**De-risking**
The growing number of options for small to medium schemes looking to de-risk

**Contributions**
Managing small contributions within trust-based DC schemes

**Fiduciary management**
How small schemes can now use a fiduciary manager

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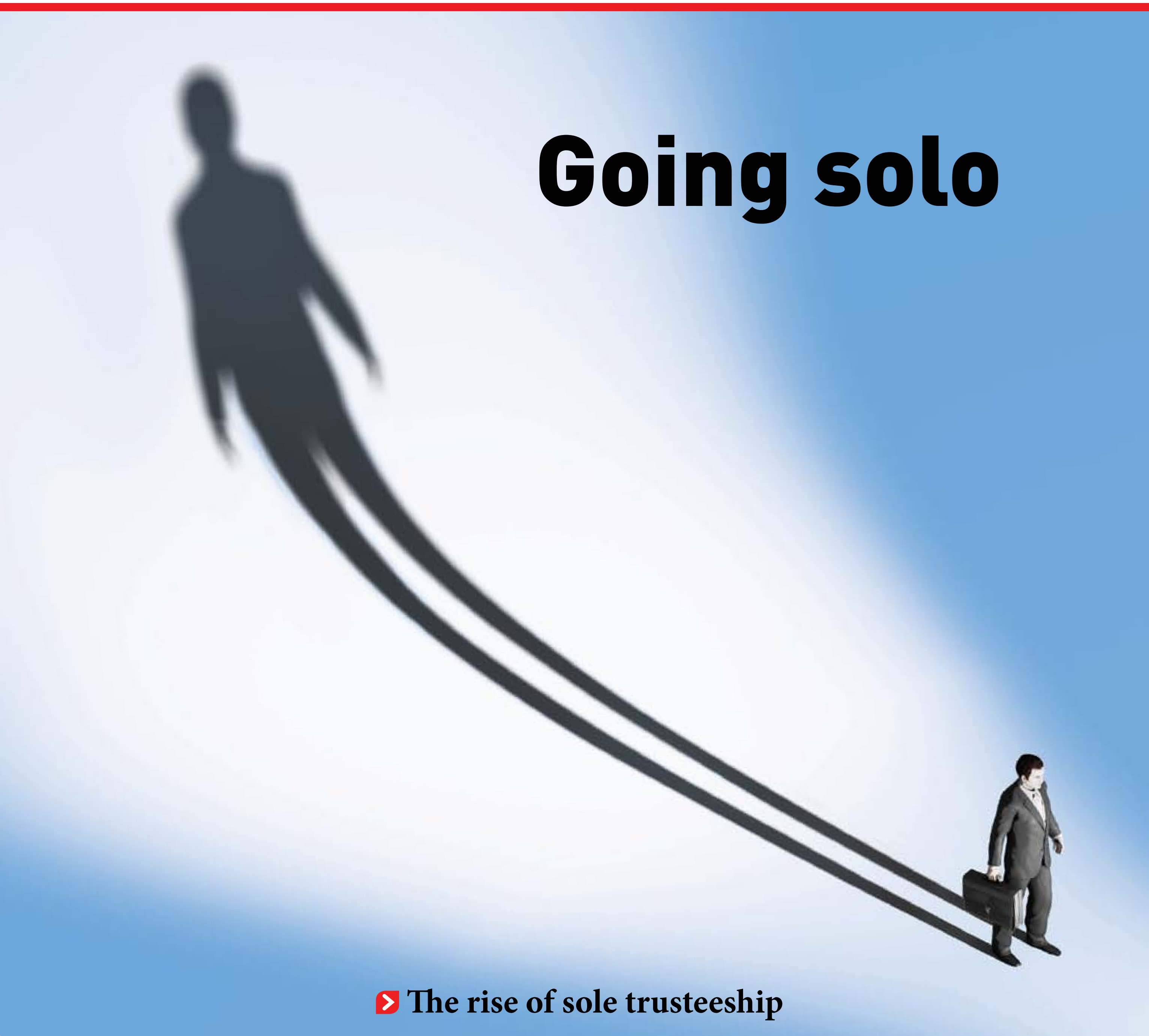
June 2017

# PENSIONS Age

**The leading pensions magazine**

***Small schemes:*** *The unique issues facing small DB schemes*

***Consolidation:*** *Why DC scheme consolidation has slowed*



# Going solo

## The rise of sole trusteeship

**AGCO case study** - the agricultural equipment manufacturer explains why it moved its DC scheme to a master trust

# Editorial Comment

Sixth floor, 3 London Wall Buildings, London, EC2M 5PD

'Thank you' is one of those little phrases that can pack a surprisingly powerful punch. It is often a throwaway sentence, but sometimes simply saying thank you can make someone feel noted, valued and appreciated. It can therefore create an impact far greater than the effort of saying those two little words.

I don't expect 'appreciated' is something those managing small schemes feel very often. It's probably too much of a stretch to imagine the members noting, or even realising, the work involved in managing their pension pots, but when the industry itself often overlooks your efforts, it must be galling.

Lately, the industry focus has very much been that 'bigger is better'. On the DC side, the rapid growth of master trusts has been remarkable, and unusually, it is DB that is looking to follow DC's path with the PLSA's DB Taskforce advocating the benefits of DB superfunds *[see p53]*.

Consolidation being considered the answer to pretty much all the industry's woes is understandable.

Larger schemes benefit from economies of scale and can hold greater clout in negotiations, while still being highly profitable for a provider to offer its services. They can benefit from the greater investment opportunities open to them. Fewer schemes would also make it easier for the regulator to do its job. So it currently seems inevitable that massive consolidation in the sector will occur.

But while it is important to plan for the future, it is also necessary to take stock of the current situation and meet the needs of the industry today.

There are still around 10,000 small, single employer trust-based schemes, along with approximately 5,000 small DB schemes. Together, these small schemes equate to a large number. They are an important part of the UK pensions industry – they are the bulk of it in fact.

Consolidation may be on the way, but these vast numbers mean that it is still many years yet before we are seeing the industry comprise of the few, large schemes being imagined.

So, looking at the situation today, there are concerns about the governance and management of these small schemes. However, it seems much of the focus is on criticising these schemes, and less effort made on suggesting immediate solutions to the problems.

While it is vital to point out their flaws, focusing only on the negatives of small schemes 'for their own good' is of no use on its own, and is surely demoralising for those working hard managing these schemes.

So, instead of constantly berating small schemes, what steps can be taken right now to help with their problems – instead of just waiting for them to move (or be pushed) into larger funds?

The industry has begun to tackle this question. For instance, our feature on small scheme de-risking *[p69]* notes a recent growth in de-risking products available to small DB schemes – brought about ironically by the recent industry attention on the number of small schemes and the need for them to consolidate. Having let them struggle on for years, solutions are now being offered just as their days are declared numbered. But the fact that products are being increasingly developed specifically for the small scheme market can only be a good thing.

Those managing small schemes deserve solutions tailored to their needs, just as much as the large schemes. After all, as anyone who has recently seen the *Guardians of the Galaxy II* film and marvelled at the Baby Groot character can attest, small can definitely be mighty. I am sure there are a number of well run, small schemes that deserve praise. Just as I'm sure the majority of people running small schemes are doing as much as they can with the resources they have.

Therefore, this issue is dedicated to all of those involved in managing small pensions, who are doing their best to provide optimum outcomes for members under challenging conditions without fanfare or recognition. On behalf of *Pensions Age* – thank you.

**Laura Blows, Editor**

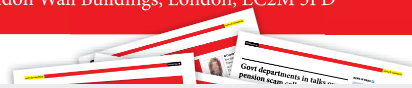
COVER FEATURE

## Theme: Looking small

# Features & columns

Sixth floor, 3 London Wall Buildings, London, EC2M 5PD





## News, views & regulars

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**NEW circulation figures**

**Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). This is our BEST EVER circulation audit, and we would like to thank all our readers for their support. The average circulation July '15 to June '16 comes in at 15,323 print copies, near double most of our competitors. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPC, AMNT). (source: ABC, see www.abc.org.uk). Pensions Age is also sent as a Tablet Edition to our 24,000+ online subscribers (source: Publishers Statement September '16).**


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# Dateline - May 2017

## Rounding up the major pensions-related news from the past month

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**2 May Theresa May** reveals plans to protect employees' pensions from "irresponsible bosses", following the BHS scandal. Dubbed as the 'Philip Green Charter', the Conservative Party's election manifesto will deem it a criminal offence for bosses who put pension schemes at risk and will increase the punishments for those found to be mismanaging schemes.

**3 May** The **Monsanto Pension Plan** completes a c£100m pensioner buy-in with Scottish Widows. The transaction is the first buy-in secured by the trustee of the plan and covers c150 pensioners.

**4 May** Over half, 51 per cent, of people say they are unlikely to use the £1,500 pensions advice allowance, which could lead to a 'mis-buying crisis', **CoreData Research** warns. According to a recent survey of 509 pension savers, CoreData Research finds that 55 per cent don't know the approximate value of their pension pot and 28 per cent have never checked their pension savings.

**8 May** The **Nortel UK pension scheme** is set to receive over £1bn as part of a settlement from the company's assets after pursuing claims for more than eight years. The figure is part of an approximate $7bn 'lockbox' containing the sale proceeds of Nortel's business and assets. In 2015, courts in the US and Canada decided the $7bn should be divided on a pro-rata basis, based on creditor claims.

**9 May** The majority of pension schemes and providers are lacking essential customer data that is necessary for the success of pensions dashboards, **ITM** reveals. In its official research for the pensions dashboard project, ITM finds that pensions that were set up before 2000, which account for three fifths of the total number of funds considered in the survey, had the highest average levels of inaccurate or missing data. This tends to be caused by issues with legacy books and systems, ITM says.

**10 May** Around 800 jobs will be cut from the merger between **Standard Life** and **Aberdeen Asset Management**, which is expected to achieve cost savings of £200m per year. In a prospectus, the companies say they expect to achieve cost synergies "where duplication exists and by taking advantage of opportunities to leverage the additional scale of the combined group". As a result, the new company, which will be named Standard Life Aberdeen plc, estimates to reduce the combined 9,000 jobs down by 800 over a three-year period.

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

**11 May** Over half, 51 per cent, of pension professionals would support mandatory consolidation of defined benefit pension schemes in some circumstance, the PMI finds. A survey of **Pensions Management Institute (PMI)** members, which included trustees, administrators, actuarial, legal and investment professionals, was part of the PMI's response to the government's DB green paper. Support for mandatory consolidation involved circumstances such as employer insolvency (90 per cent), to keep a scheme out of the Pension Protection Fund (84 per cent), to allow smaller schemes to be managed more effectively (71 per cent) and to improve governance standards (59 per cent).

For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

Leighton Collins / Shutterstock.com

**12 May** The UK will most likely adopt the European Union's **IORP II regulation** despite a current timetable to leave the EU by March 2019, just two months after the regulation must be adopted by all member states, according to Sackers senior associate Ferdinand Lovett. IORP II was adopted by the European Council in December 2016 and member states were given two years to implement the directive. The directive is aimed at facilitating pension schemes development and better protecting pension scheme members and beneficiaries.


**15 May** The amount of money lost to pension scams reached a record £8.6m high in March, with reports from 24 victims, according to figures provided by **City of London Police**. This is a huge increase from February when 12 victims reported combined losses of £779,167 and is the highest amount since May 2015, when £4.9m was reported lost.

**16 May** The UK's **Consumer Price Rate of inflation** reaches 2.7 per cent, the first time it has been above the triple lock's 2.5 per cent rate since September 2013. Since the beginning of the year CPI has been on the increase, rising from 1.8 per cent in January to 2.7 per cent in April, with the Office for National Statistics citing airfares as the main contributor to the increase in the rate in April.

**17 May Tata Steel (TSUK)** has agrees the terms of a regulated apportionment arrangement with the trustee of the British Steel Pension Scheme (BSPS), which includes a payment of £550m. In its full year results for the year end 31 March 2017, Tata Steel says "key commercial terms" of an RAA have been agreed in principle between TSUK and the BSPS trustee, including the payment by a member of the Tata Steel group of an agreed settlement amount of £550m to the BSPS and the provision of a 33 per cent equity stake in TSUK.

Anton Havelaar / Shutterstock.com

**18 May Royal Mail** records a surplus of £3,839m as at 26 March 2017, on an IAS 19 accounting basis. Its full-year results reveals an increase of £409m to its surplus, up from £3430m on 27 March 2016. Assets for the scheme increased from £7,374m to £9,847m and liabilities also increased from £3,815m to £5,992m.

**19 May** The **Investment Association (IA)** should not be responsible for developing the Cost Disclosure Code because it is a trade body that is "conflicted" with its members' interests. The comments, made by the Transparency Task Force (TTF), are in response to the IA's consultation on its proposals for the code.

**22 May** Over half of pensions professionals say that the 'gilts plus' pensions valuation method is unhelpful in the current environment, **Aon Hewitt** reports. According to Aon's poll of over 800 pensions professionals, 56 per cent thought the gilts plus method 'still has a place, but is not helpful in the current environment', while 8 per cent said 'it is broken and shouldn't be used'.

# News focus


## Political parties split over pension policies as General Election looms

**The upcoming General Election has seen pensions pushed into the limelight as the issue of the triple lock and other pensioner benefits take centre stage in the battle between the parties**

Pensions have taken the spotlight in the upcoming General Election with the publication of party manifestos revealing contrasting policies.

The incumbent Conservative Party has stated its intention to end the triple lock on the state pension in 2020, and will replace it with a double lock that will see pensions increase with the highest of either inflation or earnings.

