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Pensions Age Spring Conference 2019

Delegates attending this year's Pensions Age Spring Conference were treated to some topical and in-depth discussions from industry-wide commentators. With presentations from the regulator, research bodies, consultants and asset managers, there was certainly a lot to take away from the day

This year's annual spring conference was held on the eve of what should have been the UK's official Brexit day. Luckily for Brexit, the delay meant that it was the *Pensions Age* conference that dominated the news agenda, meaning delegates wouldn't have to miss out on the latest updates from Brussels.

Held in the chic surroundings of Hilton Tower Bridge hotel, guests from across the industry were able to enjoy a range of engaging speakers, with their fingers on the pulse of the latest industry developments.

From policymakers to economic analysts, attendees heard of the leaps that have been made in the industry over the past few years, but also how much further they needed to go.

Riding the regs

Kicking off the action was The Pensions Regulator (TPR) head of policy, Fiona Frobisher, who delivered a comprehensive update on the regulator's latest work in the defined benefit landscape.

She conveyed a stark warning to the "significant minority" of small scheme trustees who are failing to engage with the regulator's 21st Century Trusteeship initiative, adding that while engagement has been positive on the whole, there are still some smaller schemes that just "completely disengage" when it comes to education on governance.

The regulator launched its 21st Century Trusteeship programme last year, giving trustees clearer guidance on managing issues their schemes could be facing.

"We have had good engagement, lots of people have read the information and people who have read it found it useful, but that's the people who have engaged with it," Frobisher said.

"We have done a lot of follow up and … we can also show that there is a significant minority of schemes that just don't engage at all, who have looked at it and said 'that's not for me, that can't possibly be for me' and just completely disengage."

She added that there is only so far it can go when it comes to an educative approach, and would consider the possibility of making it mandatory for all trustee boards to have one professional trustee in place.

For trustees whose schemes may be facing trouble, Pension Protection Fund (PPF) panel manager, Helen Beckinsale, spoke to delegates about what contingency planning they can do, emphasising that it's not all doom and gloom for schemes whose sponsor is on the brink of insolvency.

Beckinsale said that there is "still work to do for trustees" to increase their skills in good governance, highlighting the work of the trustees of the Kodak Pension Plan No.2, which had been working with the lifeboat for eight months, adding that "there are benefits, not only to us, but also for the trustees to make sure the member experience is as seamless as it could possibly be".

She added: "When I am working with DB trustees, I am not always expecting schemes to enter the PPF, it's not always doom and gloom when we enter the door; what we are just trying to do is make that transition smoother and sell our story of good governance.

"We have had some large high street brands who have done some effective contingency planning with us, they have taken time and spent a little bit of money to prepare their scheme for the PPF, but at the moment they just don't need it."

Following on from the need for pension scheme trustees to take contingency planning seriously, Barnett Waddingham partner, Oliver McCulloch, said schemes must start considering their long-term goals, particularly as it will become a legal requirement.

McCulloch added that projected assets for the DB universe is close to its peak, with the tipping point projected to be in six or seven years, and from that point on "we are on the long road to the end".

With this in mind, he suggested that schemes must decide what they want to achieve, whether its full buyout or self-sufficiency, as well as how to get there, through setting a time horizon, investment strategy, levels of employer support and assessing different member options.

Following on the theme from a defined contribution perspective, Atlas Master Trust head of clients proposition and strategy, Anish Rav, asked delegates to consider what their core drivers were to get optimum member outcomes.

Rav discussed the "great strides" that had been made by TPR in ensuring good governance of pension schemes, and talked of a pension dividend of up to 1-2 per cent per annum through the proper implementation of good governance.

"How many of you have thought about the governance revolution? If you can get it right and move the focus from protection to enhancement, then that can drive better member outcomes," he said.

"Missing out on the 1-2 per cent dividend can have quite a big impact on your funding levels or member outcomes."

On the issue of member outcomes, Institute for Fiscal Studies (IFS) deputy director, Carl Emmerson, shared the lessons that the pensions industry has so far learnt from the introduction of automatic enrolment.

Members who have been auto-enrolled have seen a 36 per cent rise in their saving levels, an increase seen across pretty much all demographics, according to Emmerson.

Interestingly, the IFS found that re-enrolment, the process that sees staff re-enrolled back into a pension scheme every three years having opted outed originally, has no 'uptick' in enrolled members, "they will choose to opt out again" he said.

