Pensions Age Autumn Conference: Bringing out the best

Despite the recent market volatility and uncertain political landscape, this month's Autumn Conference presenters kept a strong focus on bringing out the best in UK pension provision

It may have been Halloween at this year's Pensions Age Autumn Conference, but our delegates did not need anything more to spook them, having already experienced one of the most dramatic months in UK pensions history.

But while the drama following the mini-Budget was still fresh in everyone's minds, a sense of positivity ensued with speakers looking at ways to get the best out of pension provision, both across defined benefit (DB) and defined contribution (DC), be that via environmental, social and governnace (ESG) considerations, focusing on value for member (VFM), improving administration and more.

We were delighted to welcome London Pension Fund Authority (LPFA) CEO, Robert Branagh, as chair for the day, who was able to draw on his own extensive experience in pensions throughout the event.

The conference opened with an overview of the ever-changing political landscape, presented by Association of British Insurers (ABI) head of long-term savings policy, Rob Yuille, who reflected on what the new Pensions Minister's in-tray will look like, and "what the ABI and wider industry is doing right now to help the government's policy goals". He also asked what pensions under a Labour government might look like; plus how the tug-of-war between political 'change and stability' might play out in relation to issues such as the triple lock, the future of liability-driven investment (LDI) and the state pension age review.

He also acknowledged the frustrating disconnect that often occurs in relation to the treatment of occupational and personal pensions, and welcomed the areas in which regulatory bodies are co-ordinating on things such as stewardship.

Finally he touched on auto-enrolment (AE), the "biggest piece of unfinished business for the Department for Work and Pensions (DWP)". He added: "While we recognise the difficulty of trying to improve pensions adequacy at a time when so many people are struggling just to get by, let alone having to choose between heating and eating, that shouldn't deter us from finding a fair, long-term solution to the problem of pensions adequacy."

Next, the delegates were treated to a fireside chat between Branagh and BlackRock global head of real assets sustainable investing, Katherine Sherwin, who did a deep dive into the "how" of transition finance. She also considered what a just and fair transition might look like, and how to partner with some of the harder to abate industries to help them transition. "When we talk about the energy transition, the transition to net-zero carbon, it's not actually a transition, it's a transformation, and what we are going to have to see is deep change across all parts of the economy; so it's a massive transformation and we are on a really tight timetable in order to meet those critical net-zero carbon targets by 2050 or sooner. It is going to be a bumpy road, with challenges, as various parts of the economy move at different speeds to get to various shades of brown to various shades of green," she said.

Finally, Sherwin looked at the "significant" role that private markets can play in the energy transition. "In order to get that transformation right, we need innovation and a lot of that innovation is coming out of private markets. So that is a major way we can access some of those investment opportunities, and the illiquid and long-term nature of private market investments means they are well suited to be driving that transition forward."

Next, the volatility of recent weeks was under the spotlight as Charles Stanley head of fiduciary management, Bob Campion, presented the results of its 2022 survey of DB professional trustees, which looked at their risk appetite, how schemes' exposures to various asset classes has changed in the last year, to what extent attitudes to liability hedging has changed, and what schemes' long-term plans

are. He also illustrated the extent of the post mini-Budget drama, with graphs highlighting how dramatic the falls and rises in bond yields were over the course of a number of days.

Looking ahead, he commented: "While every scheme is different – and all our clients have different investment strategies and there is a good reason for that – on the whole, it makes sense to take less risk because our time to ending is nearer, the returns we will get on investments are likely to be less dramatic than they have been in the past decade and schemes are becoming much more mature which also means you have got to be careful with illiquid assets.

"So we all need to think about taking less risk, if we haven't already, have a long-term plan, and really think about the illiquidity of our investments too."

With an aptly entitled presentation, *It's not easy being green*, AMX by Carne's Pippa Rudling (consultant relations) interviewed the firm's managing director, James King, on the topic of the Task Force on Climate-Related Financial Disclosures (TCFD) reporting, focusing on why it is relevant to pension schemes, the challenges surrounding it and how these challenges can be overcome.

"In preparing for today," Rudling told delegates, "we spoke to our consultants and trustee contacts about the challenges they are having around TCFD and these included lack of access to portfolio data, the quality and availability of emissions data, costs – both time and money, the complexity of reporting operations and other regulatory projects, and that was before the LDI drama kicked in, so there is a lot! AMX has built a tool that aims to alleviate some of these issues."

On a positive note, King commented, "I would argue, in the context of strategy, governance and risk management, the pensions industry is leading the way in implementing TCFD. But where we do have a challenge is how we get the data up and how we make that data consistent.

King also argued that "technology provides a blueprint for good governance". What technology does, if set up in the right way, is "makes things predictable, repeatable, and importantly for this type of regulation, adaptable".

Biodiversity was next under the spotlight, as AXA Investment Managers portfolio manager, Tom Atkinson and director, UK institutional, Tim Banks, looked at why it is important to consider biodiversity now, why it is relevant in the context of the Taskforce on Nature-related Financial Disclosures (TNFD), and where the opportunities lie for pension schemes.

With the use of fascinating case studies, AXA IM showcased how, using listed equities, they are helping both DB and DC schemes with the dual objective of having an impact using investment, whilst making the required returns. Banks commented: "We know we can do this in the private markets space, in the illiquid space, but we have also just seen how important liquidity is, so how can we harness listed equities to get the right return, but make impactful investments?"