The Conservatives have revealed plans to scrap the winter fuel allowance for better-off pensioners in order to fund social care. It plans to means-test winter fuel payments, "focusing assistance on the least well-off pensioners, who are most at risk of fuel poverty". The money gained from this policy will be transferred directly to health and social care. However, it will maintain all other pensioner benefits, including free bus passes, eye tests, prescriptions and TV licences, for the duration of this parliament.

Commenting on the Conservatives' plan to scrap the triple lock on state pensions, Aberdeen Asset Management head of retirement savings Gregg McClymont opined: "On the face of it, this looks like a victory for the Treasury. The triple lock is eye-wateringly expensive over the long term."

In contrast, Labour has confirmed its plans to guarantee the triple lock throughout the next parliament, as well as other benefits such as the winter fuel allowance and free bus passes. The party has also vowed to protect the pensions of UK citizens living overseas in the EU or further afield and find a solution for women born in the 1950s who have had their state pension age changed without "fair notification".

It is looking into extending pension credit to hundreds and thousands of the most vulnerable women and other transitional protections, to ensure that these "women have security and dignity in old age".

Furthermore, Labour plans to legislate so that accrued rights to the basic state pension cannot be changed, but future benefits can. The party will put on hold any further increases to the state pension age beyond 66 and instead commission a new review of the pension age, which will look at developing a flexible retirement policy to "reflect the contributions made by people, the wide variations in life expectancy, and the arduous conditions of some work".

However, the plans were criticised as Barnett Waddingham senior consultant Malcolm McLean argued that the cost implications of Labour's plans are "enormous and as such are almost certainly unrealistic".

"Independent estimates have suggested that effectively capping the SPA at 66 might cost as much as £300bn, whilst the plan for a flexible retirement age, initially considered in the recent Cridland review, was rejected as being 'horrendously complicated' to implement."

The Liberal Democrats have also vowed to retain the triple lock and introduce a single rate of tax relief for pensions if they are elected. However, they have also pledged to withdraw the winter fuel payment from pensioners who pay tax at the higher rate, but said it would retain free bus passes for all pensioners.

With regards to workplace pensions, the Conservative Party said it will continue to support the expansion of auto-enrolment by extending it to small employers and making it available to the self-employed. It will also continue to promote long-term savings and pensions products, such as the Lifetime ISA, to "encourage and incentivise more people to make provision for long-term needs".

Hargreaves Lansdown head of policy Tom McPhail said that while this decision is welcome, auto-enrolment should also "be expanded to accommodate the lower paid as well, who are currently missing out on much-needed retirement savings".

Following the high-profile BHS pension scandal, the Conservatives revealed plans to tighten the rules surrounding business owners who "abuse pension funds and put them at risk" for their own "lavish enrichment".

"We will build on existing powers to give pension schemes and The Pensions Regulator the right to scrutinise, clear with conditions or in extreme cases stop mergers, takeovers or large financial commitments that threaten the solvency of the scheme.

"We will also give The Pensions Regulator new powers to issue punitive fines for those found to have wilfully left a pension scheme under-resourced and, if necessary, powers similar to those already held by the Insolvency Service to disqualify the company directors in question.

"We will consider introducing a new criminal offence for company directors who deliberately or recklessly put at risk the ability of a pension scheme to meet its obligations."

Under plans to create UK sovereign wealth funds, the Conservatives will create a number of Future Britain funds, and pension funds will be encouraged to join the funds.

On the other hand, Labour has pledged to "restore confidence" in the workplace system. It will end "rip-off hidden fees and charges", and enable the development of large, efficient pensions funds, which it said will mean more cash for scheme members and lower costs for employers.

More alike, Labour also plans to amend the takeover regime to ensure that businesses identified as being systematically important have a clear plan in place to protect workers and pensioners when a company is taken over because "workers shouldn't suffer when a company is sold".

It will also give members of the local government pension scheme full trustee status to help control investments, and reduce fees and charges. It also said it will protect nuclear workers' jobs and pensions.

Whilst none of the other parties mentioned pensions tax relief in their manifestos, the Liberal Democrats pledged to establish a review to consider introducing a single rate of tax relief for pensions, which would "be designed to be simpler and fairer and would be set more generously than the current 20 per cent basic rate relief".

The People's Pension director of policy and market engagement Darren Philp said that the current tax relief system is "not fit for purpose" as it does little to act as an incentive to save. "We welcome this commitment to look at tax relief and believe that a flat rate of relief is the right route forward. This will address the unfairness in the current system and will put tax relief on a sustainable and long-term footing," he stated.

Furthermore, the Lib Dems said it will aim to raise the employee national insurance threshold to the income tax threshold, while protecting low earners' ability to accrue pension and benefit entitlements.

**Written by Natalie Tuck and Talya Misiri**

## NEWS IN BRIEF

**RPMI Railpen** has announced its £45m investment in broadband provider Gigaclear. The total deal is made up of a £35m investment into the company and the purchase of £10m of existing shares. The purchase follows considerable investments in Gigaclear from existing shareholders, including Infracapital and Woodford Investment Management. RPMI Railpen investment director Paul Bishop said the partnership is a "natural fit" and will generate "strong returns over time" to pay members benefits sustainably.

**Hymans Robertson** has been appointed by **Taylor Wimpey** pension scheme trustees to provide third-party administration services. With around 18,000 members, it is Hymans Robertson's largest TPA client to date. Taylor Wimpey is a FTSE 100 company and operates 24 regional offices across England, Scotland and Wales. Hymans Robertson is the first PASA accredited provider.

The **Association of Consulting Actuaries** and the **Pensions Archive Trust** have announced the launch of the online ACA archive collection held in the Pensions Archive at the London Metropolitan Archives. The collection is available on the PAT website under the ACA 'Our collections' section.

**Schneider Electric** is the first customer to sign up to **Salvus Retirement Bridge**. The decumulation product was developed in response to growing calls by the Department for Work and Pensions for viable options for consumers approaching or at retirement. The product works by giving customers much greater control over withdrawals. Schneider Electric pensions manager, UK and Ireland Jerry Gandhi said the product's lite-touch model aligns well with the business as it moves to operate in the online space.

# TPR: Majority of schemes with 2017 valuations are able to manage deficits

**The Pensions Regulator's view conflicts with the Pensions and Lifetime Savings Association, which believes the DB funding issue is 'much more significant' than the government's green paper suggests**

A majority of 85-90 per cent of schemes that are undertaking 2017 valuations have employers that are able to manage deficits, with no long-term sustainability issues, The Pensions Regulator has found.

In its annual funding statement, aimed at trustees and employers of defined benefit schemes, TPR noted that while a majority of DB schemes are currently manageable for the long term, trustees and employers have a duty to notify the regulator regarding circumstances that may affect the long-term security of the scheme.

"Employers must notify us as soon as reasonably practicable about employer-related events, for example a decision by an employer to cease business in the UK, or where a director becomes aware that the employer has no reasonable prospect of avoiding insolvency. Notifying us can give us the opportunity to assist or intervene," TPR said in its funding statement.

Nonetheless, TPR noted that while its analysis found that most major asset classes have performed well, increasing scheme asset values, it has not reached a level that could compensate completely for increased liabilities. From this, a number of schemes are likely to show larger funding deficits in 2017 than predicted in their last valuation, TPR said.

Moreover, TPR advised that when setting valuation assumptions in the current economic environment, trustees are encouraged to engage in scenario planning and sensitivity analysis to understand the extent to changing market conditions could affect long-term risks and returns.

The regulator's more positive view on DB scheme funding conflicts with the response of the Pensions and Lifetime Savings Association to the government's DB green paper. In its response, the PLSA's DB Taskforce noted that schemes in the weakest solvency group allocated by the regulator only had a 32 per cent chance of reaching full solvency funding after 30 years, while schemes in the strongest covenant group had a 90 per cent chance.

In addition to this, schemes in the bottom two covenant groups, as allocated by TPR, approximately have a 50:50 change of reaching funding solvency. As a result, the PLSA has recommended that additional work is undertaken by DWP, the Pension Protection Fund and TPR to "understand and tackle the extent of risks in the system".

**Written by Talya Misiri**

**VIEW FROM THE PLSA**

**Lobbying the EU is always a challenge at the best of times. Sometimes months of effort appear to lead to nowhere. However, on this occasion the combined efforts of PLSA and our European body, Pensions Europe, not only led somewhere but also led to somewhere we wanted to go.**

I refer to the European Commission's (EC's) recent announcement on regulation of the derivatives markets. Pension schemes have an exemption from central clearing of their over-the-counter derivatives trades. This saves them from converting their assets (principally bonds) into the cash that would be required as collateral for a central clearing process. Even the market's greatest minds haven't yet devised a straightforward way of doing this, so central clearing would be expensive and cumbersome.

It was this impracticality that led the EC to extend the pensions exemption to 2017 and then August 2018. Now the EC has announced an extra three-year extension, with a potential further two years beyond that. The news came in a package of reforms of the European Market Infrastructure Regulation (EMIR), which sets the framework for the EU derivatives markets.

This gives pension schemes some certainty for the medium term at least, although we should be in no doubt that central clearing is still the long-term goal. Of course, it is not a permanent solution, but it is one that takes the issue away to beyond the date when the UK will have left the EU.

**James Walsh, policy lead for EU and international, Pensions and Lifetime Savings Association**

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

# Half of savers unlikely to use pensions advice allowance

**The figure has prompted concerns of a 'mis-buying crisis' with other research suggesting that savers could be 'sleepwalking into an uncertain retirement'**

Over half, 51 per cent, of people say they are unlikely to use the £1,500 pensions advice allowance, which could lead to a "mis-buying crisis", CoreData Research has warned.

According to a recent survey of 509 pension savers, CoreData Research found that 55 per cent don't know the approximate value of their pension pot and 28 per cent have never checked their pension savings.

Less than half, 48 per cent, know how much their pension provider charges and 14 per cent are not aware of who their pension provider is, with a further 17 per cent not knowing how much they are saving toward their pension.

This was higher among those under 30, with 28 per cent of this age group not knowing who their pension provider is and almost three quarters, 73 per cent, found to not know the value of their pot, with 53 per cent having never checked their pension savings.

Moreover, while 82 per cent of people think their generation will face a more financially difficult retirement than current retirees, 49 per cent are not putting any considerable thought into how much they will need when they reach retirement.

Knowledge was also limited when it came to pension investments with nearly one in two savers, 42 per cent, unaware of where their funds are invested and 33 per cent not knowing their pension investment strategy. When it comes to getting advice, only 11 per cent of respondents said they are likely to use the new £1,500 pension advice allowance and 4 per cent said they are very likely to do so.

This lack of knowledge surrounding investments was also uncovered in research from Seven Investment Management (7IM), which found that pension savers risk "sleepwalking into an uncertain retirement" by choosing to reduce their investment risk when approaching retirement.

According to 7IM's discussion paper examining old assumptions for retirement, the strategy of reducing investment risk as retirement nears could leave millions of people running out of money towards the end of their lives.

As a result of its findings, 7IM is calling on the government to make this issue a "national conversation" and is challenging default 'lifestyling' pension funds that gradually switch from equities to bonds as the investor ages. 7IM is also emphasising the role of financial advice in order to ensure that pension savers utilise the investment strategy that's right for them.

The firm noted that its most recent *Value of Advice* report highlighted that, on average, people who take advice on their retirement planning have an estimated £48,279 more in their pot compared to those in a similar income bracket who do not take advice.

**Written by Talya Misiri**

VIEW FROM THE AMNT

**A member-nominated trustee (MNT) will take a long view of his or her defined benefit (DB) pension scheme. This is especially true if the scheme is closed and the sponsoring company can't be blamed for regarding the pension scheme as merely an exercise in damage limitation.**

So how did we get here? In the paternalistic immediate-post-war period, DB pension rights were common. It was an unquestioned part of the wider social security provision of the age (dare I say, the 'Pensions Age'), alongside the new NHS and similar benefits.

Pension-related tax reliefs came to be viewed with suspicion by the Treasury, which imposed the infamous minimum funding requirement (MFR) – in reality a maximum funding ceiling – encouraging successful pension funds to reduce their funding level by increasing the future benefits (liabilities). The damage was not yet obvious. Then came the Gordon Brown raid, taxing dividends payable to pension funds – a convenient revenue raiser invisible to voters.

And ticking away all the while was the longevity timebomb. The cosy assumption that a male on retirement would collect perhaps three years' pension was gradually displaced by the obligation to pay his pension for 15 or more years.

All DB trustees have to grapple with this common heritage, whoever the sponsor. But it is MNTs who have to take the long view of it.

It was the realisation of just how much I had in common with MNTs from other schemes, that I was prompted to join the AMNT. Through our shared experience, we are able to develop a better perspective on that long – and very difficult – view together.

**Peter Neville is pensioner-elected trustee of the BTG plc Pension Scheme (DB) and a member of the AMNT**

AMNT Association of Member Nominated Trustees

# British Airways loses case over trustees' pensions increase

**In other pension fund news, it has been revealed that pension discrimination cases involving firefighters and judges are likely to be combined and heard as one at the Employment Tribunal**

British Airways has lost its High Court appeal to prevent its trustees' discretionary increase to retirees' pensions, it has been announced.

In response to British Airways, the High Court Chancery Division noted that the company's challenge of its trustees' discretionary increase of 0.2 per cent from 1 December 2013 was not justified.

Following a lengthy court process, Justice Morgan said in the report: "I have now considered all of BA's challenges to the trustees' decision to amend rule 15 and to their decision on 19 November 2013 to award a discretionary increase of 0.2 per cent with effect from 1 December 2013. On examining each of these challenges, I am satisfied that the challenges must fail."

The trustees' decision, along with member-nominated trustees, was viewed as having "actively and genuinely engaged with the decision-making process". The court also stated that the decision made on 19 November 2013 "did not change the purposes of the scheme, the purposes of the scheme included the delivery of the benefits defined from time to time by the scheme; the trustees had unilateral power… to define the benefits of the scheme".

