advice vacuum

Despite commentators' unanimous agreement on the necessity of advice, there are many individuals who still go into drawdown unadvised, says James, leaving them with little or no understanding of options such as natural yield.

ARC Pensions Law partner Anna Copestake shares James' concern.

"Are people – even those who, on the face of it, are financially savvy – really equipped to manage their drawdown pot in order to secure long-term stability?" she asks.

"Are we confident that those members appreciate the need for, and are able to conduct, regular reviews of asset allocations, returns, costs and charges and relevant wider economic circumstances and then the projected impact on their retirement plans? Put bluntly, I'll wager some of these members haven't even heard of the safe withdrawal rate, never mind thought about whether it's the right way to go.

"There is an advice gap that may mean people run out of money years before they expect to."

Plugging this advice gap, however,

Annuities: A premature obituary

Drawdown may have trumped it for now, but the humble annuity still has a vital role to play in the at retirement market.

Annuity rates increased by 4.3 per cent in October, according to Moneyfacts, returning them to their July 2016 level. This may still be way below its pre-pension freedoms heyday, but it represents a mini revival following a tough third quarter in 2017, which saw rates fall by 6.4 per cent.

And with most economists forecasting further interest rate rises, rates could hit a steady upward trajectory, making annuities look a lot better value for money for savers.

This is good news, says ARC Pensions Law partner Anna Copestake.

"The pension freedoms have got people thinking more widely about what their finances in retirement might look like, but for some, the traditional annuity, although not the trendy product now, may still be the best bet," she says.

Annuities will also still play a vital role in later stages of retirement, says Prudential retirement expert Vince Smith-Hughes.

"It would be easy for me to say that annuities will wither on the vine," he says *[Prudential pulled out of the annuity market earlier this year]*.

"But I don't think they will.

"If you start to see interest rates go up, I think it is very possible that many people will switch into annuities later on as they're guaranteed to tap into a regular stream of income."

Intelligent Pensions technical director Fiona Tait does not foresee annuities ever returning to a position where they are the first option at retirement, but she believes that they still have an important role to play in a variety of ways.

"Rather than providing the whole solution at outset, annuities may initially be used as a cost-effective underpin to a drawdown plan, covering basic expenses and allowing greater equity exposure in order to maximise potential returns," she says.

"Hybrid products are also available, which achieve this within a single product wrapper. However they tend to carry higher charges than a standalone annuity alongside drawdown."

could be a slow process. Despite pension freedoms having been in place for over two years now, the FCA only underlined non-advised drawdown as a key concern in the interim *Retirement Outcomes Review* in July this year. And although the Work and Pensions Committee has prioritised the issue, that is no guarantee of any positive action being taken by the government.

The real cost of charges

James says that those who forego advice are in danger of using drawdown under the illusion that they are saving money, whereas in reality they will be losing more of it in the long term.

"You need to consider what you are getting for your money," he says.

"Fees and charges will eat into investments, and are therefore a drag on returns and what you can safely withdraw."

He argues that where someone has no real understanding of what they are getting for their money, then paying for advice is likely to be an investment in itself.

Part of the problem of going it alone, is that the many and various drawdown charge models can make comparisons tricky, says Falvey.

As she points out, it is not uncommon to see three sets of fees applied to a drawdown account: "Fees can span across various services – product charge, investment charge, advisory charge – all of which need to be considered and evaluated before a firm decision can be made on the right course of action. And often it is the headline platform fee that is promoted by providers."

Given drawdown's popularity, Copestake predicts further innovation, which will lead to further complexity in product design and fees.

"We have to be careful what we wish for," she warns.

Drawdown's crown will continue to weigh heavy for some time yet.

Written by Marek Handzel, a freelance journalist

Away from insurance

Drawdown may be booming at present, but question marks exist over how much money at-retirement products will attract in the long term.

The Pensions and Lifetime Savings Association (PLSA) published research in April highlighting that nearly half (47 per cent) of 35-54 year olds (Generation X) in the UK – some 8.3 million people – are planning to use property to help finance their retirement.

Coupled with low auto-enrolment DC contribution rates, this change in attitude could lead to a significant drop in income for drawdown providers.

The findings prompted the PLSA's director of external affairs, Graham Vidler, to call on ministers to provide support to people in understanding how their pension, property and any other savings might top up their state pension to give them a decent income in retirement.

