Pensions Age Northern Conference 2019: Battle ready

Whether it was DB schemes being prepared for their end-game, or PPF assessment, to being ready to respond to TPR's more proactive approach to regulation, or the changing environment around sustainable investment, this year's Pensions Age Northern Conference was all about being battle ready to take on the biggest challenges facing pension schemes

Each year since the inaugural Pensions Age Northern Conference, which took place a couple of weeks before the Brexit referendum in 2016, trustees have had a relentless stream of uncertainty to deal with.

But for those in attendance at this year's conference, many will have left ready to take on all eventualities. Perhaps reflecting the general mood of the industry, uncertainty, although very much alive and kicking, has not shackled the industry, nor trustees, into a corner. Instead, everyone is quietly getting on with the tasks at hand.

Being proactive is key

Kicking off the day was The Pensions Regulator (TPR)'s head of policy, Fiona Frobisher, who spoke about the regulator's 'clearer, quicker, tougher' approach to regulation. She explained that in practice this means "setting clearer expectations".

"Some of that is around guidance and codes, trying to sharpen those up and make them clearer about what it is that we want them to do. A lot of it is about trying to have measurable standards, particularly where we are taking regulatory action that we are really clear, so we can say 'this is what we expect you to achieve, this is the outcome we are trying to get to."

She also noted that like many others in the industry, the regulator is becoming more data-driven, as it holds more data about pension schemes than anybody else. "All pension schemes give us a scheme return, but there is a question about how accurate all of that is because

most of it comes through scheme return and it is self-reported."

Frobisher said the regulator is trying to change from being reactive, when something has gone wrong, to instead be proactive by using the data set to ask where might risks be and approaching those schemes. "It's a more targeted approach, and proactive, and we hope we are getting in early before things go wrong."

Being proactive was also the message from the Pension Protection Fund (PPF) to trustees of defined benefit schemes. Its panel manager Helen Beckinsale gave guidance to what action trustees should be taking if they think their employer is in trouble, and there is a risk the scheme could end up in the PPF.

"In our view effective risk managing and contingency planning are good governance," she said. She explained that for 70 per cent of claims that the PPF receives, the first sight of PPF is employer insolvency. For the remaining 30 per cent of claims, the PPF has engaged with trustees prior to the insolvency event.

"They recognised that the PPF might be an option; it may not be inevitable; we have been talking to a number of high street brands over the past 18 months where the PPF was an option but it wasn't a real risk. They just want to make sure that they are prepared for every eventually, and that they understand what the risks are and can make the right decisions. Of course, it makes us happy when a scheme doesn't need us," she said.

De-risking and the end game

For schemes that are fortunate enough to avoid the PPF, thinking about the end game is rising up the agenda. According to Aberdeen Standard Investments investment director, Douglas Hogg, gradual improvements on funding levels are leading to more schemes focusing on the end game.

He covered the different options available to schemes such as an insurance company buyout, self-sufficiency and potential superfund option once the regulation is sorted. Hogg noted that the best option varies from scheme to scheme, but with insurance buyout, in the future there will come a point where demand outstrips supply.

"You need to start thinking if that's what you're aiming to, how can you make your scheme attractive to insurance companies," he said. "If you are heading for insurance company buyout, my first question would be what are your timescales and how will you get there? Is it from contributions from your employer, investment returns from your scheme or are you simply waiting for improved buyout prices?"

Looking at the defined contribution side of pensions, Atlas Master Trust head of clients, proposition and strategy, Anish Rav, spoke to delegates about whether master trusts can help de-risk DC pensions. He said when it comes to DC de-risking, "improving retirement outcomes for members" is the biggest priority.

When it comes to considering de-risking, Rav said companies should ask whether it future proofs its strategy, why is it going to de-risk, and how much involvement does it want if opting for a master trust.

With regards to a trustee perspective he said they should be thinking "are my members going to be in a safe place" and going to get the same level of better outcome. "From your own perspective, will it reduce the governance burden... Members should ask what does it mean for my outcome, how easy is it to access my pot, and does it give me the benefits of freedom and choice."

Investment

Giving an overview of the economy and markets was Pictet Asset Management head of multi-asset London, Andrew Cole, who said that looking over the past nine months, the markets have gone from "doom and gloom at the end of last year to a pretty sharp recovery, and everything seems ok again".

