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## DB Forum: 2020 vision?

▶ **With updated trusteeship measures, an upcoming DB funding code and a seemingly ever-growing bulk annuity market, the Pensions Age DB Forum, held in association with Mercer, looks at what's next for DB scheme trustees and their sponsors**

Looking ahead at the challenges and changes that could face the DB market over the next 20 years, the Pensions Age DB Forum, held in association with Mercer, highlighted that 2020 vision means much more than being long-sighted.

Kicking off the conference, chairman for the day and Mercer partner and head of trustee segment, Christian Hardy, ran us through the key themes lying ahead in the DB space. But with The Pensions Regulator's response to its consultation on trusteeship measures published just two days prior, it seemed fitting to dive straight into keynote speaker for the day,

TPR lead investment consultant, Fred Berry.

Berry outlined the key points from the consultation response, providing further details on both trustee skills and diversity, including plans for an updated and consolidated code of guidance for trustees and the initial products and campaigns to be led by the still to-be-formed diversity working group.

"We are very firmly of the belief," Berry stated, "backed by evidence, that the more diverse a decision-making body is, the more inclusive it is of different backgrounds – leads to better decision making, and better decision making leads

to better outcomes for savers...better outcomes for savers is the endgame for all this".

Berry then moved on to clarify the regulator's position and work around climate change, emphasising that this should be viewed as both an area for risk management, but also an opportunity. Moving on to his final topic, he also revisited the DB funding code, expected to be published in March of this year, and confirmed plans for a consultation on the principles of the code, with a view for the code to be enforced by the end of 2021.

Next up was a closer look at the broader economy and fluctuations that DB funding levels are so dependent on. Mercer partner and portfolio manager, Rupert Watson, set the scene with an overview of the current outlook, highlighting an optimistic start to the year as business confidence increases, now that the UK has entered the next phase of the Brexit transition.

"We don't think growth this year will be strong," he emphasised, "but it will be reasonable". Also highlighting that DB schemes' time horizons are measured in

decades, not years, Watson predicted a number of areas that could drive change in the future, including climate issues and the role of technology.

Meanwhile, Mercer partner and CIO investment advisory, Wayne Fitzgibbon, took a closer look at what this means for pension scheme trustees, and how they can manage market risks. Emphasising the need to “seek predictability” in the face of this uncertainty, Fitzgibbon urged trustees to consider assets such as corporate and private debt. He also highlighted the propensity for optimism in market projections and stressed that there is always an end to phases of growth. Reaching on Japanese architecture to illustrate his point, he urged trustees to consider a “skyscraper model” of liability hedging, where a portfolio can ‘sway’ in the face of market fluctuations. The bottom line for Fitzgibbon is that 100 per cent hedging anything is never the right answer.

Whilst Watson emphasised the impact of DB schemes’ time horizons on their approach to investment strategy, Mercer partner, Le Roy van Zyl, emphasised the role this can play on your de-risking journey, and the relationship with the sponsor.

“Trustees frequently face sponsors who are just so busy with their day jobs...three to four years is a long time for a sponsor to work for, so for a trustee to come and really get attention from a sponsor for something that is five, seven or 10-plus years out is really difficult, but you have to do it, you have to persevere. Engagement with the sponsor is crucial,” he emphasised.

Highlighting the importance of the scheme covenant on endgame strategies, he stressed that ‘covenant is king’, and stated that a sponsor who is slightly less strong financially, but is really engaged in terms of risks, is in fact probably the stronger covenant to have.

Issues around climate may well be a driver for future market fluctuations

as Watson highlighted, but as panel chair, Mercer partner and director of consulting, Brian Henderson stated, its impact is already being felt by pension trustees.

Mercer senior investment consultant, Kate Brett, began by exploring the rise of ethical investing on trustee agendas and the growing influence of regulation and policy. She clarified that leaders in this field have actually been looking at responsible investment for around two decades, stating however that the launch of the sustainable development codes, and of course the Paris agreement, had made 2015 a tipping point for ESG integration.

“These two pieces of global policy guidance really have driven local government policy,” she explained, “as local governments seek to implement commitments made at a national level, and in turn, we are seeing the legislation across pension and other industries reflect the commitments made at a national level.”

But with the tabled Pension Schemes Bill amendments that looked to bring forward the commitment in the green finance bill made in 2019 ‘hot off the press’ that morning, it was time to consider where future legislation could take the industry.