For Generation Y, the Lifetime ISA (LISA), which was partly designed to help 18 to 39 year-olds put down a deposit for their first home, could make property as a retirement tool an even greater pull.

However, many advisers are warning of the dangers of the LISA. Accounting, tax and advisory practice Blick Rothenberg has said that the exit penalties attached to LISAs after April 2018 could lead some savers getting back less than the savings they initially put into the vehicle.

Speaking in April on the eve of LISA's launch, Blick Rothernberg director Suzanne Briggs gave the following example.

"If you put in £4,000 and receive the 25 per cent government bonus, your LISA is worth £5,000. You need the funds for a financial emergency so you withdraw the cash, but after the 25 per cent exit penalty is applied, you only receive £3,750 back. Even if the value of the fund grows steadily at the rate of say 4 per cent, the impact of the exit penalty could mean that you would get back less than the growth in value of the fund.

"Although the LISA is designed to work alongside pensions, those seeking to save for retirement may be better off maximising their pension contributions in the first instance."

Why divorce can be bad for your retirement

When it comes to divorce, pensions have been part of the assets up for grabs for many years, but women in particular do not tend to ask for a share of their ex's pension during proceedings. Natalie Tuck looks at the options of pension sharing, and why, regardless of the outcome, divorce is most-commonly never good for your pension

When it comes to divorce, everything is up for grabs, from the most obvious items such as property, cars, joint savings, to things such as furniture, art and even the family pet.

However, a recent report from Scottish Widows, *Women and Retirement,* found that seven in 10 couples don't consider pensions during divorce proceedings, leaving women short-changed by £5 billion every year.

It appears that divorced women take a bigger hit than their ex-partners, as the report claims that even if pensions are discussed in divorce settlements, 16 per cent of women lost any access to a pension pot when they split, and 10 per cent were left relying completely on the state pension.

The root of this problem seems to be the lack of understanding around the areas of pensions and divorce, especially amongst women. Scottish Widows found that almost half of women (48 per cent) have no idea what happens to pensions when a couple gets divorced. A fifth (22 per cent) presume each partner keeps their own pension and 15 per cent believe they are split 50-50, no matter what the circumstances.

However, there are a number of ways in which pensions can be dealt with, says Ramsdens Solicitors head of family law Helen Thewlis. The first option is offsetting, which means that the pension benefits are offset against the total value of the matrimonial assets. Thewlis says this is often the simplest way to deal with pensions, as it allows the pension holder to retain their full value of their pension fund.

"Secondly, earmarking, which requires the pension holder to make a promise to the Court to pay all or part of their pension fund to their former partner when they retire. Finally, pension sharing, which is an option regularly preferred by parties as it allows the financial settlement to proceed on a 'clean break' basis. Pension sharing involves the non-pension holder receiving a percentage of the pension holders fund so that they can reinvest this into their own pension plan of their own. We also need to be mindful of the new rules that allow pensions to be drawn down earlier than the normal retirement age."

Despite these options, Mills & Reeve head of family law Nigel Shepherd says it is clear that all too often in a divorce pensions are still not being taken into account properly or at all.

"The problem has been made very much worse by the fact that so few people are now entitled to legal aid and are having to negotiate the minefield of financial issues on divorce without even basic legal advice. This is storing up real problems down the line, in particular for women. While some pensions are relatively straightforward, others (for example public-sector schemes) are complex."

However, the tides may be turning, as law firm Collyer Bristow found a 43 per cent increase in divorcing couples seeking to split their pension pots in the last year, with the number of pension sharing orders increasing from 8,027 in 2015/16 to 11,503 in 2016/17. The law firm attributes this to rising value of pension assets, such as equities and property.

This may be good news but divorce, for anyone, is not a positive event for your retirement prospects. Research from Prudential reveals that divorcees planning to retire this year expect annual retirement incomes of up to 16 per cent lower than those who have never divorced.

In addition, those who have been divorced are also more likely to have retirement incomes below the annual minimum income standard for single pensioners set by the Joseph Rowntree Foundation (JRF). Around one in five who have been divorced (21 per cent) expect to have incomes lower than the JRF's benchmark of £186.76 a week, or £9,712 a year, compared with 13 per cent of those who have never been divorced.