He believes the recovery of the markets has been "driven by liquidity; it's a change in interest rate perceptions i.e., a bit more money has been pumped into the economy." However, he noted that when it comes to emerging markets, performance has been poor, but we are now seeing some high real yields.

On the subject of the US/China trade war, Cole believes it is here to stay; describing it as "the new Cold War", he said it won't go away anytime soon and it creates some friction in global supply chains that we have taken for granted over the past 10 years.

J.P. Morgan Asset Management managing director Sorca Kelly-Scholte took the opportunity to speak to delegates about the increasing opportunities available in global real estate. Typically, she noted, real estate investors have had a strong domestic bias. However, she believes that this is going to change, with portfolios set to become more global, much like what has happened with equity markets. She believes real estate is an attractive asset class to pension investors.

"One of the most attractive aspects of property investment is its income stream, and that is becoming more and more important to pension investors for two reasons. One is because DB schemes are becoming cashflow negative and having that source of income with which to pay the benefits is increasingly valuable. The other is to do with the late cycle dynamics and generally having that stable income stream gives you some degree of resilience through any period of price volatility."

One issue that continues to move up the agenda is environmental, social and governance (ESG) investing; a topic covered by M&G fund manager Maria Municchi. She noted that ESG investing has developed, with it starting out by investors excluding companies that didn't meet their standards. This, however, has changed with much ESG investing now focused on the positive impact that investors can have on companies' practises. She believes the key objective is always to achieve financial return, and the only strategy with a clear objective is impact investing.

Of course when it comes to investments, it's important to choose the right investment manager. SEI head of equity portfolio management, Jason Collins, gave delegates an overview of the factors to consider when choosing a manager. He stressed that past performance is no indicator for predicting future returns, and trustees should be open to considering managers that don't have a glossy track record.

"Don't be seduced by past performance, be very sceptical of over confident portfolio managers and unaccountable advisers, make sure

you understand the manager's competitive advantage, their investment philosophy and the source of the alpha they are going to bring. Ask has anything changed, they may have been successful in the past but there's no guarantee for the future, always think about valuations.

"And from a total portfolio perspective, think about the team rather than the individual players, use blending to your advantage, embrace diversification and think about risk rather than capital allocation," he explained.

Future of pensions

With so much legislation recently coming into effect, or in the pipeline, it's always useful for trustees to hear from a pensions lawyer. DLA Piper partner, Matthew Swynnerton, covered topics such as pension scams, including the introduction of the cold-calling ban, GMP equalisation and the most recent High Court ruling on the Lloyds Banking case and the DB white paper that proposed new powers for TPR.

He also touched on things that are on the horizon, such as changes to the Statement of Investment Principles requirements, collective defined contribution schemes, pension dashboards, DB consolidation, and the Court of Justice of the European Union on the Safeway equalisation case.

Offering a forward-thinking presentation was Ferrier Pearce client partner, Annette Cheseldine, and client relationship director, Laura MacPhee. They highlighted how the majority of people use their phone as the main way of accessing the internet now.

"All too often, schemes say we've got a lot of older workers in our workforce so we don't need to think about smartphones but that isn't true. Last year the BBC reported that the largest growth area for smartphone users was amongst the over 55s, around 71 per cent of that group owns smartphones in the UK, which represents 14 million people just in this country," MacPhee stated.

Therefore, they presented the idea of Savi, the vision for the future of pension communications. The idea behind Savi, which draws on artificial intelligence to communicate with pension savers, is an app on a smartphone that speaks directly to the member using language that they can relate to. It encourages savers to save more, for example by asking them to skip buying coffee one day of the week, and reminds them when they are outside a coffee shop.

The final speaker of the day, Pensions Policy Institute director, Chris Curry, wrapped things up by looking at the emerging trends of the UK pensions system. He noted that it was important to look at DB, DC and the state pension to get an idea of how they all work together, to form a long-term view of what may happen to UK pensions.

However, he suggested the traditional pension system in the UK is changing: "I think if you look at the direction of travel of pension policy in the last few years, you see that actually pensions are starting to look more like long-term savings vehicles. The decline of DB, the switch to DC, the introducing of more pension-like savings vehicles; the lifetime ISA seems pretty clearly a way to try and merge ISAs and pensions together."

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