“One of the things that we don’t want to see happening is the enthusiasm being shaped into policy proposals that maybe aren’t as well formed as they otherwise could be, where policy intent doesn’t actually align with what comes out of the drafting,” PLSA policy lead: investment and stewardship, Caroline Escott, commented.

She clarified that whilst the efforts to introduce disclosure standardisation were welcomed, it was important that the enthusiasm for responsible investing not lead to ‘over-reaching’ clauses or legislation.

Meanwhile, Environment Agency policy governance and risk manager,

Marion Maloney, highlighted the individual side of responsible investment, stating that whilst there is a massive gap in communications and understanding, there is also growing member engagement. She gave the example that whilst the day-to-day is always linked to climate change for Environment Agency employees, this message hadn’t been carried through to scheme communications, and outlined a recent review of the schemes’ communications undertaken to address this.

However, BESTrustees trustee executive, Andrew Cole, stressed that despite increasing attention, he had received no member requests as to where the pension was invested, and emphasised that it is not only member views to consider.

“If your sponsor is in coal, or petroleum say,” Cole explained, “they’re going to have a very different view as a sponsor than if you come from the environmental agency. So it’s very challenging for all trustees, and what we have to recognise is the world is changing and we need to be part of that, we can’t be laggards. We need to know what is in our funds and we need to ask the right questions, but it’s also quite challenging to get the asset management industry that is responsible for those assets, to make changes”.

After a quick coffee break, it was time to look ahead, as Mercer partner, Leah



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Evans, took a closer look at the broader impact consolidation could have on the market.

Whilst 2018 was already a record-breaking year, she highlighted that 2019 almost doubled this figure, while 2020 had also already seen over £2 billion in bulk annuities, with a further £10 billion in longevity swaps. However, Evans clarified that whilst it's easy to get carried away by headlines, it's important not to focus on just the big cases, with around three-quarters of the market having assets less than £100 million. Although small schemes may have concerns about being crowded out of the market, she added that this is absolutely not the case, but it is important to consider the right fit and approach for your scheme size.

So how do schemes choose the best approach, especially when there is a difference of opinion between the trustees and sponsor?

"The world is a very different place than it was a few years ago," Legal & General head of client solutions, Frankie Borrell, explained, "so first and foremost, trustees should see endgame planning as much about the journey as the endgame destination. The reality of that means working with the sponsor as early as possible, to identify what your joint

objectives are for the pension scheme and understanding what risks you have on the pension scheme balance sheet."

Clara-Pensions senior actuary, Ashu Bhargava, agreed, emphasising the importance of taking a step back to focus on what trustees and sponsors would like to address, and feeding these objectives into their endgame planning.

Borrell also added that seeking support from a professional and experienced adviser can be a source of support for both the sponsor and trustees. Echoing this, Mercer principal, Tim Banks, highlighted fiduciary management as the first step on the consolidation journey. He added that this is very much a service, and not a product, following market evolution. Banks added that using such a service can see "huge scale benefits" to support trustees along their endgame journey.

Ending the day, Mercer Marsh Benefits (MMB) client director, Tíre Houghton, argued that current attitudes to personalisation in DB pension communications were too dependent on broad, and often

inaccurate, assumptions.

"It's time to start thinking a bit differently... to not look at just that data, but at people," she emphasised. Citing recent research undertaken by MMB, Houghton stated that it was not broader demographics that influenced propensity to save, but personality types. She clarified that messaging based only on factors such as gender, can not only be less engaging or helpful, but could even increase member stress or concerns.

Mercer UK Wealth proposition leader, Paul Goodwin, highlighted how more in-depth personalisation such as this had also been approached in the DC space. He explained the importance of pulling all the data together to tell a "rich story" as part of a broader financial wellbeing message, in order to bring pensions and the day-to-day together. But what does all this mean for the DB market?

"I'm not sure it's entirely different on DB," Goodwin clarified, "I think you've got different data challenges, and a different demographic, but I'm not sure the challenges are a great deal different if we're honest."

With plenty of food for thought, and after seven speakers, and two panel sessions, it was time for some well-deserved lunch for attendees, who walked away from the conference with a clearer lens to consider the future of DB in 2020, and beyond.

▶ **Written by Sophie Smith**