Prudential pensions specialist Clare Moffat said the financial impact of divorce can be "devastating", both in the short and longer term. "Deciding on living costs and childcare at the point of divorce is difficult enough, but a pension fund is likely to be one of the most complicated assets a couple will have to split in the event of a divorce."

Written by Natalie Tuck

Summary
• Longevity improvements are beginning to slow, although many argue that this is temporary.
• DB schemes are likely to benefit from improved funding, so should consider escalating de-risking strategies.
• It is also likely that better pricing from insurance firms will occur.
• This extends to the DC market where individual annuities may become better value for money.

The (pensions) problem with old age

Longevity is increasing more slowly than expected. It's bad news for humans – but for now pensions schemes can breathe a collective sigh of relief

For decades longevity rose exponentially, leading philosophers, geneticists and beleaguered pensions scheme managers and trustees to ask – 'are we on the cusp of living forever?'

But since 2011, longevity increase estimates have slowed. We're all living longer, but that's happening less rapidly than we previously thought. And while it's still possible that our great grandchildren will being living into their 1000s it's far less likely that we will be.

Why? Experts are divided. Some put it down to a less effective flu jab, or ineffective social care policies, while others blame everything from austerity and an over-stretched NHS to the fact that improvements in cardiology have slowed down.

Whether the cause is social policy or medical practice, one thing is certain – mortality assumptions are changing the way pension schemes think about longevity.

Scottish Widows' head of demographic assumptions, Stuart McDonald, explains: "Since 2011 the UK has experienced a dramatic slowdown in longevity improvements. This is now reflected in the models used by insurers and pension schemes in their assessments of life expectancy."

Why do schemes care?

For DB schemes – facing down the barrel of huge deficits – people living longer makes it much harder to plug the gap. The collective DB scheme deficit currently stands at £460 billion, and every year longer that someone lives, the worse the problem gets.

By contrast – an unexpected slowing down of longevity increases could improve funding levels for DB schemes. Indeed, many schemes are already seeing the benefit with a gain of around 4 per cent, according to JLT Employee Benefits head of buyout Harry Harper.

So it's good news for funding. And it turns out that plan sponsors are likely to be happy too.

EY global longevity lead Gordon Wood explains: "The slowdown in mortality improvements could see sponsors using this as an opportunity to reduce their deficit-reduction contributions, while leaving the glidepath to full funding the same as their current trajectory."

However, a word of caution for schemes, as not all groups of people are facing the same longevity trends. Research carried out by the Pensions and Lifetime Savings Association alongside Club Vita found that, between 2011 and 2015, affluent men continued to see strong rises in longevity, equivalent to 17 weeks of extra life expectancy. The report pointed out that often half (or more) of a pension scheme's liabilities will be in this 'comfortable' group. So it is crucial that schemes examine their membership carefully before making any drastic changes. And that any reductions in sponsor contributions are examined in this context.

Another area of concern is that it is not yet clear that this slowdown in longevity increases will be permanent. Prudential Financial's head of longevity reinsurance, Amy Kessler, argues that an increase in the pace of longevity improvements is just around the corner.

She says: "While no class of disease is currently making material progress, there are a number of medical advances in the works that are likely to cause longevity improvements to pick up again and exceed the current 1 per cent improvement rate. Examples of these advances could be genetic treatments of cancer and other diseases, lab-grown organs, the artificial pancreas and a proper flu vaccine that you get once with much greater effectiveness than the annual flu shot. When these medical advances come through, there will likely be an increase in improvements once again."

This uncertainty about long-term mortality rates means schemes are unlikely to be able to adjust their investment strategies. But a huge decrease in longevity might change funding so dramatically that schemes were able to think about changing approach. For instance, some schemes might see it as an opportunity to be more bold in their equity investments – although one would most have learnt lessons on this from past experience.

A more likely outcome is that the pace of de-risking could pick up quite rapidly. As schemes find they reach full funding faster than expected, they can remove risk from the table more quickly too. While the slowdown in longevity estimates may be temporary, schemes close to full funding may find they get the bump they need to de-risk.

Cheaper de-risking for schemes

An increased appetite for de-risking spells good news for insurers, and longevity swaps, buy-ins and buyouts are going from strength to strength. And in return schemes are likely to be benefit from better pricing.

