Pensions in 2020

Despite a General Election result bedding in and the ongoing difficulties of Brexit, 2020 could be a big year for pensions legislation and schemes would do well to be prepared. Sara Benwell looks ahead at the trends likely to shape the coming year

Escalating ESG

Socially-responsible investments (SRI) and environmental, social and governance (ESG) have been hot topics for some time now. However, there is still a lack of clarity about what constitutes good ESG and how organisations will measure and monitor their efforts to be more socially responsible.

Now that the regulator has drawn battle lines on this issue, we expect to see pension schemes becoming more sophisticated in their investment strategies, and a better alignment throughout the pensions industry as to what ESG investing really means.

State Street Global Advisors head of pensions and retirement strategy, EMEA, Alistair Byrne, explains: "We will see further adoption of responsible investing, taking account of environmental, social and governance issues.

"In a sense, responsible investing will become mainstream and default funds in workplace pension schemes will include an ESG element as a matter of course.

"A number of schemes and providers have taken steps in that direction and we know others have work in progress that is likely to be seen in 2020. This is driven by a combination of regulatory pressure, companies' own social responsibility initiatives, and member interest and demand."

Broadstone technical director, David Brooks, adds: "Absolutely tons keeps happening in the ESG area. The issue will have to result in a split of focus as DC and DB schemes have different drivers.

"DB schemes have the goal of hitting their requirements to meet a promise of benefits and should be able to do this in a relatively unconstrained way. Legislating for ESG and climate-friendly investments may not be possible.

"However, in the DC space members and the government views are more closely aligned and we will have to see fund managers launch funds that do more than pay lip service to ESG issues."

Terminating the taper?

The taper allowance causes a massive headache for both savers and companies alike. And the issue has been exacerbated in recent months as there have been reports of thousands of NHS doctors turning down shifts to avoid getting stung.

The Conservatives promised a review of the unpopular system in their election manifesto, and as such, 2020 could be the year that we finally see change.

AJ Bell analyst, Tom Selby, comments: "While scrapping the taper might be politically uncomfortable, it remains the simplest solution to the current crisis. If this is the outcome of the Conservative's review, it would be good news for the NHS and higher earners who are saving for retirement."

At the same time, the Conservatives promised to look into the 'net pay' issue, which means that low earning savers in 'net pay' schemes miss out on pension tax relief.

Selby continues: "Just like the annual allowance taper, the net pay scandal isn't new but the Conservatives have failed to take any meaningful action so far.

"The problem exists because 'net pay' schemes deduct pension contributions from earnings before tax, meaning those who don't pay any tax at all – i.e. the lowest earners – don't receive the tax relief they are entitled to. It is particularly cruel this anomaly in the system hurts the lowest paid who need the tax relief boost the most."

Complete consolidation

Consolidation has been high on the regulator's agenda for some time now, and we are starting to see more progress on this in both the defined benefit and defined contribution worlds.

Unsurprisingly, this trend is likely to continue, and experts expect to see more consolidation throughout the pensions industry with a focus on slimming down the number of master trusts available.

Byrne says: "There will be more consolidation. Companies will increasingly be converting from their own trust-based pension plans to master trusts.

"They are attracted by the benefits of scale and the ability to outsource governance and fiduciary responsibility.

"Master trusts themselves will consolidate. Thirty-eight master trusts are authorised by the regulator, down from over 80 that had been in the market. That still seems too many and we would expect to see some mergers take place."

Directors' downfall?

The pensions bill, which finally made it into the two latest Queen's Speeches, was initially dropped due to the general election. But strong cross-party support has meant the Pension Scheme Bill has

now reemerged.

One new rule is the so-called 'Frank Field law', which could leave company directors nervous as they could be fined for poor decisions.

Brooks says: "It could also be a year of worry for DB scheme sponsors. If the 'Frank Field Law' in the Pension Schemes Bill is passed by parliament companies with underfunded pension schemes will be more and more concerned that some of their business decisions, if they don't come off and they've weakened the sponsor, could result in them being hit with some quite severe penalties including a £1 million fine or imprisonment."

Selby adds: "This is a direct response to a series of high-profile corporate failures – most notably BHS and Carillion – which have resulted in members being hit with cuts to their pensions.

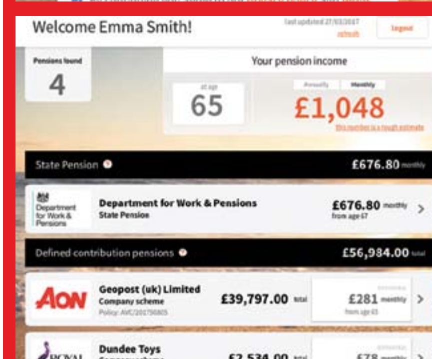
"The new deterrents are likely to include a criminal offence for bosses who demonstrate 'wilful or grossly reckless behaviour' in relation to defined benefit schemes."

Dashboards at dawn

The industry has been clamouring for a pensions dashboard for many years now, but efforts have been hampered as the government has continued to focus on Brexit.

The Pension Schemes Bill will pave the way for a dashboard, and the likelihood is that the Conservative government will introduce something similar in 2020.

The PLSA says: "The new government must also ensure that a non-commercial pensions dashboard hosted by the Money and Pensions Service is set up, and that no others are allowed to operate until a full consumer protection regime is put in place."



Administration abounds

The past few years have seen an increased focus on administration, particularly as GDPR has come into play and there has been a renewed promise that a pensions dashboard might come into play.

Premier head of administration services, Girish Menezes, says: "2020

will see plenty of data cleanse activity. This will be required as part of the GMP rectification process, preparation for GMP equalisation and to support a variety of de-risking exercises.

"The interest in IFA services supporting active members with annual allowance issues, members who are considering transferring out and at retirement advice has never been higher.

"Administration processes need to dovetail neatly into these services to ensure that this is efficient and legally compliant. We expect increased activity in this area over 2020 to ensure that these services are seamless and engaging for the members impacted."

Collective contributions

We are also likely to see some movement on collective defined contribution back on the agenda in 2020.

Versions of these schemes, which sit somewhere between old-style defined benefit arrangements and more modern DC plans, have been introduced in other countries, with varying degrees of success.

But the Royal Mail pension scheme has promised to shift its members across as soon as new rules are in place and will likely be pushing for this come the new year.

Selby says: "Communication will be absolutely key to ensuring people understand what they are getting into with CDC.

"While the scheme might target a certain level of pension, this will not be guaranteed, meaning members could see cuts in their benefits even after they have started drawing an income from the fund. Such benefit reductions were experienced in the Netherlands and sparked vociferous protests from those affected."

Pathways promised

Nearly five years after the controversial introduction of the pensions freedoms, there are still significant concerns about how to make sure people make wise decisions when they retire.

Now, the FCA is making a significant intervention aimed at protecting people who enter drawdown without taking advice.

DIY investors entering drawdown from August will be offered off-the-peg 'investment pathways' solutions, designed to broadly meet their retirement objectives.

Retirees who invest 50 per cent or more of their pension fund in cash will also be required to make an active decision to do so.

The purpose of these changes, brought about as part of the regulator's retirement outcomes review, is to reduce the risk of retirement investors sticking in cash over the long term and seeing the value of their pensions eaten away by inflation.

Written by Sara Benwell, a freelance journalist