

### Summary

- The government's Dormant Assets Scheme is set to be expanded to enable forgotten pension money to be used for good causes, social investments and environmental initiatives. During the pandemic, the Dormant Assets Scheme's funds have been used to help charities, social enterprises and people in need of financial support.
- While the pensions industry may be keen to participate in principle, there are some practicalities to overcome. These include concerns about how to accurately define 'dormant' funds, given that pension funds are long-term saving vehicles.
- By investing in the UK economy, pension scheme money is already working to support UK companies and industries, with an increasing focus on environmental, social and governance factors, helping the economy to grow in a fairer and more sustainable manner.



# Pensions for the greater good

**✂ The government's Dormant Assets Scheme will now be able to include untouched pension funds to invest in 'building back better'. Louise Farrand considers the practicalities of this for the industry and its expected level of take-up, as well as the other ways pensions money is helping reinvigorate the UK economy**

As the UK government helps the economy to recover from the devastation wreaked by the Covid-19 pandemic, it is looking to the pensions industry to help.

The government's Dormant Assets Scheme is set to be expanded to include the insurance, pensions, investment and wealth management, and securities sectors. The scheme is founded on a simple, benevolent concept, that untouched, forgotten money is put into a fund, which is then used for good causes, social investments and environmental initiatives.

During the pandemic, the scheme's funds have also been used to help

social enterprises and people in need of financial support. Expanding the scheme could free up £800 million, the government estimates.

Participating in the scheme is voluntary, and the 800-million-pound question is: How widely will the pensions industry participate?

### Overcoming the hurdles

On first glance, joining in sounds like a no-brainer, but the logistics of getting involved are more complicated than they appear. While the providers that *Pensions Age* interviewed sounded keen to participate in principle, the Pensions and Lifetime Savings Association (PLSA)'s

policy lead for defined contribution (DC), Alyshia Harrington-Clark, says she has heard some "healthy scepticism about its extension to pensions".

Why? The first barrier is establishing a clear definition of dormancy in the context of pensions. "It is difficult to know when an asset is genuinely dormant in pensions," says Harrington-Clark.

She uses DC as an example. "The way inertia has been harnessed powerfully to drive pension saving in a DC auto-enrolment (AE) context is a bit counter to the idea of, if people leave their money alone and forget about it, that money should be allocated elsewhere."

The government is aware of this issue and, in the response to its consultation, says: "In light of consultation responses, and having carried out a full assessment of the impact and feasibility of the industry's proposal, the government is considering options whereby certain pension products may be included in specific and tightly prescribed circumstances. In particular, we will be examining the potential overlap with products that are used for AE, such as group personal pensions, and may be minded to exclude these from the scope of the scheme."

Another issue is how to treat pensions assets that are invested. The priority is to reunite dormant assets with their owners; the money is only passed

on to the scheme if attempts to reunite it with its owners have been successful. Even once assets have been given to the scheme, owners of dormant assets always have the right to reclaim them. What if their money had been invested, and then disinvested when it was moved into the Dormant Assets Scheme? How would the owner be compensated for the loss of investment returns?

Thankfully, from its consultation response, it looks as though the government will seek to avoid these sorts of messy problems by only including pensions products that crystallise to cash. However, the PLSA remains concerned that the complexities of trying to establish truly dormant assets in a pensions context could prove problematic in practice.

“Customer perception is also a key issue,” adds Phoenix heritage customer director, Sam Buckle. “Work is required to persuade customers and market commentators that money will only be transferred to the scheme once all attempts to contact a customer have been exhausted. In addition, people must have clarity that they will always have a contractual right to their money at any point in the future.”

Despite these challenges, the industry seems relatively keen to participate. “There seems to be quite a lot of general support,” says Aegon head of pensions, Kate Smith. “It is always worth exploring how pensions can be used for the greater good.”