Legal and General head of origination, pension risk transfer, John Towner says: "It is important to recognise that insurer and reinsurer pricing is taking account of the recent slowdown in longevity improvements already and that pension schemes are continuing to look at ways they can transfer their longevity risk. Trustees and sponsoring companies recognise that they will continue to own this risk unless they do something about it. For this reason, demand for longevity protection remains strong and the market has seen almost £6 billion in longevity insurance transacted year-to-date."

Lower pricing might seem like bad news for the insurers themselves, but McDonald points out that any reduction in absolute pricing will be mirrored by a reduction in the liabilities that prices are benchmarked against.

There is a possibility that schemes could adopt a 'wait and see' approach to try and get better pricing on longevity swaps, Harper suggests. He says: "Will pension schemes still buy longevity only protection? This is more of a tricky question. For well-paid members, the mortality risk is genuinely two-sided as their longevity is still improving, but for the rank and file perhaps it is worth waiting another year to see if cheaper longevity pricing arrives next year."

However, this approach is risky, as no one knows for sure when longevity increase rates will pick up again. Trustees who wait too long may find they have missed the boat on attractive pricing.

Indeed, Kessler is expecting schemes to pounce on the opportunity to get better de-risking deals – including in the longevity-only space. She says: "Since pension schemes may be lowering their longevity improvement expectations, they will have a slightly improved funded status… Any kind of de-risking plan, whether it is moving assets into fixed income; adding a longevity hedge; executing a series of buy-ins; or going all the way to a buyout and full plan wind up – all of that becomes more affordable now."

Good news for the DC annuity market

In the DC world longevity is slightly more nuanced. There are social concerns about people running out of money, especially since freedom and choice, but for scheme managers themselves, how long people live is largely irrelevant. If mortality slowed down substantially – we could rethink how much people need to save in an ideal world. But the adjustments at present are minor, and provide scant comfort to everyone who knows that people aren't saving enough.

One upside, however, for the DC market is the possibility that annuity rates might get better, leading to an uptick in sales.

McDonald comments: "In theory a slowdown in longevity improvements improves perception of individual annuity pricing (consumers get a higher annuity amount for a given lump sum). In practice though the impact is small relative to interest rate movements. The combination of interest rate rises and falling longevity should lead to better annuity rates offered to individuals."

And improvements may not happen yet, as individual annuity providers are being cautious on mortality anyway, according to Wood. He says: "The particular subset of the population that is employed or is wealthy enough to have a pension or life insurance generally exhibit greater longevity improvements than the population overall. With this in mind, many firms are awaiting more data and analysis before updating their assumptions.

"As many insurers are not yet reflecting the full extent of the lower population life expectancies in their reserves or pricing, *[annuity]* customers are unlikely to significantly benefit until more data or analysis is produced."

Written by Sara Benwell, a freelance journalist

Summary

- Disputes over death benefit awards have increased, due often to it being unclear who the beneficiary should be.
- Completed expression of wish forms can actually compound the problem if they are not kept up to date to reflect scheme members' changed circumstances.
- Two landmark Supreme Court rulings this year have strengthened the rights of unmarried and same-sex partners.
- The Pensions Ombudsman acts as the arbiter of last resort for unresolved disputes.

Benefit of the doubt

Modern life presents challenges for pension scheme trustees deciding who receives the death benefit. The expression of wish form can help, but too often it doesn't reflect members' changing personal circumstances, reports Graham Buck

The nuclear family hasn't yet been consigned to history. However, in an age of civil partnerships, same-sex marriages and co-habiting couples who opt against exchanging wedding vows, it's just one of several options. The change has been underlined this year by two landmark legal rulings in the cases of *Brewster v Northern Ireland Local Government Officers' Superannuation Committee* and *Walker v Innospec*.

In February, Denise Brewster, a lifeguard from Coleraine, won a six-year legal battle to gain access to her long-term partner's pension. She had shared a home with local government employee Lenny McMullan for 10 years and the couple got engaged just two days before his sudden death from a haemorrhage.

However, on the basis that her partner hadn't signed a nomination form (aka expression of wish form) confirming her as dependant – a requirement not imposed on married members or those in civil partnerships – she was denied a pension, until the Supreme Court upheld her appeal and agreed that she had been unfairly discriminated against because of her marital status.

In July, the same court also upheld an appeal by ex-cavalry officer John Walker and ruled that his husband would be entitled on his death to a spouse's pension. The decision overruled an exemption in the Equality Act that permitted employers to exclude same-sex partners from spousal benefits paid into a pension fund prior to civil partnerships becoming legal in December 2005.