In addition, it was stated that while the trustees' decision made on 26 June 2013 to make the same increase was not valid as they had not determined a date for the increase, the later decision on 19 November "had regard to all relevant considerations and to no irrelevant considerations".

"The result of these conclusions is that BA is entitled to a declaration that the trustees of the APS did not, on 26 June 2013, make an effective decision to award a discretionary increase but, otherwise, BA's claims will be dismissed," Morgan concluded.

EQRoy / Shutterstock.com

In other pension fund news, it is likely that separate pensions discrimination cases for judges and firefighters are expected to be heard as one case by the Employment Tribunal, following original conflicting judgments.

The tribunal for the firefighters in February this year ruled that transitional arrangements for the 2015 Firefighter's Pension Scheme did not discriminate on the grounds of age, sex or race.

However, in the case for the judges, the Employment Tribunal held that the Ministry of Justice and the Lord Chancellor had discriminated against younger judges by requiring them to leave the Judicial Pension Scheme in April 2015, whilst allowing older judges to remain in the scheme, and that this discrimination could not be justified. The government, however, has appealed the decision.

Not satisfied with the ruling for the firefighters, the FBU has also decided to appeal the decision. Due to the overlapping issues in the two cases, the Employment Tribunal has made an order to consolidate the appeals, meaning they would hear both appeals through the same process. However, at this stage the judges could raise an objection to the consolidation.

**Written by Natalie Tuck**


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**NEWS IN BRIEF**

**Lothian Pension Fund** is one of the most recent schemes to achieve Pensions Administration Standards Association accreditation. Lothian Pension Fund CEO Clare Scott said: "Administering a pension scheme has never been more complex, and we believe that it is the duty of all schemes to ensure they are doing the absolute best for their members. We saw independent accreditation, with its rigorous assessment process and site visit, as a way of providing members with the assurance that we are doing just that."

The trustees of the **ITN Pension Scheme** have appointed **Premier** to provide secretarial and support services to the board of trustees. The new partnership will enable trustees to continue to provide governance and management during a challenging period of the Scheme's lifecycle, which will see a number of changes to its trustee board.

**Aon** has reached more than $100bn in worldwide assets under management for its delegated investment solutions clients across 10 countries. Aon's investment business now advises on $4.2trn of assets globally for more than 2,500 clients around the world. In the UK, Aon now works with 110 clients managing pension scheme assets of £14bn.

**Pitmans Trustees** announced that it has successfully completed a management buyout and is now a fully independent, manager-owned business. The company currently has governance oversight of over £150bn of assets across its portfolio. In its 2016/17 results, PTL recorded an increased business revenue of 10%, overall revenue by 12% and won 28 new appointments.

# Impact on pensions still unclear one year on from Brexit

**It is not known whether UK pension schemes will need to adopt the IORP II regulation but pension lawyers believe it is highly likely, along with the need to complete GMP equalisations**

One year on from the referendum on the UK's membership of the European Union, pension schemes still do not know how Brexit is going to affect them.

With the country is 'wait and see' mode, Barnett Waddingham senior consultant Malcolm Mclean noted that we now have an acceptance that Brexit will happen. Since the vote, he said most pension schemes have reviewed their investment strategies and tried to protect themselves as best they can against the possibility of any significant downturn. However, he added that as far as he can see, there is "no sense of panic or impending doom".

In terms of what is to come, it will be pension legislation and regulation that will have a big effect on pensions. Squire Patton Boggs partner and head of the pensions practice Clifford Sims said there are two main legal issues, which are the equalisation of guaranteed minimum pensions and the IORP II Directive. On GMP, he said that it would be "naïve to think it won't happen" as the government has "effectively said this needs to happen" although it is yet to set a deadline.

Despite the plan to leave the EU two months after the deadline to implement the IORP II regulation, Sackers senior associate Ferdinand Lovett believes that the UK will most likely adopt the directive.

"We are due to implement the directive two months before we are due to leave the EU. Whether we will *[implement it]* depends on a number of things, such as where we get to in the negotiation process, whether pensions will get swept in with financial services as part of a deal…I sense that this will more likely come in than not."

Speaking at the PMI's annual conference in London, he also noted that the General Data Protection Regulation, which is due to be implemented in May 2018, is also here to stay.

Lovett said most law that was originally derived from the EU has been transposed to UK domestic legislation, so "it is not EU law now, it is UK law". This includes laws surrounding scheme funding, Tupe, anti-discrimination, employer insolvency and data protection. Regardless, the Great Repeal Bill will convert all EU law to UK domestic law so that on the day we leave the EU, there will be very few laws that will change on day one.

"Personally, I can't see a great deal changing on day one. If we look at scheme funding, the PPF, discrimination, the equality act 2010, it's completely functioning in its own right, nothing needs to change for it to work." Instead, he said it will be a task that will "take a significant period of time".

**Written by Natalie Tuck**

VIEW FROM THE ACA

**Last month, we responded to the DWP Green Paper on *Security and Sustainability in Defined Benefit Pension Schemes*.**

We noted that The Pensions Regulator already has significant powers, some of which it has used only sparingly and others of which it has never used at all. It might be worth considering whether the process that The Pensions Regulator has to go through before deciding whether or not to use its powers is overly laborious and whether it could be made easier for it to embark on regulatory intervention using its existing powers.

Our paper says that sustainability of schemes could be enhanced by three things. Firstly, a new facility to enable schemes that can no longer provide the promised benefits to be able to compromise them to a degree (and certainly no less than PPF compensation), subject to key safeguards and where so doing is in the members' best interests.

Also, the introduction of an employer option, exercised with trustee consent, to allow schemes to move from the Retail Prices Index to the Consumer Prices Index when determining pension increases and also (where necessary) revaluation.

Finally, subject to certification, DB schemes should be able to simplify legacy benefit structures so they can reduce scheme administration costs and facilitate hedging and buyout options.

We simply cannot see voluntary consolidation happening unless schemes are given powers to simplify legacy benefit structures in the way we have suggested.

**Bob Scott is chairman of the ACA**

ASSOCIATION OF CONSULTING ACTUARIES

# Diary: June 2017 and beyond

### Pensions Age Northern Conference

7 June 2017

Marriott Hotel, Leeds

Now in its second year, this conference offers pension funds and those working in UK pensions the tools and information that they need to get it right at a time when managing pension schemes is more challenging than it has perhaps ever been. This one-day conference, which is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, will offer delegates the up-to-date knowledge and guidance they need.

**For more information, visit:**

pensionsage.com/northernconference/

### Barnett Waddingham Employer Conference

13 June 2017

Etc venues, County Hall

As the UK enters significant change, finance directors and pension managers are under increasing pressure to develop dynamic pension strategies that work in an independent UK. The half-day conference will question what the future of UK pensions looks like; and how the industry can triumph under the watchful eye of the rest of the world. Delegates are able to select and attend the strategic topics that matter to them most.

**For more information, visit:**

pensionsage.com/northernconference/

### European Pensions Awards

22 June 2017

Millennium Hotel, Mayfair London

Now in its 10th year, the European Pensions Awards have been designed to recognise outstanding achievement in the varied fields within European pension provision, honouring the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds in these increasingly-challenging times.

**For more information, visit:**

europeanpensions.net/awards/

### Future for financial advice and guidance seminar

18 July 2017

Central London

This seminar focuses on the future for financial advice and guidance. Delegates will assess progress in taking forward key proposals from the Financial Advice Market Review, which made recommendations around the affordability and accessibility of advice and liabilities of providers. Discussions will also centre around a range of further policy changes to the regulated advice sector, including the introduction of the pensions advice allowance.

**For more information, visit:**

westminsterforumprojects.co.uk/conference/

**Visit www.pensionsage.com for more diary listings**

Month in numbers

## Three quarters

Over three quarters, 76 per cent, of employees claim that improved financial education would significantly help with important life issues such as planning for retirement, Capita Employee Benefits has found.

According to Capita Employee Benefits' new *Insight Report* series, assistance with saving for retirement was the most popular benefit that employees believed they would gain from financial education.

## £1.3bn

The cost of Royal Mail's defined benefit pension scheme is predicted to reach £1.3bn a year, figures from its latest valuation show. Royal Mail still plans to close the scheme in its current form to future accrual on 31 March 2018.

## 80%

Over 80 per cent of local government pension scheme funds did not include climate risk in their new investment strategies, analysis of their statements has found.

## VIEW FROM THE ABI

**The retirement flexibilities introduced from April 2015 are proving popular. While flexibility is beneficial, it also adds complexity to already difficult retirement decisions that many people may not be able to tackle on their own.**

The ABI's latest analysis dissects how people are using these flexibilities; how well product supply fulfils consumer needs and demands; as well as what actions stakeholders can take to address challenges that pose significant risks to consumer outcomes.

The aggregate picture is that consumers are behaving sensibly with the new flexibilities and demand for income products is steady. However, there are warning signs that shouldn't be ignored – most obviously, the behavioural bias to take cash when offered.

**"Consumers are behaving sensibly with the new flexibilities"**

Our analysis also shows that appetite for cash is not driven by lack of product supply. For even the smallest pots, there is a range of affordable retirement products. The market has also seen innovation, reflecting long-standing needs for both security and flexibility, and new ways to interact through automated advice and other digital tools. However, innovation is not a panacea; people need to be saving more and sooner.

Any future interventions need to be grounded in a long-term, joined-up strategy across government, based on a common understanding of good retirement outcomes. Collective action to address challenges will also help to encourage consumer engagement with their pensions, ensuring as many people as possible reach their retirement goals.

**Tiffany Tsang is retirement policy adviser for the Association of British Insurers**

ABI Association of British Insurers

# Market commentary: FTSE 100 high


A weaker pound saw the FTSE 100 reach record highs in May with it peaking over 7,500 for the first time.

On the 16 May, the FTSE 100 reached 7,522.03 and has since remained high, which Gatemore Capital Management UK managing director Mark Hodgson says is "hugely beneficial" for owners of equities, including pension funds.

However, as Schroders portfolio solutions strategist Alistair Jones highlights the welcome development for UK-listed companies may not have an effect on defined benefit funding levels. He notes that figures from The Pensions Regulator show UK pension schemes only have an average 7 per cent allocation to UK equities, having switched out of the asset class heavily over the past decade.

"Private sector pension schemes tend to hold most of their equities in global companies. Many pension schemes' global equities received a significant boost after the Brexit vote, when sterling depreciated and overseas assets rose. In the light of that, UK equities still have some way to get back to the levels of global equities that have not been currency hedged," he explains.

"For schemes that have experienced some unexpected gains on their UK equities, it would be prudent for them to continually re-assess their exposures to this sector, as they should with all asset classes and geographies. Risks while Britain negotiates its exit from the EU will persist for the next couple of years."

Newton Investment Management global head of distribution Julian Lyne also noted that the "days of UK pensions being invested predominantly in the shares of the top 100 UK countries are long gone" with scheme asset allocation now "far more diverse both in terms of geography and increasingly away from equities into fixed income and other diverse asset classes".

However, it is not just the FTSE that has seen increases, as price-earnings ratios in the UK, Europe and the US are all pushing top decile figures and bond prices in the UK are at historical highs, Hodgson notes. So too has the VIX, which has "risen off lows not seen since before the financial crisis". Hodgson says that this either indicates sustainability of markets, or more, likely, complacency.

"Throw in growing geopolitical risk and it is difficult, as we head into the summer, not to be a little concerned," he says. "Pension funds relying on equities alone should be rightly worried. Even those who think they are immunised through diversification should be looking at how that diversification is achieved – is it through listed vehicles, which are likely to suffer in a broad market downturn, or is it through real exposure to different drivers of return, which should provide protection."

Hodgson adds that the next few years could be when diversified growth funds "earn their corn" and when we find out if they are truly diversified. "In the words of Warren Buffet, 'only when the tide goes out do you discover who has been swimming naked.'"

**Written by Natalie Tuck**

VIEW FROM THE PMI

**Fans of the cult move *Spinal Tap* will recall that the eponymous heavy metal band had significant difficulties retaining a drummer for any length of time. A succession of percussionists joined and then left the band, including one John 'Stumpy' Pepys, who, according to legend, died after a 'bizarre gardening accident.'**

Move to the governmental supervision of pensions reform, and we witness life imitating art. Since the creation of the post of Pensions Minister in 1998, there have been no fewer than 14 appointments to the post (although, to be fair, Stephen Timms has done the job twice).

The honourable exception, of course, has been Sir Steve Webb, who served throughout the course of the coalition government. He brought to the role both enthusiasm and expertise, and his influence on the pensions industry has been beneficial and long lasting.

We in the industry must confess a vested interest, but it is surely fair to say that the role of Pensions Minister is important enough to deserve serious commitment. Ensuring the needs of an ageing society are met in an effective and affordable manner is critical, and the post should be seen as more than just a short cut up the greasy pole of ministerial seniority.

The current parliament saw the role downgraded to Under Secretary of State. We can only hope that whatever government emerges after 8 June will restore full ministerial status and that the new incumbent demonstrates real dedication to what is a vital and demanding role. Certainly, it deserves more than the next parliamentary incarnation of Stumpy Pepys.

