Small pot, big dreams

Regardless of saving for decades of our working lives, some still reach pensionable age with an underwhelming pension pot. What should those in this position do and what assistance do they need to make sustainable pension decisions?

Regardless of saving for decades of our working lives, some still reach pensionable age with an underwhelming pension pot, unable to enjoy the utopian retirement they once envisioned.

As reported by Aegon last year, the size of the average pension pot in the UK is almost £50,000, at £49,998. While this may seem like a sizeable sum at first, when compared to average annual earnings (£28,000 in the UK), this is not necessarily adequate for a retirement spanning over 10 years.

In order to get one's finances in order, therefore, steps must be taken by the individual to ensure their pension can be sustained.

When approaching and once at-retirement, it has become increasingly important for scheme members to communicate with their providers to gain a better understanding of their options.

Royal London director of policy Steve Webb notes that with small defined benefit entitlements he suspects "a lot depends on how the scheme communicates with the member, both at retirement and indeed at an earlier stage, once they become deferred members".

Nonetheless, Webb states that: "If they *[schemes]* actively encourage people with small entitlements to 'trivially commute' then I suspect a lot of people would take a few thousand pounds rather than a few pounds a week in pension.

"But if the default position is simply that the pension gets put into payment unless you take the trouble to find out your options, then in those cases there are undoubtedly some small pensions being paid – some are so small they are paid as an annual lump sum."

On the defined contribution side, the introduction of auto-enrolment, although encouraging people to save, has also meant that on reaching retirement, many people would have accumulated a number of small pension pots.

"If savers have a number of small pots rather than a single large one, they may miss out on lower charges, and they are also likely to find it harder to plan their retirement income," Pensions and Lifetime Savings Association deputy director of DC, lifetime savings and research Nigel Peaple warns.

"There is also a risk that they may lose track of some of their pots."

PensionBee VP marketing Jasper Martens confirms that most questions his firm receive are regarding finding and combining small pensions into one pot.

However, the industry has failed to fully engage with these consumers, meaning that many savers have lost their old pots, he says.

"Many customers simply don't know how much they have saved, what they are paying in fees, and how their pension is performing… We also receive a lot of questions about which pension scheme belongs to which employer, indicating that many pension providers are losing track of their members."

As a result of these issues, therefore, it is hoped that initiatives like the pensions dashboard will assist with enabling savers to gain a full picture of how much they have saved.

"One helpful initiative to deal with these issues is the pensions dashboard. This project, which is now lead by the DWP, aims to help savers stay in touch with their various pension pots and enable them to easily keep track of their overall pension savings," Peaple adds.

However, simply being aware of how much is in a pension pot is not always enough, as those with smaller pots are likely to require additional advice.

With increasing financial advice costs, it has been recommended that those with smaller pots are better off making use of the extensive guidance that can be acquired from the Money Advice Service, the Pensions Advisory Service, Pension Wise and wealth management firms.

Written by Talya Misiri

Little issues

As the pension landscape shifts from DB to DC, Talya Misiri considers the challenges facing small defined benefit schemes

DB pension schemes can be viewed by an employer as a burden to be managed and an ongoing chore in the way of a firm's finances. Xafinity Punter Southall senior actuary Chris Fletcher notes that: "There is often minimal appetite to spend and resource, both expense and management time, and in appreciating the risks, never mind mitigating them."

This holds even more truth when it comes to small defined benefit schemes where scheme management becomes an even greater task. The Pensions Regulator's 21st century trusteeship project highlights that it is "concerned about the long tail of small DB schemes, which our research suggests are substandard". As a result, it is evident that tools, governance, investments and scheme transfers are among the issues that these schemes are faced with.

Although facing the same challenges as larger schemes, having the resources to tackle these issues is one area where small schemes do not always measure up.

Both Newton Investment Management chief commercial officer Julian Lyne and PLSA head of governance and investment Joe Dabrowski share the opinion that one of the key problems facing small schemes is that, due to their size, they can be under-resourced. Dabrowski notes that as "they are less well-resourced than larger schemes and in order to meet their various administrative and regulatory

obligations, members often shoulder greater costs".

According to the PLSA's *Annual Survey* published in December 2017, the overall cost for smaller schemes was £868 per member, compared to £479 per member for larger schemes. As a result of their financial limitations, AMNT co-chair David Weeks points out that the ability to attract and pay for a full range of advisers may be limited for small schemes.

With the introduction of GDPR fast approaching, smaller schemes will also be under pressure to select a provider who understands the challenges that face them and to assist with day-to-day challenges, Fletcher notes.

When it comes to scheme governance, these smaller funds are also at a disadvantage. Lyne adds: "Smaller schemes will be less likely to have dedicated pensions teams, and their trustees are more likely to be more directly focused on day-to-day management of the firm and less likely to be supplemented by independent trustees."

Dabrowski agrees that by having fewer resources, trustees of small schemes are "under more pressure and have to work harder to ensure that they reach the high quality of scheme governance necessary".