Emmerson added that the government needs to speed up and go further with planned changes to auto-enrolment, currently expected in the mid-2020s.

Delegates were then treated to a DC panel session, where they heard Department for Work and Pensions senior policy manager, David Farrar, deliver an update on the numerous consultations in the pipeline, including some of the intricacies around defined contribution investment into illiquid assets.

CCTL client director, Andy Cheseldine, told attendees of the importance of trustees defining their governance objectives. "You have to decide what it is you're going to measure" to achieve good value for members, he said.

Adding to Cheseldine's points, PTL director, Colin Richardson, discussed the challenges of keeping business as usual while also undertaking master trust authorisation, and that employers should be focusing on assessing the governance of master trusts as a priority.

Tech driving engagement

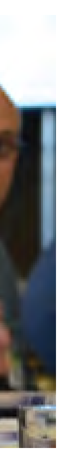
When it comes to technology as a driver for engagement and communication, Ferrier Pearce executive chairman Nigel Ferrier gave an eye-opening demonstration of its prototype savings app for the 'Uber Generation'.

Ferrier said that schemes must engage with their members or be left behind. He laid out a four-point plan to engagement, which included engagement in conversation, appealing to emotions, a convenient service and opportunity on the move.

According to Ferrier Pearce, 55.2 per cent of social media conversations about pensions are sad in tone, while just 33.8 per cent are happy, 7.3 per cent angry and 3.9 per cent fearful; a major risk, Ferrier concluded.

Also advocating the role technology has to play in pensions, Willis Towers Watson director, Gareth Strange, added that the industry is a "long way behind the curve". The group have published research on how technology can be better harnessed across the industry.

"Technology plays a key role in everything we do, but if you're sat at a trustee board meeting, very rarely do you see technology being a key part of that discussion," Strange said.



Investing responsibly

After some detailed discussion around the regulation and governance of pension schemes, attention turned to what investments pension schemes should be considering.

This year there was a particular focus on sustainable investing, with M&G fund manager, Maria Municchi, explaining its ethos towards ethical investing, using the UN's Sustainable Development Goals as a measure.

Municchi talked about the \$2.5 billion funding needed through private investment in order to meet the UN's goals, and how using M&G's multi-asset approach to environmental, social and governance (ESG) investing will help meet these goals.

Also hot on the sustainability theme was Natixis Investment Managers (Mirova) portfolio manager, Manuel Coeslier, bringing attention to the two degree investing initiative.

Through its philosophy of combining fund performance and ESG financial performance the asset manager hopes it can go a long way to contributing towards a zero emissions world by 2050. Coeslier added that their strategy was affordable for DC schemes as well as DB.

Elsewhere in the investment landscape, Credit Suisse Asset Management senior portfolio manager, Lukas Haas, discussed the opportunities associated with the supply chain finance market, and how it has generated interest from pension schemes over the past few months.

Haas added how, using Credit Suisse's strategy, schemes can unlock capital in the market tied up in unpaid invoices, mainly in small- and medium-sized enterprises.

Also helping schemes make the tricky decision of which investment strategy to take was Just chief investment officer, Gareth Collard and head of DB development, Rob Mechem.

Kicking off proceedings, Collard explained the group's liability investment driven (LDI) strategy, matching schemes' cashflow considerations by using fixed interest, inflation and currency hedging diversifying risk, as well as looking into ESG considerations.

Following this, Mechem then discussed a DB scheme's journey to de-risking. He urged trustees to consider what risks are facing the scheme, and how they are going to deal with them. He added that schemes looking to achieve a buyout or buy-in should commit to the transaction, clean their data and "engage with insurers early on in the process".

CQS head of long only multi-asset credit, Craig Scordellis, told delegates of the challenges facing funds in the credit markets, and how in an era of geopolitical uncertainty, funds must evolve to tackle these issues.

Not to be totally downbeat, Scordellis told schemes that "strong returns in the credit markets are available", but to avoid defaults in order to achieve the best yields.

For schemes unsure on how to select their investment manager, SEI Investments global head of equity portfolio management, Jason Collins, discussed what schemes should be assessing.

Collins said that past performance was not necessarily a guarantee, and that schemes should not be sold on this. He suggested taking a forward-looking view, as it is "important to embrace short-term variability for long-term success".

Written by Theo Andrew