**Tim Middleton is technical consultant of the PMI**

# In my opinion

**On The Liberal Democrats' pensions tax relief review**
"We welcome this commitment to look at tax relief and believe that a flat rate of relief is the right route forward. This will address the unfairness in the current system and will put tax relief on a sustainable and long-term footing."
***The People's Pension director of policy Darren Philp***

**On Labour's plans to retain the triple lock**
"Labour's commitment to the triple lock is welcomed – it helps low income current and future pensioners who rely mostly on the state pension. They would be worst hit by the removal of the triple lock. It's also politically astute – it's likely to be a low-cost commitment over the course of the next parliament but will be received well by the electorate."
***Hymans Robertson partner Chris Noon***

**On Conservatives' plans to extend auto-enrolment**
"Automatic enrolment has been one of the standout successes for pensions in recent years, and we are very pleased the Conservatives would like to extend it to include the self-employed. Generally, the self-employed are not making enough plans to save for later life. However, in the absence of an employer contribution we need to find a way of enticing them to remain automatically enrolled and save for their future."
***Hymans Robertson partner Chris Noon***

**On good quality data**
"It's our belief that pension providers must achieve a minimum data quality standard before they can sign up to the live dashboards. If the data standard is too low, the quality of the output in a 'live' environment will be highly unreliable."
***ITM chairman Duncan Howorth***

**On the proposed 'Philip Green Charter'**
"It won't bring back pensions savings lost but it implements the committee's proposals to stop rip offs in the future. It means the era of Sir Philip Green is coming to a close."
***Work and Pensions Committee chair Frank Field***

**Why the pensions cold calling ban might not work**
"This is part of the problem, it's that the Financial Conduct Authority can control regulated businesses in this country, the government can make it illegal to cold call in this country, but it can never stop telephone calls, emails, tweets, from all over the world. It cannot control jurisdiction in the world."
***Hargreaves Lansdown head of pensions research Tom McPhail***

**On proposals to cancel planned state pension age increases**
"The cost of cancelling planned state pension age increases is astronomical. These are eye-watering sums of money which would either have to be found from somewhere or added to the national debt. As we live longer, it is inevitable that state pension ages will have to rise."
***Royal London director of policy Sir Steve Webb***

# Looking for higher yields? Get the right blend

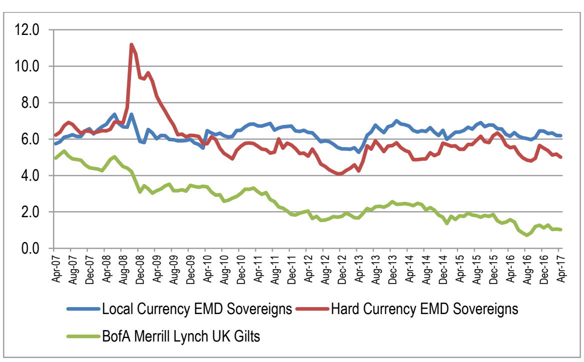
**Nicholas Hardingham reveals how undertaking a blended approach to emerging market debt can provide attractive results for investors**

As more investors look outside traditional government bonds in order to generate a reasonable yield in what is a historical low-yielding environment, emerging market debt (EMD) has been a significant beneficiary of the reallocation. We believe that taking a narrowly-focused approach to EMD is sub-optimal in achieving diversification from traditional fixed income portfolios. Our analysis indicates an allocation to blended EMD categories provides the most attractive diversification outcome.

Over the past decade, we have seen the EMD asset class grow significantly in size as more issuers have come to market, which in turn has increased the opportunity set available to investors. In spite of this, yields for EMD remain attractive in comparison to their developed market peers, and in line with their longer term historical averages (see Chart 1 below).

Recent inflows have helped support strong returns delivered by many EM sovereigns and corporates, but a lot of this capital has been placed into more traditional, often investment grade, EM issuers. They may appear to offer a lower risk entry point to the asset class but this in turn concentrates investors' risks and diminishes the potential diversification benefit.

**Chart 1**
**EMD yields are relatively attractive**
Yield to Maturity of Average Benchmark Indices (%)
10 Years to 30 April 2017



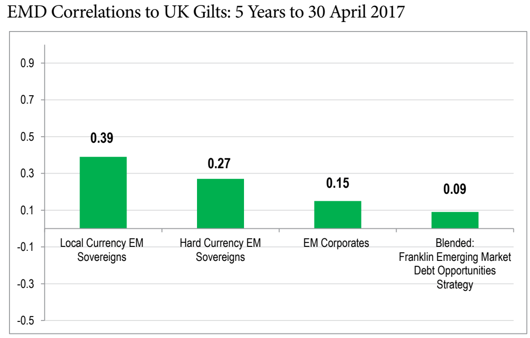

Data source and basis: see below.

## Diversification and an active approach

EMD can be classified into three broad categories: local currency sovereign debt, hard currency sovereign debt and hard currency EM corporate debt. Their qualities in diversifying traditional fixed income assets vary from good to excellent as can be seen in Chart 2 below.

By applying a blended approach to the asset class, pension schemes have the ability to better diversify an EMD allocation in relation to a broader fixed income portfolio. Active allocation has the potential to improve the outcome even further, exploiting the diverse nature of EMD. Added to that, an unconstrained manager has the freedom to avoid large exposures to markets or sectors that dominate indices, which are often more correlated to core fixed income, whilst still capturing the high yields on offer. This is the approach adopted within Franklin Emerging Markets Debt Opportunities strategy.

**Chart 2**
**Low correlation to gilts**
EMD Correlations to UK Gilts: 5 Years to 30 April 2017




**Written by Nicholas Hardingham, portfolio manager, Franklin Templeton Fixed Income Group**

In association with

FRANKLIN TEMPLETON INVESTMENTS

Data source: Franklin Templeton Investments, Barclays POINT as at 30 April 2017. Local Currency EM Sovereigns are represented by the JP Morgan GBI-EM Broad Diversified Index; Hard Currency Sovereigns are represented by the JP Morgan EMBI Global Diversified Index (Chart 2: GBP-hedged); EM Corporates are represented by the BofA Merrill Lynch Emerging Market Corporate Plus Index (GBP-hedged); UK Gilts are represented by the Bank of America Merrill Lynch UK Gilts Index. Due to differences in calculation methodologies between our internal risk database and official benchmark provider, these statistics may not match the official statistics of the benchmark provider.

VIEW FROM THE SPP

**The Finance Act 2017 received Royal Assent on 27 April and it includes, as expected, provisions concerning pensions. Firstly, changes to the UK tax charges that arise on overseas pension savings are included, as is a new 25 per cent tax on certain transfers of pension savings to QROPS.**

However, to ensure the Act received Royal Assent before parliament dissolved on 3 May, the government removed provisions that would have reduced the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000. Also removed were provisions that would have been exempted from income tax up to £500 worth of employer-arranged pensions advice. For clarity, this provision is not the clause that introduced the ability for members to take up to £500 from their pension savings up to three times to pay for financial advice. This measure, the Pensions Advice Allowance (PAA) is in force.

The future of these measures is unclear. The government has said that, if re-elected, it will legislate for these provisions in a Finance Bill "at the earliest opportunity".

So, for the time being, pension savers who are subject to the MPAA, cannot be sure whether they can contribute £10,000 or £4,000 in the 2017/18 tax year. Also, members of pension schemes are deprived of the opportunity of additional tax free advice because the PAA could have been combined with the tax exemption for employer arranged pensions advice, to enable members to access up to £1,000 of tax advantaged financial advice.

**John Wilson, member of the SPP Legislation Committee**

THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

# Soapbox: Cold, hard cash

When it comes to financial savings, people like to be in control of their cash. In a time where we are able to learn exactly how much is in our bank accounts at a click of a button, however, pensions are still lagging behind.

With the initial high uptake of lump-sum withdrawals since the introduction of the pension freedoms in 2015, it seems that the desire to have direct access to monetary savings funds was somewhat confirmed by these retirees.

Speaking at a research briefing earlier this year, The People's Pension director of policy and market engagement Darren Philp and State Street Global Advisors head of DC investment strategy Alistair Byrne referred to a lack of tangibility when it comes to pension savings.

There seems to be a disconnect between pension savings and themselves (savers), in comparison to bank accounts and themselves, Philp noted.

Byrne continued, claiming that there is an issue of tangibility. Money is "tangible when in your ISA and "not" when in a pension fund," he suggested.

SSGA and TPP also highlighted that from their qualitative study of 80 pension savers, the majority of those who chose to withdraw all of their pension pot, "parked it" into another savings fund.

As a result, one cannot help but ask is this lack of palpability creating a space between pensions and ourselves? And, if so, how can this be tackled?

When considering the former, it is possible to use this as a reason for increased preferences for other savings products, including the Lifetime ISA, which is sometimes viewed as an alternative to a pension and cash ISAs. It is clear that some of the population are in favour of these products as they are able to track exactly how much they are saving and so feel a greater connection to their money, possibly creating an increased drive to save.

In comparison, when it comes to pensions, an exact figure is not completely attainable and so can blur savers' view of their finances.

Moreover, with annuities no longer being the only or default option for accessing our pensions, multiple pensions drawdown options scream for the need for financial education and advice. As individuals are unable to fully grasp the complexities of different pensions options available to them, they are left confused and potentially deterred from pension saving.

**"Money is tangible when in your ISA and 'not' when in a pension fund"**

Whether it be education provided by employers or the decision to take independent financial advice, these will assist savers in obtaining a clearer understanding their funds and the long term view and benefit of saving into their pension.

Furthermore, it is hoped that the pensions dashboard will alter how savers view their pensions. Although the service won't provide an exact amount of an individual's total pension savings, it will give an estimated total valuaton and an amount for each pot they have accrued from different providers.

With these, it is more likely that savers will feel more in control of their pension funds, enhance their awareness of how much they have, how much they need, options available to them and eventually enable them to convert their pots into physical, cold, hard cash in retirement.

**Written by Talya Misiri**

# Spend money to save more money

**Andrew Hayward reveals how implementing a data cleanse exercise can actually save a scheme money in the long run**

I recently wrote about the value of ensuring that basic member data is correct and trustees have a plan in place to complete regular checking of member records.

Data for each member is an essential component that is the first step in administering a scheme correctly. If there are gaps and inaccuracies within member records you will be struggling from the outset, mistakes will be made and information may be sent to an out of date address. Your administration team may then become embroiled in checking addresses, allowing less time for them to focus on processing benefits, which is what they are paid to do.

What is not often understood is that routine data checks can pay for themselves and save trustees money in the long run. The best example of this is mortality screening, which we complete monthly for most of our clients who operate a pension payroll. We report quickly and conclusively on recorded deaths enabling administrators to promptly suspend payments. We check the death notifications we receive ourselves to ensure we have identified the scheme member and not a person with the same details. In many case we can notify trustees before they receive confirmation of a death from the family – and that can stop a month or more pension from being overpaid and then remove the need to recover an overpayment, which is often seen as insensitive by members. Small overpayments in these circumstances are often written off by trustees due to the cost and effort in recovering, but over the year collective overpayments add up. One of our clients for who we carry out monthly screening on their entire pension payroll estimates that last year they saved £1.2 million following the screening exercise.

This is not the only way to save money through data checking. We work with trustees to improve their data to identify future liability. We can verify addresses and postcodes, obtain missing addresses and give a good assessment of which members may be married or have a dependent. This information is invaluable to actuaries in predicting future liability. Feedback from one of our clients suggests such work has provided a 1 per cent saving when valuing a scheme ahead of a de-risking exercise, which has easily covered the price of the data cleansing project many times over.

Maintaining accurate basic data will be a requirement that The Pensions Regulator will ask to be documented on the 2018 scheme return. They understand the importance of record keeping and with the imminent GDPR 2018 also stipulating greater data accuracy it makes financial sense to do so to avoid any risk of fines. The ability to communicate with the scheme membership should not be overlooked. Accurate data allows trustees to communicate with all members and ensures they can be agile and quickly take advantage of favourable market conditions. Insurers do not have to make so many assumptions when scrutinising scheme records which are more robust.

One of our clients offers an online risk exchange, which enables their clients to present scheme information to insurers quickly. We work with them to ensure the basic member data is as complete as it can be and spouse append has been completed. This combined with the live platform, has proved fruitful in enabling trustees to be in the best position to obtain the very best rates with insurers.

How do you know what the quality of your basic member data is? How can you establish who has moved and where to target improvements? Most tracing agencies offer a quick and free data assessment, which can recommend staged next steps so improvements are made cost effectively. Continued data checking then ensures that the cost of such exercises in future years becomes more manageable as the data is constantly reviewed.

**GDPR puts greater restraints on what data can be used for tracing. Get it right now – don't face the risk of a fine.**

**Written by Andrew Hayward, client manager, Target Professional Services**

# People on the move

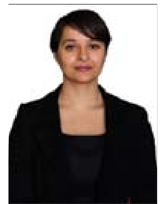

A Warwick-Thompson

**The Pensions Regulator**'s executive director for regulatory policy Andrew Warwick-Thompson is to leave the firm to become CEO of LGPS Central.

Warwick-Thompson joined TPR board as executive director in 2013, where he has shaped regulatory policy across TPR defined benefit and defined contribution schemes including master trusts. He was also responsible for EU pension policy work and the development of pension policy with UK government partners, principally HM Treasury and DWP.

Warwick-Thompson will take on his new role as LGPS Central CEO in July, working alongside non-executive chair Joanne Segars. TPR is to yet to announce a successor.

Warwick-Thompson said: "I have hugely enjoyed my time at TPR, not least because of the calibre of people I have had the opportunity to work with...I care deeply about making pensions work for people and will relish the opportunity to continue that work in my new role."


Sonia Gogna

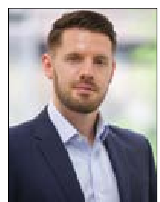
**Aon** has appointed Sonia Gogna as principal of its fiduciary management team. Gogna joins Aon's retirement and investment practice, leading its fiduciary management team. She will focus on large pension schemes, assisting with their long-term objectives. Gogna has 15 years experience working within the asset management industry and joins from State Street Global Advisors, where she was a senior investment


Donald Fleming

**RSM** has hired Donald Fleming as a new restructuring advisory partner. Fleming joins RSM's pensions covenant assessment team and will be based in its London office. He specialises in covenant assessment and pensions advisory services, leading developments in the sector. Over the past 12 years, Fleming established a practice advising some of the UK's leading pension schemes.