This is supported by findings from The Pensions Regulator from September last year, which showed that 96 per cent of trustees from trust-based DB schemes believed their board had sufficient time and resources to properly run their scheme. However, the results showed there to be poorer governance standards in smaller schemes.

Adding to these, scheme size can also struggle to secure strong investments. Scheme trustees can "find it harder to access certain aspects of the market such as buyout offerings and investment management services as they may not meet providers' criteria or find themselves priced out of the market".

However, Gatemore managing director Mark Hodgson disagrees: "The investment universe is much greater *[for small schemes]* as they can themselves invest in smaller, better performing funds."

Moreover, scheme transfers are becoming a considerable issue for smaller schemes. Royal London director of policy Steve Webb says: "One relatively new challenge for smaller schemes is dealing with DB to DC transfers. Whilst larger schemes will have larger volumes, they are more likely to have third-party administrators handling things for them. Smaller schemes are likely to be doing things in-house, and until recently may rarely have had to deal with requests for transfer values.

"Trustees face a difficult balancing act in a small scheme trying to be fair to the transferring out member and also to those left behind, especially if the scheme is under-funded. They may also not be well resourced to deal with the very detailed follow-up questions that an IFA would need answered in order to advise the member on whether or not to transfer."

Weeks adds: "A few big requests to transfer out of small DB pension schemes can have a significant impact on overall funding levels."

Ultimately, Walker concludes: "While the industry is currently talking about the larger schemes, now might be a good time for trustees of small schemes to evaluate their training needs and to review and update internal policies and procedures before the focus shifts."

Written by Talya Misiri

The single route

Sole trusteeship has now become a common feature among a growing number of smaller UK pension schemes. Talya Misiri considers why this is a preferred choice among some schemes, the benefits and also its limitations

Sole trusteeship has now become a common feature among a growing number of smaller UK pension schemes. Schemes looking to declutter their management structure and overall processes are likely to find this type of trusteeship as considerably advantageous.

As BESTrustees director Zahir Fazal notes: "Sole trusteeship is becoming more attractive as an alternative governance structure," with more schemes realising that a room filled with trustees isn't necessarily required to do the job.

Instead, sole trusteeship can be implemented by the management of the scheme being handed over to either one individual trustee or one professional independent trustee company, who may have a number of people working within its company to run the scheme.

With streamlining being a key characteristic of the modern world, it is evident that this also applies to pension scheme trusteeship. Both Capital Cranfield head of sole trusteeship Harus Rai and Law Debenture Corporation director Vicky Paramour share the opinion that the appointment of a sole trustee can effectively streamline the management of a pension scheme.

Considering reasons why smaller schemes switch from a traditional trustee board model to a sole trustee, Paramour cites that one reason tends to be: "A desire to free up management time, particularly when a scheme has ceased to be a benefit to current staff and becomes a resource drain."

Furthermore, it is a shared view that sole trustees can speed up decision-making processes and tends to build a closer relationship with the scheme sponsor and management.

"Being able to speed up and streamline the decision-making process is often a factor as is the desire of the sponsor to have a 'business-to-business' relationship with the trustee and to have trustees who understand the pension's impacts on corporate activity," Fazal says.

Communication between the trustee and employer can also be improved via sole trusteeship, PSIT scheme manager and Kevin Kenneally states. "Sole trusteeship allows for effective use of time and resource (can be a cost effective and flexible option); no need for additional sub-committees, more direct lines of communication with the employer to foster a collegiate approach (and better information sharing without fear of information being spread around the workforce)," he adds.

"*[With professional sole trustees]* the ever-changing legislative burden is better managed and decisions are more effective; knowing the right questions to ask – distinguishing between relevant and irrelevant factors."

Also, having a sole trustee removes the scheme's responsibility of appointing different types of trustee. Rai explains that sole trustees "remove the need and difficulty of finding member- and employer-nominated trustees". In addition, they also "remove any potential conflict issues that a lay trustee might have if employed by the sponsor".

Paramour supports the fact that the difficulty experienced in filling trustee posts can be a key reason for moving away from the traditional trustee board model.

However, while acknowledging the growing trend in sole trustee appointments, Rai says he would "not go as far to say that sole trusteeship is right for all schemes".

Fazal agrees that sole trusteeships are not an appropriate solution for all schemes, and that this type of structure "may not fit in with the ethos of the organisation".

Some employers may also perceive this structure to strip some of their control, Kenneally notes. "However, this can be overcome by setting up the appropriate structure for regular meetings with the employer so that they are kept up to date with the key issues for the employer such as ongoing funding and investment performance."

Nonetheless, Rai concludes: "Ultimately, sole trusteeship does work but only where the sole trustee creates a collaborative environment of all parties involved in the scheme both from the trustee and sponsor's side, whilst maintaining their independence and their fiduciary duty to scheme members."

Fazal adds: "Given the ever-changing environment under which pension schemes operate and the need for greater professionalism, there is every reason to believe that sole trusteeships will continue to be increasingly attractive as a governance structure."

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