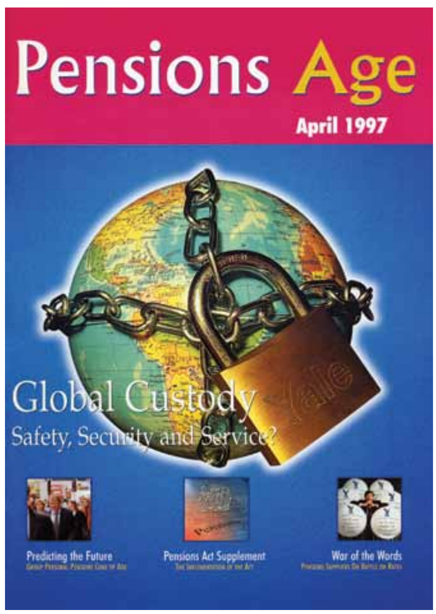
Twenty years of pensions – the highs and the lows

Pensions Age celebrates its 20th anniversary this month. Francesca Fabrizi reflects on a pensions world that has seen so much change

The world of pensions can change dramatically in 20 seconds – we all remember the sudden announcement of freedom and choice – so imagine how much it will have changed in 20 years. We have gone from a position of considerable surplus to dramatic deficits in defined benefit (DB); we have seen a seismic shift towards defined contribution (DC) arrangements; politics has become ever more entwined with pensions (in spite of our Unchaining Pensions from Politics campaign) and the role of the pensions manager has become almost as challenging as running a FTSE100 company.

Twenty years ago, The Pensions Regulator (TPR) as we know it today did not exist - the Occupational Pensions Regulatory Authority (OPRA) was the official regulator of occupational pensions, although it had far less power than TPR today. There was no Pension Protection Fund. The Pensions Advisory Service (TPAS) was known as the Occupational Pensions Advisory Service (OPAS) and the Pensions and Lifetime Savings Association (PLSA) was called the National Association of Pensions Funds (NAPF).

In the late 90s, only the big consultancies had any real influence over the way pension funds were allocating money, with smaller more niche players only gaining ground in



later years; pensions administration was way down at the bottom of any pension trustee agenda, and 'flex' was one of the buzzwords that got everybody's pulses racing.

We have also seen considerable changes to the state pension over the years, while more recently auto-enrolment and freedom and choice have changed the pensions landscape beyond all recognition.

Barnett Waddingham senior consultant and former TPAS chief executive, Malcolm McLean, reflects on the last two decades. "It has certainly been an interesting if challenging time. My abiding impression is one of constant change, much of it event focused or politically driven, some of it good, other parts less so."

DC, he adds, has now largely replaced DB in occupational pension provision "as employers have increasingly found the costs associated with such schemes unsustainable. The public sector has similarly had to move away from final salary arrangements and embraced career average instead."

McLean continues: "There have been personal pension mis-selling and other scandals giving rise to large compensation claims, the setting up of a pensions lifeboat scheme and a new regulator with increased powers.

"We also have a shiny new state pension in force for new pensioners whilst those currently of working age face the prospect of having to work on much longer into later life as state pension ages continue to rise. Private saving has been boosted in pure numerical terms through the success of auto-enrolment although there remain ongoing concerns that the minimum contributions currently being made are inadequate for most to secure the levels of pensions required.

"And, of course, we now have pension freedoms, almost unthinkable only a few years ago, embraced by many but undoubtedly a further complication for consumers in having to work out how to make best use of their pension savings."

Legislation and regulation

Flicking through the pages of our very first issue of *Pensions Age*, published in April 1997, the big topic to dominate the editorial then was the implementation of the Pensions Act 1995, which was to go on to shape much of the pensions world we know today. Since then, the continuous stream of pensions legislation and regulation has almost been overwhelming.

"Pensions are much more heavily legislated and regulated than 20 years ago", says Francois Barker, partner and head of pensions at Eversheds

Sutherland, one of the advertisers in that very first edition of *Pensions Age*. "In terms of key primary legislation, we have had the Pensions Act 1995, Welfare Reform and Pensions Act 1999, Pensions Act 2004, Finance Act 2004, and the Pensions Acts 2007, 2009, 2011 and 2014 - and we will soon have the Pension Schemes Act 2017! In addition, there have been plenty of other Acts of incidental application to pensions, and masses of secondary legislation. We also have an entire regulatory infrastructure built from scratch in the last 20 years."