Phil Haworth

**Kames Capital** has appointed Phil Haworth as deputy head of equities. Haworth will work alongside Kames Capital's head of equities Stephen Adams to run the firm's equity team, looking at multi-cap, smaller companies, absolute return, ethical and unconstrained investing. He will also continue to co-manage the Kames UK Equity Fund and Aegon UK Equity Pension Fund, as well as contributing to Kames' asset allocation research.


Ian Burke

**Trafalgar House** has announced the appointment of Ian Burke as senior business analyst. Burke joins from the Pension Protection Fund, where he served as business process lead and has previously held roles within the administrative departments of Atkins Plc, Mercer and Hewitt Associates. His newly-created role is part of the firm's continued investment into its team and wider growth plans.


Laun Middleton

**LCP** has appointed Laun Middleton as a partner in its investment consultancy. He joins with 15 years of pensions and investments experience, most recently leading the corporate investment advisory team at Willis Towers Watson and has also worked in pensions, investments and risk at Deloitte. At LCP Middleton will assist trustees and sponsors with integrating risk management and with funding requirements of their schemes.


Ruston Smith

**PTL** has announced a new board and welcomed Ruston Smith as non-executive chair.

Smith joins as non-executive chairman, having previously served as group pensions and insurable risk director at Tesco, CEO of Tesco Pension Investment and former chairman of the Pensions and Lifetime Savings Association.

PTL also announced a new board of four new directors, replacing the previous owner directors who retired following the MBO. Kim Nash, Colin Richardson and Alison Bostock will join the board as equity directors, joining Richard Butcher, Steve Carrodus, David Hosford and David Archer.

Butcher said: "One of the big advantages of the MBO was that we could reshape the board to really reflect who we are as an organisation. That meant having people on there who work in the business, who live and breathe pensions. These individuals truly understand the objectives and challenges our clients have, that we have and that the industry has."

# Working together: Absolute returns and LDI

## Jonathan Smith explores the options for additional returns alongside LDI

'Absolute return' investing encompasses a wide range of strategies and there are many potential roles they can play with a view to delivering a defined outcome. In this article, we take a closer look at their potential application alongside Liability Driven Investment (LDI) and argue that an appropriately managed absolute return bond fund may offer scope for additional returns whilst meeting other important considerations.

**Options for released cash**

A key benefit of LDI is the ability to achieve more than £1 of coverage per £1 invested. This presents trustees with a nice problem to have: what to do with the released cash? Trustees have three options:

1) Keep the cash as an additional buffer to meet future LDI rebalancing calls
2) Use the cash to support more LDI coverage
3) Invest the cash in a strategy to increase expected return (illustrated below)


For option 3) the strategy selected to enhance returns should meet two criteria: firstly, it should offer an attractive return over cash. Secondly, and crucially, the strategy selected should not compromise the main objective of the matching strategy – to manage funding level risk. This means not introducing unwanted funding level volatility in the search for additional returns. The strategy will also need to be a suitable source of cash for when the LDI requires rebalancing. This means it should be sufficiently liquid and, ideally, have a low correlation with the LDI strategy to avoid the risk of buying high or selling low.

**Volatility and liquidity considerations**

Based on these criteria, equity based strategies are likely to be ruled out on the basis of introducing too much volatility. Many alternative asset strategies are also likely to be unsuitable due to their lack of liquidity. However, credit and alpha (strategies that seek to generate returns through manager skill) are potentially suitable sources of return. These can typically be found in absolute return bond (ARB) funds.

The ARB strategy selected should be suitably constructed to fit alongside an LDI strategy. Firstly, trustees should ideally look for an ARB strategy with a low duration. The LDI strategy will generally provide the duration that the trustees require. Adding a strategy with material corporate bond duration may mean needing to reduce the LDI allocation in order to maintain the desired level of coverage, whilst at the same time introducing unwanted credit spread duration. Credit spread volatility can be significant and can, in some cases, outweigh the risk reduction benefits of the LDI strategy. This is more likely with longer maturity credit portfolios.

Alpha will generally complement credit in strategies used alongside LDI. Alpha strategies can reduce market cyclicality and improve diversification. They can also reduce the correlation of the strategy with the LDI strategy to reduce market timing risk when rebalancing the LDI portfolio. However the strategy should be diversified and risk controlled. The range of opportunities in fixed income markets (FX, Duration, Issuer/Sector) make fixed income alpha a natural fit for matching strategies, provided the ARB fund is taking full advantage of the opportunity set.

Finally, the ARB strategy selected should have sufficient dealing frequency in order to facilitate timely LDI rebalancing. Selecting an ARB strategy managed by the same provider as the LDI strategy can have governance advantages as the fund manager may be able to manage the LDI rebalancing on the trustees' behalf.

ARB funds are often suitable sources of additional return alongside LDI strategies. However trustees should check that the strategy selected is consistent with the risk management objectives of their LDI strategy. An ARB fund consisting of short duration, diversified global credit, supplemented with diversified fixed income alpha strategies may be such a suitable strategy.

**Written by Jonathan Smith, director investment solutions, BMO Global Asset Management**

## Musings of an MNT


# Big Brother is here to help

The 2002 science fiction film *Minority Report*, set in 2054, examines the ideas of 'free will' and 'determinism' in a future in which technological advances have allowed government and media unlimited presence in people's lives.

In one scene John Anderton, the main protagonist, is walking through a shopping mall; each time he passes a shop the retailer's software identifies him and from his profile alerts him to the specific offers on sale that match his need.

In the film this is done by 'optical recognition' but a similar incident happened to me recently when I passed a retailer; my mobile phone rang with a message advertising that store's sale. Though this was a general alert and not specifically directed at my personal profile it showed that the level of technological sophistication is fast approaching the scene in *Minority Report*.

I suspect most people will see this type of intrusion as one more example of 'Big Brother is watching', but does this need to be the case?

Holding personal data that is accurate and relevant is vital to the workings of a defined benefit pension fund as it is the means by which we can undertake our fundamental purpose, to pay pensions to the right person, at the right time and at the right amount.

The law places a duty of care on all data holders as set out in the eight principles of the Data Protection Act 1998. Breeches of these principles have a damaging effect on any data holder, both in financial and reputational loss.

The news is full of companies who have data breeches or whose systems have been hacked for material gain or simply out of mischief. This makes us all suspicious of those who hold data and the usage of information held.

Maintaining accurate data to the level needed is vital, but expensive, as has recently been demonstrated by the need for pension scheme administrators to reconcile their membership and guaranteed minimum pension (GMP) data against the records held by HMRC to support the ending of contracting out.

Pension funds also have a duty to ensure they have accurate contact details for all their members, a task that is particularly difficult when a fund, like my own, has deferred members totalling hundreds of thousands who rarely let us know when they move.

All these measures, important as they are to make correct pension payments, are passive or reactive. Information can be used in a positive manner and not just to assist targeted programmatic advertising. Unfortunately Donald Trump has not helped this latter view by dismantling Obama privacy laws, allowing service providers to sell web-browsing data without consent.

Positive data, like collecting personal medical information, is used to make live-saving diagnoses.

Similarly data collected by financial institutions can be used positively to benefit its clients. Monzo, an online bank founded in 2015, offered its users (until now just pre-pay card holders) a surprising saving. By crunching the data it held on its users it found that one in 10 were paying over the odds when tapping in and out of London's Tube system and suggested they buy season tickets instead.

In over protecting ourselves from intrusion by sellers of financial or retail services and by preventing the sharing of data between information holders are we denying ourselves the opportunity to have tailored options to suit our needs now and in the future?

The choice should not simply be between 'free will' and 'determinism' but about how to use data to benefit the individual. Big Brother could be made to help.

**Written by Stephen Fallowell, member-nominated trustee, Royal Bank of Scotland Group Pension Fund, writing in a personal capacity**

# Managing pension risks effectively

**All pension funds have risks – the challenge is identifying, prioritising and managing them in a consistent manner which adds value to both trustees and sponsor. Eddie Hodgart describes below some options for trustees to consider**

When it comes to dealing with pension risks, trustees can choose to:

• **accept the risk** if the value associated with the activity exceeds the potential consequences
• **avoid the risk** and do not proceed with the associated action
• **transfer the risk** to someone else
• **mitigate the risk** through specific actions and ongoing monitoring.

Decisions regarding the above are usually recorded in the scheme's Risk Register, along with information for each identified risk such as: a risk score, actions taken to mitigate the risk, steps taken to monitor ongoing risks, etc. Therefore, an effective Risk Register is, in theory, ideally positioned to support trustees to proactively manage their risks. However, are Risk Registers really being used in this manner? Are trustees seeing the value?

**Are Risk Registers adding value to trustees?**

Probably not for many trustees. The quality of Risk Registers and the frequency with which they are being reviewed varies enormously from scheme to scheme. There is just too much information – what is the likelihood that a corporate board would review a 12 page Excel document at a meeting? Trustees should not have to bury themselves in detail at trustee meetings. Risk Registers need to be sharper, more focused, relevant and shorter. Trustees also want their Risk Register to be a robust, flexible tool to accommodate and analyse future risks as and when they occur (if not before) rather than simply a statement of fact at a point in time.

**What could be done differently?**

In actual fact, some relatively simple actions taken could radically improve how Risk Registers are perceived, adding real value to both the trustees and sponsor. In the table below, we set out five important elements of a Risk Register and how they could be improved.

Risk Registers are the front line of managing risk and they need to be used effectively with all parties seeing value in the process. Rather than focusing too much time on the details, trustees should be focusing on value-added discussions on the appropriateness of risk monitoring and mitigation.

Small steps in the right direction can make all the difference.

**Written by Eddie Hodgart, risk and assurance director, Crowe Clark Whitehill, 0207 842 7116 eddie.hodgart@crowecw.co.uk**

In association with

Crowe Clark Whitehill

| Elements of a Risk Register | Commentary |
|---|---|
| 1. Expand the purpose of the Risk Register | • The Risk Register should be the 'go to' document for all aspects of Risk Management.<br>• The Introduction should describe the Trustees' long term strategy and risk philosophy, provide a description as to how risks are measured / assessed, identify who is accountable for pension risk management and provide a summary of the current key risks. |
| 2. Assessing Risks | • Risk factors such as likelihood and impact should continue to be the most commonly used risk factors. However, other risk factors should be explored from time to time including: vulnerability, timing, tolerance for risk and risk contagion. |
| 3. Demonstrating value | • Most Risk Registers currently only 'score the risk' after steps have been taken to mitigate the risk<br>• Going forward, Trustees should produce two risk scores for each risk – pre and post mitigating actions. The difference between the scores is the value that the risk mitigation has added (some pension arrangements do this already using the concept of 'gross' vs 'net' risks). |
| 4. Prioritising risks and subsequent actions | • Two approaches are commonly used – forced ranking using risk scores and heat map analysis (using likelihood / impact scores).<br>• Further work is required to consider how best to deal with rare / unusual / extreme events and heat map designs.<br>• The focus having identified the key risks, however, should be on 'what happens next?' |
| 5. Controls | • Trustees need to review the effectiveness of their designated control mechanisms more frequently. |

# Pensions history

## Pensions by candle light

**Following the article in January's *Pensions Age* about early UK pension schemes, it is claimed that Price's Patent Candle Company was the first employer in the country in 1893 to introduce a contributory employees' pension scheme that included shop floor workers**

The company only started manufacturing candles in 1830 and, as such, was a comparative newcomer to an ancient trade. It still flourishes today and supplies a wide range of candle products.

It was amongst the first to explore industrial applications for the new chemistry of fats to produce better products. They brought light to the working classes of Victorian Britain, who had previously been unable to afford artificial light. By the 1850s, it was a national household name and had 2,300 employees, of which 1,200 were boys. By the end of the century, the company was the largest maker of the product in the world with a reputation that extended beyond candles to soap, lubricating oils and glycerine.

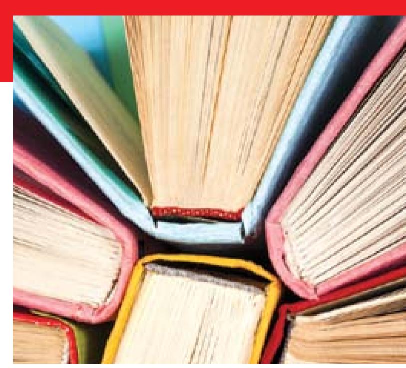
Price's was a benevolent company due to the deeply-held religious views of one of the owning families, so when setting up its Liverpool factory it started building a village for its employees. This model village was built in stages but eventually comprised 147 houses, a church, institute, shop and library. The Price's concept of model villages inspired Port Sunlight (Lever 1880s) and Bourneville (Cadbury 1890s). Price's also introduced an educational programme for staff and in 1869 a profit-sharing scheme. For further details on the company's history go to: http://www.prices-candles.co.uk/history/historydetail.asp

*If you would like more information about the history of pensions or to know more about the work and records of The Pensions Archive Trust, go to http://www.pensionsarchive.org.uk/. You can contact us through the website or via: alanherbert@btconnect.com. If you wish to become a friend of PAT, please go to: http://www.pensionsarchive.org.uk/friends .*

**Written by Alan Herbert, chairman, The Pensions Archive Trust**

# Reader's corner

### ***High Returns from Low Risk: A Remarkable Stock Market Paradox* by Pim van Vliet and Jan de Koning**



*High Returns from Low Risk: A Remarkable Stock Market Paradox* is a superb account of how low volatility, low-risk portfolios can beat high-volatility portfolios hands down. The authors Pim van Vliet, a senior portfolio manager within the quantitative equities team of Robeco and Jan de Koning, a client portfolio manager for the firm's quantitative equities strategies team, combine stock market data going back to 1929 to outline the counterintuitive theory of how investing in low-risk stocks will continue to provide superior returns and neatly draw upon the business growth analogy of the 'tortoise and the hare' as a strategy for investing.