Until now, it has not been unusual for the surviving partner of a same sex relationship to find that he/she isn't eligible for the same benefits that would apply for partners in an opposite sex relationship.

These decisions aren't the only developments that pension scheme trustees must take into account. Mutual insurer Royal London recently highlighted data issued by the Office for National Statistics that revealed a growing number of 'silver splicers' and 'silver splitters' – terms for people getting married or divorcing later in life – and said there was a growing risk that it could result in an individual's pension benefits going to the wrong person.

The insurer noted that expression of wish forms allow scheme members to nominate their chosen beneficiary on their death, both covering the payment of an ongoing pension to the surviving widow or widower and/or the payment of lump-sum benefits.

Problems arise for scheme trustees where a member either hasn't completed the form or has failed to update it. Consequently, if their marital status has since changed it may result in an ex-spouse receiving the benefits at the expense of a current spouse or partner, as well as children and stepchildren of a new relationship not being provided for.

Complex lives

"People's lives definitely are getting more complicated," says Royal London's personal finance specialist, Helen Morrissey. "More of us are cohabitating, which was a central issue in the Brewster case.

"People who are unmarried, but in a long-term partnership, have often assumed that it gives them automatic eligibility to the same benefits as married couples. They've received a shock when this turns out to be an incorrect assumption."

Sackers associate director Tom Jackman adds that there is also the potential for problems when a person's personal circumstances change subsequent to he/she completing an expression of wish form.

"Pension schemes have proved popular as they're a relatively tax-efficient form of employee remuneration and death benefits are no exception," he says.

"Where the benefit is payable to a spouse or dependant the beneficiary may be specified out in the scheme rules. However, in many cases the scheme trustees have discretion as to the recipient of the benefit. This is especially common with lump-sum benefits, where the discretionary structure has advantages relating to inheritance tax."

While trustees have a duty to take

Where the decision is less than clear-cut, various factors will be taken into consideration. In some cases, the trustees will talk to the deceased scheme member's line manager who may be able provide insights – for example, such as whether he/she maintained an amicable relationship with an ex-partner following their divorce.

"Wherever possible, when there is an element of doubt on who the beneficiary is, the trustees should attempt to talk to a number of people," adds Morrissey.

Jackman comments that the challenge is added to by the fact that today's worker rarely stays with the same employer for life. "The workforce has become much more mobile and a worker's rights are typically deferred – they may have left the company scheme years before, or worked overseas for a spell – so there are problems in getting up-to-date personal information.

"There are also situations, such as a family feud or a messy marital break-up, which are very challenging for the trustees to deal with. Some real-life situations equal anything in an *EastEnders* plot and it's hard for them to decide what the best course of action is in the circumstances. Whatever their decision, at least one of the affected parties won't be happy."

account of a member's wishes, they are not necessarily required to carry them out if they believe there is another, more appropriate option, or if the scheme rules prevent those wishes from being carried out.

"For most UK schemes, while the trustees will comply with the expression of wish form as far as possible they're not bound by it as the benefit is paid free of inheritance tax," says Allen & Overy a partner and senior associate Jane Higgins. "So they will take into account whether the member's circumstances have subsequently changed, or whether other potential beneficiaries emerge."

Prudential's technical team head, Les Cameron, notes that where a scheme member has divorced since completing their expression of wish form it often won't be clear if the divorce was amicable and if they wish their ex-partner to continue as a beneficiary or want them cut out.

"So it's important that you regularly check your distribution arrangements and ensure that they still reflect your wishes," he recommends. "The scheme that I belong to issues a yearly reminder so there is an opportunity to update it."

A final resort

Higgins says that scheme trustees have a duty to identify and locate other potential beneficiaries if there are rival claims and where possible to complete their investigation within two years of the death occurring as the tax treatment subsequently changes.

"So they will attempt to complete the investigation and take their decision reasonably quickly," she adds. "However, while this can subsequently be changed where new circumstances subsequently come to light, any resulting redistribution may not be easy – particularly if the money has already been paid out."

For bigger schemes, which will be dealing with claims on a daily basis, it's common for the trustees to look for guidance. "The final decision may be delegated to a sub-group of trustees or a delegated local committee who may have specific knowledge of the individual concerned," says Jackman.