Atkinson also highlighted the importance of investing in data: "The portfolio is doing better than the benchmark which is good to see; this is a really interesting area as quite a lot of asset managers are not invested yet in this space due to a dearth of biodiversity data; we have been proactive and we are pushing the agenda here."

VFM was the next topic of focus, as Evolve Pensions CEO, Paul Bannister, and director of strategy, Jessica Rigby, looked at ways a DC scheme can use the VFM assessment to improve member outcomes and overall governance.

Bannister commented: "To gather this information takes a lot of time and effort, it is not just a tick-box exercise, and there is going to be time costs and financial costs, so it is onerous."

Highlighting the four categories of investments, administration, governance and communication, Rigby explained how schemes can get from basic, to better and ultimately best. "We want to open eyes as to why this could be a really good opportunity to improve the standard of schemes across the board from operating either a basic scheme or parts of your scheme up to best. As a master trust that has gone through this, we feel we have things that we can show other schemes.

"We should do these things because they genuinely make a difference to people that are saving money, and receiving that money. So this is a call to action – even if you don't strictly fall under the regulations, there are things you can take from it."

Continuing the focus on VFM, HSBC Retirement Services and HSBC Tomorrow Master Trust CEO, Alison Hatcher, talked about the need to tackle some of the biggest risks facing members, in particular those occurring at the point of retirement.

"Value for member has a member," she stressed, "and we want to make sure that, for those individuals, all the hard work that we are doing during accumulation and the building up of that wealth is then retained when they come to spend it in retirement".

Following extensive research, Hatcher argued that approximately £1.7 billion is lost due to "friction" at the point of retirement. "It is such a substantial point of risk that we are not evaluating correctly that we might want to re-visit and think about better solutions for members so that we can support them through this process.

"I am suggesting we shift the way that we perceive value and really look at what members need to preserve that value, going through into retirement, how can we support them better, how can we be open-minded about newer solutions that might also be designed very specifically to tackle these issues."

Transforming member satisfaction was the title of the next session, as BT Pension Scheme (BTPS) head of pension services delivery, Dave Tomlins, joined head of pensions administration strategy, Andy Whitelaw, to tell delegates how BTPS has transformed its member satisfaction by bringing scheme administration in-house, moving its member call centre onshore, and launching a new member website and portal together with a new administration system.

Tomlins commented: "Our vision was to deliver a high quality member service with below median costs to the scheme which, given our starting position was a huge task. Today, our member satisfaction scores are at an all-time high. We also have more options to self-serve and more efficient processes, which reduces administration costs."

Touching on the future, Whitelaw concluded: "We are a closed scheme, we have a declining membership each year and that puts an upward pressure on our costs per member; we also have member expectations going through the roof – these are challenges we are all dealing with, so we would be happy to collaborate with other schemes, share their views and share ideas."

Up next, the evolving de-risking landscape was the focus of Linklaters

pensions partner, Sarah Parkin, who covered current topics including: The possible changes to Solvency II; developments with the different de-risking options available, and challenges trustees and employers are facing.

"A key thing to think about when trying to decide which de-risking strategy is right for you is what is the structure of the product. Is it an insurance policy or something else? Do you retain a link to the employer covenant? Is it your ultimate endgame or is it a step towards that? You also need to understand what risks this structure will cover – and a key point is that no transaction will cover all of your risks," Parkin stressed.

Also focusing on legislation, Mercer UK senior governance consultant, Grace Bensley, and governance leader, Lindsay Sadler, together tackled the new Single Code of Practice, looking at the objectives of the new code, what makes up an Effective System of Governance (ESOG), and what an Own Risk Assessment (ORA) is.

Bensley explained: "In March 2021, The Pensions Regulator (TPR) published its consultation on its new code of practice consolidating 10 of the existing codes into one web-based code. The code is a great leap forward and what it offers is clarification, avoids some repetition, and also some of that conflict which we might have seen in some of the codes.

"We are encouraging our clients to factor the code into their business plans, and allocate appropriate resources – ensure from a financial perspective that you are prepared."

Sadler added: "This new regulation should be welcomed with open arms. Good governance is the armour you need in the war against existing and emerging risks. The new regulations are an opportunity to test the chinks in that armour, and demonstrate that you are ready for battle."

Finally, the closing keynote speaker, TPR executive director of frontline regulation, Nicola Parish, talked about the recent market turmoil and updated delegates on work relating to the Pension Schemes Act, collective DC, the DB Funding Code, superfunds and combatting scams.

Parish commented: "Thankfully the market volatility has abated, although we are continuing to monitor the situation considering the impact on DB scheme funding. It is important that we reassure savers that DB pension schemes were not and are not at immediate risk of collapse due to these rapid movements in the price of gilts. We call on trustees and advisers to continue to review the resilience and liquidity of their investments, to look at risk management and funding arrangements and to plan accordingly, protecting the interests of members." On the corporate plan, she highlighted the efforts that TPR has made to "re-focus our work to make us more forward looking, agile and to put the saver at the heart of what we do".

On TCFD reporting, Parish stated that TPR was "encouraged by the efforts trustees have made"; while on innovation she was "excited to see the emerging superfunds"; and on equality, diversity and inclusion, she emphasised how "diversity of thought on trustee boards will lead to better outcomes for savers".

Finally, after highlighting several prosecutions against those that TPR believes have put savers' benefits at risk, she concluded: "We remain focused on the saver, on the longer term and on your needs."

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Written by *Pensions Age* team