Both accentuate that the plodding patience of the tortoise approach to investing in the stock markets always beats the hare approach, and due diligence of stock market analysis is of paramount importance before embarking on the investment journey.

Readers also have the pleasure of discovering the formula that outperforms Greenblatt's – the hedge fund manager who came up with The Magic Formula, a value investing strategy focusing on finding quality value stocks composed from two fundamental ratios, a return on capital and earnings yield. In addition, one has the privilege of learning how to construct your own low-risk portfolio and how to select the right ETF or low-risk fund to manage your money.

In-depth investment strategy accounts can often be enough to force the reader to put the book down one chapter in, but not this one. Easy to read and easy to follow, the authors interlink their theory through the wonders of the world of nature, and underline their own personal experiences within the stock market process. A must-read for all institutional investors looking to reap investment rewards in an ever-increasing tough economic environment.

**Written by Adam Cadle**

# Pension advice allowance

**Matthew Swynnerton looks at issues for trustees to consider in relation to the introduction of the pension advice allowance**

On 6 April 2017 a new authorised payment was introduced – the pension advice allowance payment – which will allow people to take specified amounts from their defined contribution (DC) pension pot tax free to pay for retirement financial advice. This was introduced in light of a recommendation from the Financial Advice Market Review, which found that high quality financial advice can have a significant impact on retirement incomes.

Pension advice allowance payments can be made from money purchase arrangements and therefore this issue is relevant not only for DC schemes but also for DC Additional Voluntary Contributions in defined benefit schemes. These payments can also be made from hybrid arrangements. It is not mandatory for schemes to permit pension advice allowance payments but trustees may want to consider doing so. This article looks at the legislative criteria to be met for a payment to be a pension advice allowance payment and therefore an authorised payment, as well as some of the issues that trustees will need to consider if they are planning to offer this option.

### The definition of advice

The payment must be for "retirement financial advice" or the implementation of such advice. The legislation defines "retirement financial advice" as "advice in respect of the person's financial position, including their pension arrangements and the use of their pension funds". HMRC guidance provides some examples of advice that it is satisfied is caught by this definition, which include advice on whether in retirement the person will need to access sources of income other than their pension savings. HMRC also provides some examples of advice that would not be covered by the definition. The advice must also be regulated financial advice provided by a financial adviser regulated and authorised by the Financial Conduct Authority.

### The amount of the allowance and limits on use

The payment cannot exceed £500 and must be paid by the scheme directly to the financial adviser. Individuals are permitted three uses of the allowance in their lifetime (meaning that a total of £1,500 can be withdrawn) but will only be able to use it once per tax year. HMRC guidance notes that there is no facility to carry forward any unused allowance nor to make two payments in respect of the same tax year even if they total no more than £500.

### Declarations from members

The payment must be requested in writing and contain a declaration that the limits on the use of the allowance are not exceeded and that the advice meets the requirement to be regulated financial advice.

### Issues for trustees to consider

The first issue for trustees to consider is whether they want to permit pension advice allowance payments to be made by their scheme. If they decide that they would like to do so, there are a number of issues that they will need to consider and potentially take advice on before implementing the changes, including the following.

- Whether any amendments will be needed to the scheme rules to permit such payments and whether to place any restrictions in the rules on when such payments can be made.
- The advisers to whom the scheme will permit payments to be made. For example, whether there will be a panel of approved advisers or whether choosing an adviser should be the explicit responsibility of the scheme member.
- Whilst the member will have to provide a declaration that the limits on the use of the allowance have not been exceeded, the Treasury has stated that providers, trustees and advisers are still expected to operate with basic due diligence to prevent misuse of the allowance. Trustees should therefore consider what due diligence processes to put in place, for example, checking the member's record for previous uses of the allowance.
- Whether any other changes are needed to administration processes to ensure payments are made in line with the requirements in the legislation (for example, trustees may want to consider checking that the adviser is regulated and authorised by the Financial Conduct Authority) and what changes are needed to member communications.

**Written by Matthew Swynnerton, partner in the pensions practice, DLA Piper**

# Aiming high

**Francesca Fabrizi looks back at an interesting and informative Pensions Age Spring Conference**


The theme for this year's Pensions Age Spring Conference was 'Aiming High' – a reflection of the great lengths pension trustees, managers and anyone involved in running a pension scheme are having to go to in order to meet the challenges that today's pensions world presents.

Help, however, is at hand and many of the speakers at the event, which took place at the superb Waldorf Hilton Hotel in London, went to great lengths to demonstrate ways in which pension funds can better manage their assets, as well as improve their day-to-day scheme management in order to fulfil their duties to the best of their abilities.

Opening the day was an insightful presentation from our first keynote speaker, Pension Protection Fund (PPF) general counsel David Taylor. Given the events of the last 12 months, DB pensions and the protection framework have certainly risen back up the agenda. Taylor reflected on the challenges facing schemes and employers, discussed the PPF's current priorities, looking ahead to the future, including what's to be expected of the next three years of the levy.

The PPF is in safe hands and "not run by a bunch of mugwumps" Taylor re-assured delegates, and stated that its funding strategy was "on track". Taylor also argued that the negative headlines surrounding the PPF's compensation cap of £30,000 were unwarranted and that the average annual compensation figure was £4,000, meaning the compensation cap of £30,000 bites on less than half a per cent of members.

Continuing on with the investment theme, Invesco fund manager Richard Batty explained how a number of potential storms on the horizon could generate very different outcomes for global financial markets. He then outlined how pension schemes can look to achieve genuine diversification in such an unpredictable environment, highlighting opportunities in some less traditional arenas in an effort to demonstrate how Invesco can help pension funds find compelling investment ideas even in difficult markets.

The discussion then moved to the more specific asset class of property with Kames Capital fund manager of indirect property Tony Yu, showcasing a new approach to accessing property market returns which can enable UK pension schemes to access property returns with reasonable levels of risk and liquidity in ways they maybe had never considered before.

The topic of fiduciary management was next in the spotlight as SEI client director in the institutional group, Brian McCauley, drew on real-life examples to demonstrate how pension schemes of all sizes can benefit from the power of scale to "punch above their weight" and achieve results. McCauley continued on with the boxing theme throughout his session to demonstrate how fiduciary management can provide trustees with more efficient portfolios, greater control and pound for pound better value for money.

Taking a very practical approach, Wellington Management investment director in the global multi-asset strategies group, Matt Bullock, used his session to help trustees navigate the world of multi-asset, highlighting the key questions they should be asking their multi-asset manager in order to help them achieve the best results. Many multi-asset funds behaved exactly like the market during recent intense bursts of volatility, he explained, which is not what investors generally expect when outsourcing to professional asset allocators. He continued on to demonstrate why, in an environment of increasing volatility and geopolitical concerns, multi-asset investing needs to evolve from traditional, market-correlated exposures, and highlighted some of the more innovative asset allocation and portfolio construction techniques available to investors looking to protect against market downturns.

Next on the agenda was Aon investment consulting team partner Tim Gardener, who presented his thoughts on the fascinating topic of trustee behaviour. Drawing on his own experience as well as the findings from a joint Aon Hewitt / Leeds University Business School study into trustee behaviour, he looked at the decisions trustees have to make in investment, their relative importance and the way they are taken.

Picking up once more on the current and future economy and the uncertainty that lies ahead, M&G Investments fund manager in the multi-asset team, Eric Lonergan, discussed the profound changes in the economic and investment regime that seemed to be embodied in the headline grabbing events of 2016. These changes, he argued, could well mean that many of the investment strategies that have done well since the financial crisis may not be so well placed in the period ahead. Outlining his observations on the current investment environment, he flagged up the possible behavioural biases that may be in evidence in markets today, and the challenges that could lie ahead for investors.

Pension freedoms, one of the most dramatic changes to be made to the UK pensions landscape, was the next topic to be tackled with Intelligent Pensions marketing director Andrew Pennie, using

his session to cover the impact of pension freedoms on DC and DB schemes. What are people doing? How are people using new choices? What mistakes and areas of issue/concern are there? These were just a few of the questions tackled in this insightful presentation.

The final presentation before lunch took us back to asset management, with a focus on the role credit can and should be playing in pension fund portfolios today. Pioneer Investment Management senior vice president Michael Temple recognised that, while credit continues to be a key component for institutional portfolios, accessing the depth and breadth of this asset class is not always straightforward. Temple furthermore considered where the best prospects for credit currently lie and highlighted some of the more esoteric opportunities out there and how to best access them.

The afternoon sessions kicked off with a focus on managing cash flow as AXA Investment Managers head of UK liability driven investing (LDI) Jonathan Crowther acknowledged how managing cashflow to ensure schemes can meet pension payments as they fall due is fast becoming a bigger challenge than most people expected. Crowther went on to discuss a recent client's experience in managing this challenge, drawing out potential implications for pension schemes going forward.

Schroders head of multi-asset research Ashley Lester was next to address delegates, choosing to tackle the interesting topic of factor investing. Lester explained how factor investing can help pension fund investors to seek enhanced risk-adjusted returns, reduce portfolio costs and increase performance transparency and how capturing factors can benefit the DC investor.

BlueSky Pensions CEO Paul Bannister, put trustee responsibilities back into the spotlight with a session reflecting on how, given the ever-increasing amount regulation that trustees have to deal with, more pressure is being put on trustee boards to scrutinise every aspect of their governance structure. Bannister explained however that help was at hand and focused on how trustees can best make use of precious meeting time while still maintaining first-class governance.

Standard Life Investments' investment director in the pensions solutions team, Mike Smaje, picked up on this pressure point, explaining how several years of volatile markets have certainly taken their toll on DB pension schemes, many of which now face a common deficit problem. Over the last ten years LDI, he explained, has developed to help schemes tackle this issue and has delivered great benefits to the early adopters. But how beneficial is LDI in a low rate environment? And how can schemes control both asset and liability risks while maintaining their return targets? Just two of the

questions tackled by Smaje on the day.

Finally, it was The Pensions Regulator (TPR) executive director and the conference's final keynote speaker, Andrew Warwick-Thompson, who took to the lectern to outline TPR's corporate priorities for the coming months, including the improvement of pension scheme data and requirements for the 21st century trustee. TPR in particular, he said, plans to address cyber security, as well as the completion of auto-enrolment; quicker intervention where DB schemes are underfunded; creating an effective board structure; and improving its clarity in codes, guidance and other interactions with schemes and employers.

All in all, an insightful and informative day.

*To view a selection of presentations from the day, please visit www.pensionsage.com/springconference/agenda.php*

*The Pensions Age Autumn conference, taking place on 21st September at the Waldorf Hilton in London, is now also open for registration. Please visit www.pensionsage.com/autumnconference*

**Written by Francesca Fabrizi**

**Wednesday 5 July**
Venue: Barnett Waddingham LLP,
7th Floor, Pinnacle, 67 Albion Street, Leeds, LS1 5AA

**Wednesday 20 September**
Venue: Sacker & Partners LLP
20 Gresham Street, London, EC2V 7JE

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# Outsourcing: Solving problems for smaller schemes

## Paul Enderby and Tim Dougall explain how outsourcing can be beneficial for resource-stretched small DB and DC schemes

When it comes to managing and administering DB or DC pension schemes, employers and trustees have limited budgets and limited time for governance. Increasingly, they want to spend both of these more effectively. This is particularly relevant for smaller schemes, where resources are limited and operational challenges are a burden.

**DC – the problems of governance and administration**

As the investment landscape has become more sophisticated, delivering new asset classes and complex strategies to DC members has likewise become more difficult for resource-constrained trustees and employers. They now need to be assured they are discharging their duties effectively.

The ability to pursue other initiatives, especially improving member communications on key levers such as contributions and at-retirement choice, is also being compromised as the challenges of day-to-day compliance, governance and administration take centre stage.

Those who administer schemes have to comply with an increasingly onerous set of duties from the regulator. This combination of pressures means that we are increasingly coming across employers and trustee boards for whom the complexities of managing and governing DC schemes are becoming more and more difficult.

Whilst some trustees and employers have budget for high quality DC advice, and have time and resource to monitor and change investments, the vast majority don't.

One solution is delegating the management, administration and governance of the scheme. This type of arrangement is often the optimal solution for trustees who no longer have the resources or expertise to act in the best interests of their DC members, and for employers who want to ensure the best outcome for their employees.

**Outsourcing in DC – the master trust**

A master trust allows employers to fully outsource the investment, governance and administration of their DC pension scheme. Each employer has a discrete and distinct section of the master trust, and operates its own contribution structure. The governance, investment and administration of the scheme and its assets are overseen by an independent, experienced trustee board, ensuring that members are being well supported throughout their savings journey and that risks are being managed effectively.

The investments are designed and managed by experts, and the whole delivery of retirement savings is entrusted to those whose expertise and resources are focused on ensuring the best experience for members and employers.

Over 66 of some of the UK's most prestigious employers have followed this outsourcing journey and entrusted Legal & General's Mastertrust to manage and deliver over £3.7 billion of retirement savings for more than 637,000 members.

**DB – a difficult environment for trustees and scheme sponsors**

In DB, trustees also face a difficult environment. There is more pressure than ever to control DB pension scheme costs and to put in place a plan for delivering member pensions in full, while complex regulation and volatile markets ensure that this is no small task.