Any disputes arising from the payment must initially go before the trustees, who will consider it via a two-stage complaints procedure. Only if and when that process has been exhausted will the matter then be passed to the Pensions Ombudsman.

"Cases tend to be referred to the ombudsman only as a last resort," confirms Jackman. "With discretionary benefits, it's hard to challenge the trustees' decision, provided it can be shown to have gone through a robust process.

"The ombudsman may intervene only if and when he feels that process has been inadequate in some respect – although appealing to the ombudsman is a relatively easy process and one that can be done online."

Indeed, the ombudsman reports the total number of complaints (closed/determined) received over the past three years relating to death benefits is 87 – or just 4 per cent of its total volume of complaints, with 40 cases in 2014-15, 22 in 2015-16 and 25 in the latest year.

Lastly, Allen & Overy notes that while schemes offer helpful written summaries of their rules, these may not always be completely accurate. "When considering a death benefit claim, it is important to look at the actual trust deed or rules and check the wording carefully: there may be nuances or qualifications which are not reflected in the booklet or document."

Written by Graham Buck, a freelance journalist

Looking back

Pensions Age asks: What is the most significant event to happen to the UK pensions sector during 2017?

"The most significant development in 2017 has been the revitalisation of The Pensions Regulator as an active force with greater frequency and intensity of its regulatory interventions. It received heavy criticism following the failure of BHS and restructuring of Tata Steel, and since then, it has abandoned its softer educational approach in favour of tougher, and faster, enforcement action, becoming more responsive to meet the more pressing demands of corporate activity."

Lincoln Pensions managing director Matt Harrison

"There have been many legislative changes significantly impacting individuals this year (eg the 60 per cent cut to the Money Purchase Annual Allowance), but I think the most significant event for UK pensions as a whole was the publication on 20 February of the Green Paper on security and sustainability of DB pension schemes. At last these fundamental issues were on the table for open discussion."

Aries Insight director Ian Neale

"2017 has seen many changes for the UK pensions landscape, but potentially the most collaborative and impactful has been the pensions dashboard prototype. An effective dashboard is crucial for the future of the industry and there have been many promises of what that will look like. A dashboard that can act as a personalised savings instrument would also help address the savings crisis currently blighting the industry. If we can create a dashboard that allows pension account holders to fully engage with both their savings and their financial futures, this could transform the health of savers and of the industry as a whole. There is still a long and rocky road ahead in terms of success but the work the industry has done as a collective has shown a real interest in making this project work."

Bravura Solutions retirement expert Natanje Holt

"The Supreme Court's judgment on *Walker v Innospec Limited*, which finally forced occupational pension schemes to provide civil partners and same-sex spouses with the same survivors' benefits as opposite-sex married couples. A long overdue ruling to finally bring equality to the pensions sector. Relying on the 2010 Equality Act, which allowed service before 5 December 2005 to be disregarded from equal treatment, was always near sighted, discriminatory and unjustifiable. Finally, we're one step closer to a fairer system for all."

Trafalgar House client director Daniel Taylor

"The Pensions Regulator launched the 21 century trusteeship initiative in 2017, which has the potential to be of significance. Whether it becomes so remains to be seen."

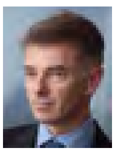
David Weeks, co-founder, the Association of Member Nominated Trustees (AMNT)

"Two legal cases highlighted some of the archaic and ultimately discriminatory features found in pension schemes that were established in a different era. The first was the case brought by Denise Brewster – where the Supreme Court decided in favour of the rights of an unmarried woman to her late partner's pension. The second case was *Walker v Innospec*, where the Supreme Court ruling means that occupational pension schemes must now provide civil partners and same-sex spouses with the same survivors' benefits as opposite-sex married couples. Both cases represent victories for equal treatment before the law for unmarried couples."

Quantum Advisory partner Karen Kendall

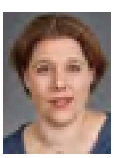
"The absence of new regulation this year allowed pension freedom and choice legislation to really flourish and one of the biggest trends of the year was undoubtedly the surge in DB pension scheme members transferring to a DC pot. It was in 2017 that the penny really dropped that DB to DC transfers make pension freedoms a reality for those retiring today and we fully expect to see this trend continue into next year."