Most of this, he continues, has been helpful in terms of protecting benefits in a post Maxwell environment, but even he agrees some thinning out of the red tape would now be appropriate. Additionally there have been unintended consequences to a lot of these changes. Independent member of the HM Treasury Pensions Dashboard Steering Group, Margaret Snowdon, agrees: "We've seen changes that have been both intentional and unintended. Protection increased complexity which increased costs that led to a shift from DB to DC and less retirement saving; while the shift to personal responsibility introduced pension freedoms and inadvertently increased pension scamming."

All of these changes have clearly made the role of managing pensions challenging, to say the least. Heathrow Airport Holdings head of pensions at Chris Parrott explains: "The sheer scale of change over the recent past – and the amount of change – means that this job bears no resemblance to what it was like when I started working in pensions. To be able to support individuals, trustees and sponsors through the myriad of issues and options available to them requires a largely unacknowledged range of skills that is rarely seen elsewhere."

But it's not just the pensions managers or the trustees feeling the strain – we have understandably seen a shift in how pensions are perceived by corporate sponsors themselves as a result of the increased regulation and incessant change. Barker explains: "Twenty years ago, pensions were likely to be seen as a benefit, and the preserve of the HR team – with a focus on looking after current employees. Now pensions tend to be seen as a financial risk, and be overseen by the finance function. This reflects the significant risks posed to sponsors by DB plans, and the hard financial cost associated with contributing to DC pensions. And with most DB plans closed or frozen, they tend to be less linked to the current workforce.

"The 'best endeavours' commitments that originally underpinned DB plans have gradually been hardened into absolute legal promises through legislation – the obvious examples are the mandatory DB pension increases required in deferment and in payment. This means that there is little room for manoeuvre – for either trustees or sponsors - when things get tough, unlike (say) in the Dutch system where benefits can be adjusted to fit the funding available to support them," he adds.

Running alongside all of these changes, we have had multiple pensions minsters to further confuse matters. Labour's John Denham took on the newly-created role of Minister for Pensions in July 1998, but was swiftly replaced by Stephen Timms in January 1999. What followed was a conveyor belt of pensions ministers, often being replaced by another within one to two years of being in the role. Until Steve Webb held the post for five years between May 2010 and May 2015, few had held it for long enough to make a real difference, much to the frustration of the industry. As soon as one became proficient in the subject of pensions, it seemed, they were moved on to somewhere else.

Another thing that has fundamentally changed in pensions over the past 20 years is that the risk of corporate sponsors of DB plans failing is more real now than ever before. "Heath Lambert, which went bust shortly after the Pensions Act 2004 came into force, was something of an outlier. In the last year or two alone, we have had BHS, Bernard Matthews, Austin Reed, Tata Steel and others", says Barker.

But it's not all bad news. In addition to all the legislation, we have had a plethora of reports and consultations which have influenced the direction of travel in pensions and have led to some of the successes of the last 20 years.

BESTrustees chairman Alan Pickering, author of the Pickering report of 2002, which called for some much needed simplification, believes there are two achievements that stand out when one surveys the last 20 years: "The first was a simplified tax regime encompassing all forms of pension provision – sadly, the dismantling of this simple regime commenced before the ink had dried.

"On the social policy front, the main achievement was the establishment of a universal basic state pension fixed above the poverty line. This means it will always pay to save through a pension."

Going forward, there is no doubt that more change will come in one form or another – one can only hope that we can learn from the past to ensure a positive outlook. "The fundamental flaw in our approach to pensions is the bolting-on of new ideas to creaky infrastructure that has long passed its sell-by date," argues Pickering. "Hopefully, the hallmark of the next 20 years will be based on a vision to which we can aspire and a willingness to pension-off those concepts that are no longer fit for purpose," he says.

Similarly PTL managing director Richard Butcher sees a bright future for pensions but only if we can learn from our mistakes: "Pensions have changed massively over the last 20 years. From DB to DC with a greater focus on efficiency. This leaves us too inward focused. This, in turn, creates huge risk. The challenge for the next 20 years is to carry the members with us to where there is genuine engagement. The future could be really bright but only if we get it right."

Written by Francesca Fabrizi