Trustees are increasingly coming up against the challenge of effectively constructing, managing and monitoring complex portfolios against the long-term objectives of their scheme. Often we find that trustees want to free themselves from the burden of making day-to-day investment decisions, while still retaining control of their scheme's overall strategy and objectives.

**Fiduciary management**

Fiduciary management is a governance model that helps overcome these challenges. A fiduciary manager works with trustees and sponsors to help define their objectives, and takes responsibility for delivering against those objectives through the day-to-day management of a scheme's assets.

At LGIM, we use our scale and expertise the UK's largest pension fund manager to help schemes of all sizes increase portfolio efficiency, avoid unnecessary costs, de-risk over time and target a route to self-sufficiency or buyout through our fiduciary management service.

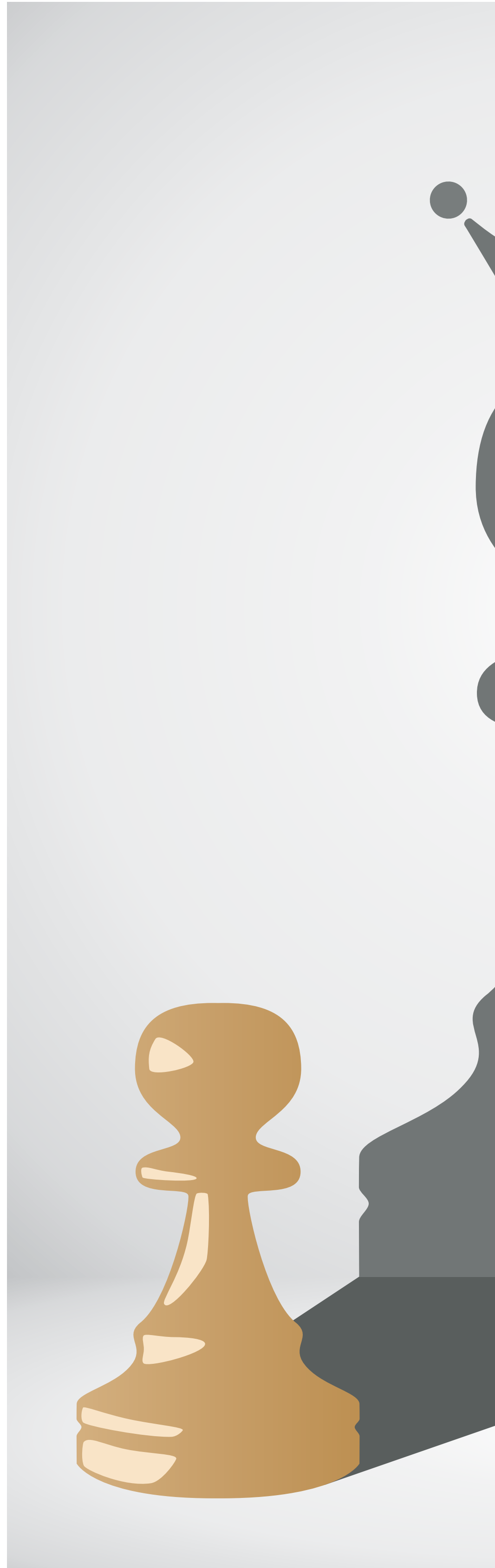
Written by Paul Enderby, corporate solutions director and Tim Dougall, head of investment advisory, LGIM

**Summary**

- There are over 5,000 DB schemes with fewer than 1,000 members. The majority of these are closed but few are going through a wind-up process.
- Small schemes can benefit from a simple operating and investment structure, along with close member engagement.
- Costs are the biggest problem for small schemes as they face higher charges compared to larger schemes.
- Small schemes may struggle to buy specific administration functions from an overall service package offering.
- Small schemes may be unable to access services amd solutions open to large schemes, to the extent that some small schemes may have no online communications for members.
- Small schemes can let bigger schemes experiment with new ideas and then are able to use the successful developments once commoditised.

# Small but significant

**David Adams explores the unique issues facing those managing small-sized DB schemes**



It's easy to overlook the continued significance of small DB schemes. In November 2016 there were just over 5,000 DB schemes with 999 members or fewer, including 2,177 with between five and 99 members; and 202 with between one and four members, according to The Pensions Regulator's research on the DB pensions landscape. As you might expect, a large majority of these schemes are closed to new membership and future accrual, but only a small minority are going through a windup process.

Schemes with less than 1,000 members have a total of just over a million members between them, including just over 96,000 people in schemes with fewer than 100 members. But just over half a million members are deferred; and only about 9 per cent of the million-plus members (92,812) are still active members. Set those figures in the context of the long-term decline of DB schemes and it is clear that even if it will be decades before all the small DB schemes disappear, the clock is already ticking.

**Governance challenges**

Yet this does not necessarily mean that being a member or the sponsoring employer of a small scheme is a bad position to be in, says Pensions and Lifetime Savings Association (PLSA) head of governance and investment Joe Dabrowski.

"Small can be beautiful," he says. "It is possible to have a small scheme that is run very effectively, has good funding and a strong employer behind it, with knowledgeable, independent trustees. A scheme may also be small enough to benefit from having a relatively simple asset structure and a clear operating structure; and close engagement with members. So it can work well. But there are lots of challenges facing smaller schemes."

The most obvious challenges are those that also face larger schemes: growing liabilities and costs caused by increased longevity, the current financial and economic environment; and changes in legislation and regulation.

The question as to whether a small scheme is meeting member needs

depends largely on the standard of administration and support provided by trustees and the sponsor, says Pensions Administration Standards Association (PASA) deputy chair Kim Gubler.

"We see small schemes that work very effectively, engaging with service providers and administrators," she says. "But effort needs to go into enabling the smooth operation and delivery of administration. Many small schemes struggle with the time and attention that takes.

"Much depends on how the employer sees the scheme. In some cases they may be quite happy paying deficit contributions and not want to bring it to a buyout. That might be a strategy pursued on the basis of 'this works – why change it'?"

**"Smaller schemes can sit back and let others take on the cost of building new methods, then ride on the back of that"**

**Costs**

Cost is the biggest problem, because the fixed overheads of a small scheme are very similar to those of a much larger scheme. Dabrowski points to PLSA research illustrating this. "In the worst cases, in a small scheme with between about 12 and 100 members, you could be paying £1,000 more per member per year compared to a very large scheme with over 5,000 members," he says. "The highest per member per year cost we found *[during the research]* for a smaller scheme was £1,125, whereas the highest for a large scheme was £139."

At the same time, the average cost of running any DB scheme has been rising: by 37 per cent, from £400 to £546 per member, during 2016, according to the PLSA. The rise is due to increased fund management and custody costs and was most severe for smaller schemes – here defined as those with fewer than 5,000 members – which saw a 63 per cent increase, with average cost per member, per year costs rising to £787. It's easy to see how those per member costs would be higher still for those schemes with fewer than 1,000 members.

One of the best ways to reduce costs is through more efficient delivery of administration, but this is very difficult for smaller schemes. "A lot of the things that big schemes can do to bring costs down aren't worth doing for a small scheme – for example, automating back office processes," says Pinsent Masons partner Stephen Scholefield. "If you've only got a small number of members the cost of putting automation in place means it isn't worthwhile. So smaller schemes often end up with a looser operating structure, with more manual calculations, and all the risks associated with that."

**Access to services**

Another problem for small schemes is that it is not usually possible to buy specific administrative functions from an overall service package offered by service providers. "It is very difficult to find a third-party administrator prepared to do just the administration if the advisory element has been outsourced elsewhere," says Gubler.

Smaller schemes also struggle to access the best services and solutions in other areas, suggests Trafalgar House client director Daniel Taylor.

"Small schemes tend to find it hard to access some services and solutions available to big schemes, *[such as]* more sophisticated investment options or de-risking tools," he says. "Even in terms of member engagement – many small schemes are working with the minimum or no additional services. Many have no digital presence."

PTL managing director Richard Butcher agrees. "You won't get the country's best actuaries dealing with a small scheme," he says. "You won't get access to the best new ideas – you'll have to wait until some of the best new investment concepts are commoditised before you can use them."

There may also be problems in maintaining the highest standards of governance. "Typically, smaller schemes will have fewer resources available and less expertise to call on," says Dabrowski. "Trustee meetings might be less regular. These schemes are potentially more reliant on advisers."

Smaller schemes are also at least as likely as are other DB schemes to suffer from a shortage of individuals keen to act as member-nominated trustees, as the numbers of individuals within the sponsor's workforce who are also members of the DB scheme declines.

**Advantages**

But there can be some advantages to being small. One is that employers may be able to participate in debates with trustees about the governance and future of the scheme in a way that would be much more difficult with a larger scheme. Trustee and employer alike may well be in a better position to engage directly with members.

There may even be an advantage to be gained through being able to act more swiftly, in some situations, than could a larger scheme.

Nor is a delay before a scheme starts to experiment with new ideas in investment or administration necessarily a bad thing. "You don't always need to be at the cutting edge of things with pensions," says Scholefield. "Smaller schemes can sit back and let others take on the cost of building new methods, then ride on the back of that. The entry costs for smaller schemes looking to do what used to be seen as quite esoteric stuff are coming down all the time. The obvious example would be things like longevity insurance and swaps."

**The writing on the wall**

But in the longer term, the writing is on the wall for small DB schemes. "There's a big legacy of DB schemes, but they are on a pathway to run-off," says Dabrowski. "The big question is whether they will get there without calling on the PPF or some other intervention being needed."

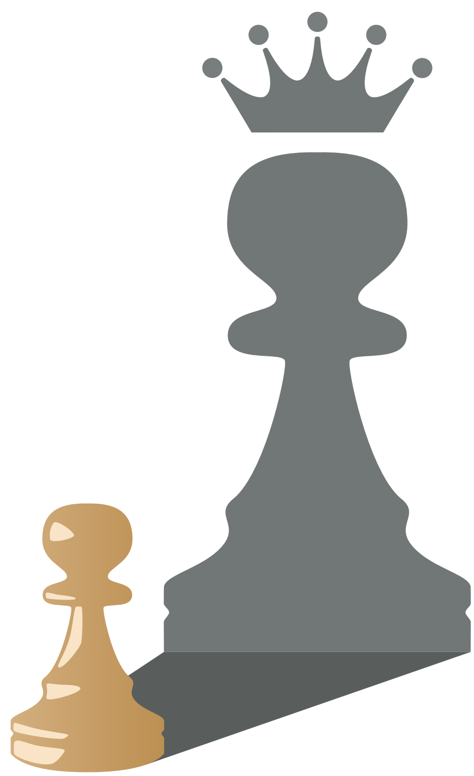
Consolidation is another possible answer *[see p53]*. It is also possible that fiduciary management services will evolve to a point where they offer a realistic alternative to buyout for at least some smaller DB schemes.

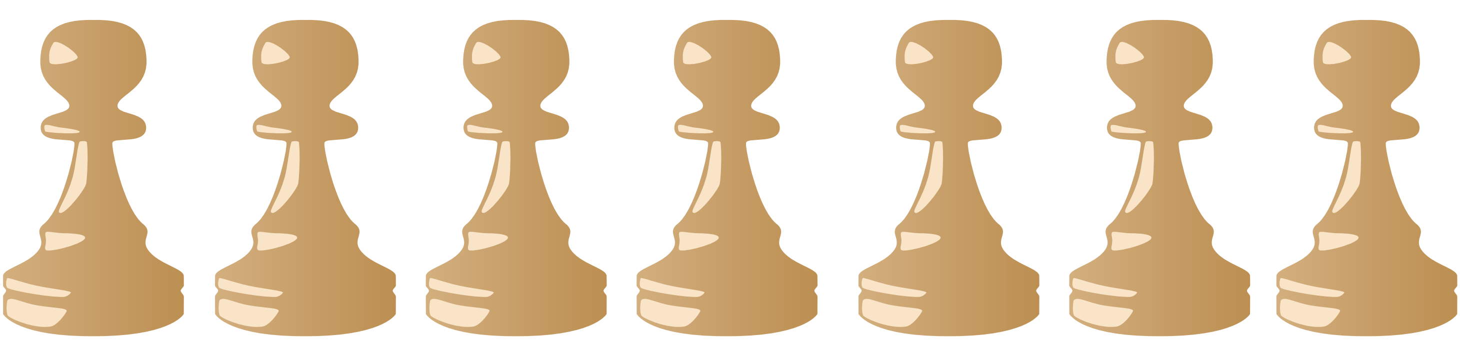
Meanwhile, some small DB schemes will continue to operate in their current form. "Those schemes that do not move towards consolidation will include those where trustees want to maintain significant input into the investment strategy of the fund," suggests Taylor. "There might be a particularly sophisticated trustee board in terms of investment knowledge, or the arrangement may be providing a very specific benefit arrangement to members, and *[trustees]* wouldn't want to lose control of that."

Scholefield is sure that some scheme trustees and employers will want small DB schemes to continue operating, assuming that the employer can support the scheme. "The challenge for the industry is how to find ways of letting small schemes benefit from the advantages of being small, yet access the sophistication that's usually only available to larger schemes," he says.

That is a challenge that at least some in the industry will continue to address, in the interests of members and employers. There may still be plenty of life left in some of these small DB schemes.

**Written by David Adams, a freelance journalist**





# Keeping our edge

**David Hutchins explains how AllianceBernstein ensures its target-date fund range continues to innovate to meet the needs of investors**

It's now over six years since we launched our innovative range of target-date funds (TDFs) in the UK. They offer flexible open architecture, proactive management and the full benefits of our research-driven process, along with decades of multi-asset investment and DC experience. Above all, they have consistently delivered market-beating returns at a low cost – outperforming both our targets and our competitors.