Smith adds: “I think the industry will participate, but there are quite a lot of things going on. It might not happen immediately, but you might see gradual movement. Maybe the government needs to give more details about how you participate.”

#### Other ways to help UK plc

Using the pensions industry’s dormant

assets is one way the government is seeking to reinvigorate the UK economy as it emerges from the Covid-19 crisis. With its trillions of pounds under management, what else can the pensions industry do to help?

“Pension schemes are already doing an enormous amount to support all of our wealth,” Harrington-Clark points out. After all, pension schemes invest in the UK economy, meaning that their money is already working to support



UK companies and industries. Some are even investing in the pharmaceutical companies that are developing Covid-19 vaccines.

Buckle adds: "Many pension companies are increasing their exposure to environmental, social and governance investments. These factors not only help the economy to grow, they also help the economy to grow in a fairer and more sustainable manner."

Pension schemes are also boosting the economy in other ways. "Pensioners' pensions are still being paid," says

Harrington-Clark.

"Private pensions are a source of income that haven't been impacted by Covid-19, and so

you could argue again that all those people who are supposedly going out and buying wallpaper and conservatories, quite a few of them could be benefitting from their pension savings."

### Venturing into new areas

Some areas of the economy have historically been mostly off-limits to pension scheme investors. Investing in higher-risk areas like venture capital and start-ups is usually seen as too risky for pension schemes, whose priority must be to achieve stable returns for members.

"Pension funds do invest some money in venture capital-type vehicles, but this tends to be a small allocation for a number of reasons," says PTL managing director, Richard Butcher. "One reason is clearly the level of risk these investment types represent; the hit rate is relatively low and of course we have to be cautious investors."

Illiquid investments, such as infrastructure, are another area which UK pension schemes struggle to access. Most defined benefit (DB) schemes are

planning for an end goal, whether that is buyout or wind-up. But infrastructure by definition has to be a very long-term investment, explains Butcher. "If the investment is illiquid for 20 years and you have a buyout plan for 10 years' time, you are not going to be investing in infrastructure."

Meanwhile: "In DC pension schemes, we tend to be used to daily dealing and that is what the regulator expects us to do now," says Butcher.

The government is keen to help schemes to invest in a wider range of investment opportunities, says Butcher. "It is something that is clearly on the mind of the regulators and legislators and something that is challenging trustees because we want assets that give us growth and most traditional forms of assets – there is limited growth."

In short, while the will is there, technical difficulties remain a barrier for schemes. "Scale [*in DC*] will make it easier," predicts Butcher.

Sackers senior partner, Ian Pittaway, agrees with Butcher. "Clearly a big debate we are going to be having is about patient capital and investing in the economy. I would say that although trustees are starting to talk about those, it is a long way from happening."

### Supportive partners

DB schemes can also support the UK economy by behaving sensitively towards their sponsors, suggests Pittaway. After all, it's in nobody's interests if the demands of a pension scheme contribute to the collapse of its sponsoring employer.

Pittaway says: "I think obviously a lot of schemes are under pressure funding-wise because of the pandemic, and investments have been a bit volatile. Schemes need to be imaginative and collaborative with their sponsors. It is not just a question of saying, 'Hey, there's a deficit, we need more money.' Schemes will need to be more sensitive."

Instead of issuing unrealistic

demands, schemes could align themselves with the fortunes of the employer and take a longer-term view, suggests Pittaway. Many expect airlines and hospitality to experience high levels of demand as people celebrate a return to normality. "Perhaps schemes could build in contributions at a lower level and make provisions for them to ratchet up when we get through this time."

As the UK economy recovers from Covid-19, it is right that the UK government should think creatively about ways to boost its prospects. But where pensions are concerned, the first priority must be looking after members' best interests.

As Pittaway says: "In the final analysis, trustees have to find the benefits for members, that is their primary duty. They are not there to make the world a better place. But if you can reconcile those two objectives – achieving a capital return while doing good for the country – that is a magic combination."



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