Willis Towers Watson head of retirement, Great Britain, Peter Rowles



"Perhaps the most significant surprise to happen in pensions in 2017 was what didn't happen: for the first time in a while, there were no big changes. The economy trundled along, without any major shocks. Interest rates rose slightly, as predicted. The pressure of constant regulatory change remained, but without any fundamental new shifts. The general election left a number of uncertainties, but meant the Chancellor had no room to spring another pensions surprise in the Budget. The shape of Brexit remains uncertain. To paraphrase Sherlock Holmes, the most curious incidents of 2017 were the dogs that didn't bark."

EY UK life and pensions leader James Tufts



"The biggest challenge facing schemes in 2017 has been getting to grips with the new data protection requirements that will be introduced by the General Data Protection Regulation. Schemes are reliant on personal data and GDPR raises the bar in ways that affect all schemes."

Sackers partner Helen Baker

"On the investment side of the UK pensions sector, clearly the most significant event was the FCA's referral of investment consultancy and fiduciary management services to the Competition and Markets Authority (CMA). This investigation is now in progress and the sheer volume of data the CMA must gather and assess make it likely this will take some time to conclude. Depending on the outcome, it may make the list for significant events in 2018 too."

P-Solve director Matthew Simms

"Tata Steel UK confirmed that it will close the British Steel pension scheme (BSPS) to future accrual from 31 March 2017, replacing it with a DC scheme. BSPS members were given the alternative of transferring their accrued DB rights to a new scheme, which would pay lower benefits, or to accept PPF compensation. Tata Steel's threat of insolvency, in 2016, sparked a reappraisal of DB schemes' security. The Green Paper consultation, which closed in May, asked difficult questions about the sanctity of accrued rights and the extent to which employers should be allowed to walk away from scheme liabilities, potentially upsetting a status quo that had formed over the previous 20 years."

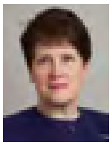
Mercer partner Deborah Cooper

"Until recently, regulation of the *[master trust]* sector had not kept pace with its growth, which is why the Pension Schemes Act 2017 was a fundamental step forward in 2017. The industry had been calling for regulatory measures to authorise and supervise master trusts for some time, and this year the government delivered."

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

"Last year, the FCA issued a damning indictment of the pensions industry. Citing conflicts of interest, a weak trusteeship overly dependent on advisers, as well as questionable value for money from service providers, the FCA said it had serious competition concerns about the industry. So great were those concerns, in September 2017 it referred the investment consulting industry to the Competition and Mergers Authority (CMA) for a full review. And so, unexpectedly, that part of the pensions ecosystem suddenly finds itself under intense official scrutiny, and the outcome could involve a radical upgrade to its operating system. The CMA review will decide if there are features that 'prevent, restrict or distort competition' and, if so, whether that is due to the power and influence exerted by incumbent firms, and/or whether there are conflicting interests that need to be addressed. It's impossible to predict where the CMA's conclusions will lead, but, for the pensions industry, given the range of potential outcomes, the launching of this systemic review has to be the single most significant event of 2017."

Redington co-founder Dawid Konotey-Ahulu



PASA chair Margaret Snowdon, OBE

What is your pensions career CV?
My CV is too long to list, starting as a retirement counsellor in 1978, moving to running administration, managing pensions technical and policy and then to management consulting, and I was one of the first professional trustees before the role was formed in its current state. For the past two years I have a portfolio of non-exec roles with The Pensions Regulator, Phoenix and Xafinity plc.

What is your greatest work achievement so far?
I think leading on both the Pension Liberation Industry Group and the Incentive Exercises Monitoring Board because the codes produced have protected countless people from loss. I am also very proud to have been the volunteer chair to take the challenging steps to change TPAS to enable it to become the organisation it is today. My OBE is icing on the cake!

What do you still wish to achieve?
We're not efficient enough in the pensions industry – we need to embrace technology. I would like to see a fully functional and secure pensions dashboard, to improve individual financial wellbeing and frictionless data-sharing. We could transform this industry.

What is your biggest regret within your career?
I have twice managed to avoid becoming rich by choosing the other job option!

Excluding your current role, what would be your dream pension job?
Leading a new pensions commission. Dream on, eh?

Fun and games

Wordsearch

O	U	P	U	P	B	R	R	O	U	B	F	C	G
S	Q	S	T	Q	P	I	I	Z	G	T	L	F	U
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I know that face...

Answer at bottom of page

I know that face... Answer: Work and Pensions Committee chair MP Frank Field

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