Rising to the challenge

SPP president, James Riley, speaks to Laura Blows about the industry's challenges for the year ahead

As 2022 begins, what do you think will be the major issues for the pensions industry this coming year?
Looking forward to 2022 one of the key issues for the pensions industry will be its capacity to deliver everything that's required of it. We are already seeing Guaranteed Minimum Pensions (GMP) equalisation absorbing a huge amount of available resource and 2022 will be when work on the dashboards will really need to begin.

It's wonderful to be part of a thriving industry and I'm sure we'll rise to the challenges coming up. But 2021 saw a raft of consultations, and there's a risk that the important is crowded out by the urgent – but perhaps less important. An example of this would be 'statement season'. While it may be nice for members to get all their pension statements in a one-month period, these risk creating a lot of work (and paper, which is hardly eco-friendly) to deliver a 20th century end result that duplicates what the dashboards seek to achieve for the 21st century.

From a technical perspective, I see the key challenges as setting the foundations for delivering the dashboards, ensuring we are better supporting DC members in decumulation, how the new criminal sanctions and notifiable events regimes bed down and the ever-looming threat of a pensions tax grab. At risk of adding to the industry's list, I do hope 2022 will be the year the government gets on with implementing the *2017 Auto-enrolment Review* and having a debate on appropriate auto-enrolment contribution levels, but then again that was on my 2021 wishlist.

Of course, this year will continue with a lot of the trends from 2021, particularly that of consolidation. We have recently seen the first DB superfund authorised – what impact do you think superfunds will have on the industry?
You're right, 2022 looks like the year the government will be delivering on it promises from 2021, including both the Pension Schemes Act and more broadly. Alongside the issues I mention earlier, we are still waiting on regulations covering DB funding and the regulator's DB Funding Code. It remains to be seen whether the code, in particular, will be operational in 2022.

On superfunds, if I'm honest, I'm a sceptic. For the right pension scheme, they offer an attractive alternative to insurance buyout. However, there's a unique fact pattern for a superfund to be an appropriate solution – the scheme needs to be sufficiently well-funded to be attractive to a superfund yet at the same time the chances of achieving buyout need to be remote. I'll be happy to be proved wrong though.

Slightly more broadly, I do worry that the topic of consolidation has been hijacked by superfunds. There is much more to consolidation than separating the sponsor and pension scheme. Considerable value, from lower administration costs and economies of scale, can be derived from operational consolidation, where many schemes are run under one umbrella – such as a DB master trust – while retaining the employer link. This is particularly true, if there was a straightforward way to harmonise the benefits of the various schemes.

DC is also seeing a drive for consolidation, with schemes below a certain size having to justify that they provide value for money/members or consider consolidation. What is your view on this approach to encouraging DC consolidation?
DC consolidation is a seductive idea, but care is needed – bigger isn't always better! We believe that schemes significantly below the £5 billion mark can provide good value for money for their members. And the government must be completely clear that its primary purpose in seeking consolidation of medium-to-large DC schemes is to improve member outcomes, and that other considerations such as reducing the regulatory oversight

burden or seeking to unlock DC pension assets to invest in UK infrastructure to 'build back better' come secondary to this.

The effect of the employer meeting pension running costs, in single employer trusts, on member outcomes is important. Virtually all such trusts are structured so that the employer pays for administration costs and advice to the scheme. By contrast most other types of pension vehicle directly charge pension savers. These charges cause drag on the growth of pension pots, which scale, and governance standards, cannot necessarily overcome. Transition costs for consolidation exercises are also a material consideration and again ultimately impact on pension pots.

Finally, while as a society we applaud the aims of The Pensions Regulator and the FCA's joint discussion paper*: Driving value for money in defined contribution pensions,* we have concern that they are utopian. Having considered the pros and cons of the ideas set out in the paper, it is difficult to conclude that there are any practical ways of achieving them.

For those for whom it is the right answer, consolidation could happen more rapidly, and the real issue of small pots addressed, if there weren't so many blocks and complications in pensions and tax legislation – partly caused by legacy issues. If the government does want schemes to consolidate rapidly, it should look to simplify and remove these obstacles.

Climate change and ESG issues are sure to continue being a focus for pension funds this year. I believe the SPP recently created an ESG guide for pension trustees. Please could you explain what is featured in the guide and how it benefits trustees?

Rightly ESG and climate change will remain right up trustees' agendas in 2022 and beyond. October 2022 will see many more funds fall under the TCFD requirements. And there is much more that the industry can and should be doing in this area.

That said, meeting their ESG obligations can seem daunting for pension scheme trustees. This is particularly true for trustees of small- to medium-sized schemes with smaller budgets and that are predominantly invested in pooled funds, who believe their options for action are limited.

This SPP ESG guide is aimed at the trustees of such schemes. It seeks to give them high-level guidance on their legal obligations, what actions they can practically take depending on their investment structure, and how best to engage with advisers and investment managers. We hope it provides practical support in navigating this ever more complex and regulated area.

2022 will also surely see focus on pensions dashboards ramp up, if the industry is to be ready for its launch in 2023. How likely do you think it is that dashboards will launch on time – are there any potential stumbling blocks? And what should pension schemes do to prepare?

2022 will be a make-or-break year for delivering the dashboards in 2023. There's been lots of activity from the Pensions Dashboards Programme in 2021 but schemes do not yet have enough information to be able to properly start to prepare.

The missing information includes what final data standards will be, what pension figures will need to be provided, how members will be matching with their pensions, when staging dates will be, what technology schemes/providers need to connect to, and who's liable if members are given incorrect information – or indeed someone else's information.

The SPP and its members are hugely supportive of the dashboards. It's a once in a generation opportunity to engage pensions savers. But without answers quickly, there is a real risk that the industry will not have time to prepare, risking at the very least the current timescales. Member support will be critical for the dashboards' success and so it is vital that they have a positive experience. If that isn't the case, the viability of the dashboards themselves are at risk.

But what is it that's so challenging? Well let's pick a couple of items. Firstly, matching. The dashboards are not like open banking. In open banking you provide details of your bank accounts and they are aggregated in one place. With a dashboard, you enter your details, and it will search all the schemes linked to the dashboard and look for your pensions. But what happens if it finds someone who seems like you but is not you? Does it show the pension or not? Make the matching criteria too strict and you won't see all your pensions. Make it too lax and you risk seeing someone else's. Setting the correct threshold is surely something for government, yet it seems to be being passed to individual schemes.

Then we get to what pension figure should be shown. A dashboard will show one figure per scheme and this needs to be meaningful to members and consistent across schemes. Looking at a DB pension, at what date should the pension be shown? The date of leaving, the current date, projected to retirement? What happens if different parts of the pension are payable unreduced at different ages? Or if there is a step down when the state pension becomes payable or a step up at GMP age?

The key to success is not to try to do too much at outset. Asking schemes to provide DB figures for at least 80 per cent of members may be achievable, but 90 per cent, for example, could place a huge burden on the industry, resulting in failures to comply and incorrect information being produced. Better to have a system that works for the majority than one that doesn't work for anyone.

Written by Laura Blows