All of this has been achieved in a market characterised by a succession of political and policy shocks – from the Chinese devaluation to the Bank of Japan's adoption of a negative interest-rate policy and to the UK's vote for Brexit. Our TDF range has successfully weathered all of these market squalls. But as we look to the next six years and beyond, we are determined not to rest on our laurels.

So how do we continue to maintain our investment edge? Given the sustained bull market since 2009, we expect future returns to be lower as interest rates rise and global economic growth remains constrained. Accordingly, and in line with our investment approach, we will continue to increase the diversification of investments within our TDF range to keep it fit for purpose in a changing investment environment.

In particular, we are focusing on building out our capability, initially for some of our custom TDF clients, to incorporate investments in private and illiquid markets. With correlations between conventional assets on the increase, these areas offer us a new arena for effective asset allocation. As these correlations rise, illiquid asset markets provide scope for genuine diversification and uncorrelated long-term returns.

At the same time, we are also seeking alternative risk premia in the public markets. To achieve hedge-fund-like returns at a far lower cost, we have integrated the Ramius liquid-alternatives investment team into ours. This team's expertise will give our TDFs' access to a wide variety of alternative return sources without the associated illiquidity risks and cost.

As part of the gradual evolution of the strategic asset allocation for our packaged TDFs, in 2016 we introduced a factor-based investment approach – what is popularly known as 'smart beta'. The AB factor-based strategies aim to outperform conventional equity indices through controlling exposure to a range of factors such as deep value, momentum, capital use and profitability. Through dynamic allocation to these factors, we aim to avoid the 'buy high, sell low' paradigm of conventional passive equity strategies.

We are conscious that we need to achieve genuine diversification, not simply pay a higher price for exposure to the asset classes that are already in our portfolios. Instead, we have been looking for truly new or unique sources of return.

But it's not only in our asset allocation that we have innovated. We have been striving to ensure that we continue to outperform our competitors in understanding the needs of DC investors and in the strength and transparency of our process. To that end, we have developed our CyRIL™ tool. This provides a robust framework for setting investment objectives, whether for a default strategy or a personalised investment strategy.

CyRIL™ focuses on investor outcomes, using liability-driven investment techniques to establish investment objectives that are fully aligned with the needs of the client. The experience is akin to some of the well-known online property valuation tools, in that you can add as many layers of detail to the process as you want. This includes not only earnings and age, but other important indicators of future needs, such as education, job role and current savings. Importantly, CyRIL™ is not a 'black box' model but a fully transparent process that can be reconfigured at any stage to reflect the requirements of plan trustees or the individual investor.

Finally, we have been tightening our emphasis on transaction costs across our entire range of default strategies. By combining clear value for money with the market-leading transparency and market-beating performance of our TDF range, we have every confidence that we can keep our competitive edge finely honed in the rapidly evolving investment environment that we expect in the years ahead.

**Written by David Hutchins, portfolio manager, multi-asset solutions, AB**

In association with

# End of the ‘one-stop shop’

**Garry Wake reveals some often-overlooked disadvantages to using one provider for both administration and actuarial work**

Many trustee boards have historically favoured a ‘one-stop shop’ approach to appointing service providers. The argument goes that with operational teams working closely together, trustees can benefit from shared technology, reduced costs, improved quality and more efficient processes – but how true are these claims?

The actuarial/administration relationship is the most commonly-cited example of where the benefits of a one-stop shop are maximised. While nobody would question the importance of a productive relationship between these two parties, the benefits of having the same provider fulfil both functions are much more questionable. In fact, some compelling disadvantages are often ignored.

Technology is a good example. The nirvana of a fully-integrated administration and valuation system is rare. For the overwhelming majority, the data transfer method is identical for all parties, regardless of whether they work for the same company or if data is being exchanged externally.

In fact, having an independent actuary and administrator often results in more robust and transparent reporting on data quality, efficiency and calculation accuracy. Neither party benefits from accepting inaccuracies and there is a greater obligation to report any misgivings about data quality or procedural failings directly to trustees.

But what about knowledge sharing? Surely appointing the same company for both roles means knowledge can be shared more easily and the provider will have a clearer vision of a trustee board’s aims? On the surface, this is a logical and compelling argument. However, achieving optimum interaction in a multi-disciplinary team environment is extremely challenging. Administration and actuarial teams rarely work side-by-side in the physical sense and each function has its own training, management and operational targets. This often results in internal relationships no closer than those with people in an external organisation.

In the modern working environment, it doesn’t matter if you are picking up the phone to discuss a client issue with someone who works on the next floor, or in the next country. What matters most is the willingness to cooperate in the common interests of the client, and the tools and training an organisation gives its personnel to achieve this.

So, what about cost savings? Well, in the short term, costs are likely to be lower for smaller schemes (fewer than 1,000 members), as consultancies initially discount the overall basket of services to attract full service contracts. More shockingly, administration has also been used as a loss-leader, with the service being given away at low costs so that more lucrative consulting and actuarial contracts can be won. Whilst this might seem like the deal of the century at the time, it unavoidably leads to costs rising after the contract has been secured or quality being sacrificed.

Understanding a provider’s target market is also important. Trustees may not appreciate that many multi-disciplinary consultancies have different target markets across each business division. A small client with relatively complex funding, sponsor and de-risking requirements is likely to be a highly attractive proposition for most consultants and actuaries, but is unlikely to be of interest to many administrators as it lacks the essential ingredient of scale; and what qualifies as the optimum client size varies significantly across providers.

Pension administration, just like actuarial services, has become, to the benefit of trustees and members, a highly specialised function. Consumers of pension services have realised that they can reduce costs, improve quality and get expert advice from a selection of specialist organisations who are more closely aligned to their individual service requirements. Professional trustees have been the first to capitalise on this approach with most single-service appointment opportunities being driven from this sector. Equally, trustees are quite rightly no longer accepting a mediated administration service and compliance updates from their consultants or actuaries, and are demanding a direct working relationship with their administrator.

Trustees need decide what their priorities are in terms of buying a service, but they also need to be realistic about the business realities of providing a range of highly-specialised technical services. The decision for trustees is, how much are you willing sacrifice for the convenience of a single point of contact?

**Written by Garry Wake, managing director, Trafalgar House**

In association with

Trafalgar House

# Sowing the seeds

**Natalie Tuck speaks to agricultural equipment manufacturer AGCO's pensions manager Debbie Spiby on why the company transferred its DC scheme to a master trust and the benefits of the move**

**Can you tell us a bit about AGCO's pension arrangements?**
We have a closed defined benefit scheme (March 1998), but it is open to future accrual, run by a corporate trustee with appointed directors, and outsourced administration today. The defined contribution scheme is for new joiners (from April 1998), and mid-2015, we moved into the BlackRock Master Trust. As of 30 September 2016, the defined benefit scheme's assets were worth £444.8 million. In the year its assets grew by £62.2 million. Its members total 5,400, consisting of 92 actives, 1,329 deferred and 3,983 pensioners.

The defined contribution scheme was introduced in 1998, and was originally governed by an in-house corporate trustee, with appointed directors and initially in-house administration. The scheme had a default lifestyle investment strategy. However, at some point we moved to bundled administration and investment services with BlackRock. All members were transferred into a master trust arrangement with BlackRock in July 2015. The defined contribution scheme has 750 members, with 374 active and 376 deferred. It has an asset value of £23.3 million and 94 per cent of our active members are in the default Lifepath investment strategy (BlackRock's version of target-dated funds).

**In terms of your DC scheme, what contribution rates does the company offer for its DC scheme? What investment options do you have for DC members? Have you had low AE opt-out rates?**
Members are enrolled at the minimum rate into the scheme's default Lifepath option, which targets drawdown. The minimum total amount is 7.5 per cent, made up by an employee contribution of 2.5 per cent and an employer contribution of 5 per cent. We operate a sliding scale, which for every additional half per cent contributed by the employee, we will contribute an additional half per cent. The maximum contribution AGCO contributes is 8 per cent, where a contribution of at least 5.5 per cent is needed from the employee. Opt-out rates have been low since we staged in January 2014, which were initially 1 per cent but currently are at 3 per cent.

**You made the decision to move your DC scheme to a master trust in 2015 from an in-house trustee board. Why was this? How has this transition been and what have you gained from the move?**
Broadly it was about how best to manage the ever-increasing legal and regulatory challenges faced in providing DC pensions, and where the trustees and the company were both of the view that a master trust represented a better structure for managing pension provision going forward. It offered a professional trustee and administrator and had the advantage of economies of scale and professional know-how not available to the plan. It also came in the context of pending retirements from two experienced trustees on the then in-house board of directors, but where interest in attracting employees into trustee roles was becoming more and more challenging.

The trustee and company were at the same time happy with the service and support received from the service provider, BlackRock, and so discussions commenced to consider transferring to their master trust arrangement. This would mean that no immediate changes would be necessary to members' investments and limited amendments would be required to the plan's documentation in the event that the transition proceeded. It was the in-house trustees' intention to minimise any changes experienced by members as a result of the transfer.

When the decision had been made, the company and trustee worked in collaboration with the administrator. A project group was formed with these key stakeholders, with a BlackRock project lead. AGCO parties were guided and advised by the AGCO pension scheme's lawyers, where no conflict of interest was identified. The transition period took place over six to seven months in all. Member presentations, formal notice and written communications were used to explain the process taking place. The objectives of the company and the in-house trustee then have brought about significant time management reduction and cost savings, without compromising on changes to members' benefits.

The main advisers were the scheme lawyers (Mayer Brown) and the scheme investment adviser (WTW). An actuary was also required to sign off that members were on a 'no worse off' basis. A new Life Assurance Trust was also set up, which was required to preserve life assurance benefits previously offered via pension scheme membership.

From our experience so far, there is no hesitation in changing to the master trust (with BlackRock), freeing up time at no extra cost. BlackRock were able to accommodate the more bespoke service so we could move into their master trust with our existing investment strategy but retaining our own investment adviser. This obviously changed when we moved into the generic fund range towards the end of last year. BlackRock lay on a forum for its master trust clients, which also provides the opportunity to speak to other participating employers and usually a trustee of the master trust.

**What responsibilities does AGCO still face with regards to its pension scheme now that it has moved to a master trust?**

It is first important to note that the move into the master trust was with the scheme's existing default lifestyle fund strategy, which had been reviewed and updated in advance of the company's staging date in January 2014. However, from November 2016, the scheme arrangements evolved further when the master trust trustee's default target date fund called LifePath was adopted. These changes were made to align with the introduction of the pension flexibilities. The previous lifestyle options catered best for members wanting to purchase an annuity, whereas the new LifePath Fund range provides members with the opportunity to select a LifePath Fund that automatically manages its investments on approaching a member's target retirement date, in a way that is more aligned to how defined contribution savings will be accessed.

The default glidepath is drawdown, but members can select a target-date fund appropriate for how they want to take their retirement savings, be it cash or annuity, or a mix of all three. This does mean that AGCO's responsibilities have been cut back further so that investment matters have also been handed over to the provider. But we valued and so gave the delegation to the experts where there is a future-proofed place in structure, and we do believe that these new funds will be in members' best interests in the long term. There is a strong desire from the company to focus more on adding value, not about carrying on as a trustee board with legal responsibility.

Certain responsibilities of the company remain as before, to ensure compliance with legal obligations and the employer obligations in relation to the plan with BlackRock, including the designation of eligibility criteria and contributions levels, and ensuring compliance with auto-enrolment requirements. Efficient administrative responsibilities includes reliable, coordinated communication, contribution deduction and payment and the notification and processing of leavers, joiners, deaths, retirements, re-enrolment and other changes. In addition, AGCO has formed an Internal Governance Committee responsible for defined contribution pension provision, which takes account of the regulator's pensions management committee guidance document.

The committee provides recommendations to the company based on its key responsibilities, which are: monitoring the quality of the scheme and all administration processes; monitoring and reviewing service providers and advisers from all sources and monitoring and reviewing that all members receive value for money. It is also responsbile for monitoring and reviewing communications; monitoring the effectiveness of presentations to scheme members or potential members; receiving and reviewing plan management information reports; receiving and considering advice and information concerning legislative changes and good modern practice. It also considers any member suggestions or complaints regarding the scheme; makes proposals regarding the running of the scheme to the company; monitors the investment performance of the default fund and other investment choices.

**How does the relationship between the master trust and the company work?**

We have a client relationship manager and a client services manager appointed by the sponsoring employer of the master trust, who are experienced and knowledgeable professionals. We meet twice a year for formal meetings. We have a collaborative style of working, which has been positive. At the outset, we were unsure about the lack of direct contact between ourselves as a participating employer with the trustees, but the CRM/CSM structure has proved to work well.

**What advice would you give to other schemes considering switching to a master trust?**

Keep a close eye on what is not being provided, both during the transition and post implementation. Oversight by the lawyers is essential, and building in due diligence into the transition for members and employer. Think about what the company's role will be after switching, to stay in touch with your scheme. Can the previous governance budget be diverted to areas where you can add value, where the emphasis is more on current employees as the active membership, eg enhancing communications; providing more at-retirement support in the new era of a more complex set of choices faced by members? Whilst our Master Trust Target Dated Fund delivers the flexibility we wanted for our members, there is a sense that you are locking more into one provider. Costs need to remain competitive and monitoring the risk and returns of LifePath, including comparisons with other provider defaults, will remain an important role of the committee.

**Written by Natalie Tuck**

**Summary**

- The number of DC schemes has decreased by just 3 per cent over the past year. There are 32,000 small DC schemes in existence. Of these, 23,000 are relevant small schemes, leaving around 10,000 single employer trust-based schemes.
- TPR will want these schemes to consolidate to improve economies of scale and governance.
- Moving into a master trust is the recommended method of consolidation.
- Consolidation may have slowed due to employers and trustees waiting for the results of the Pensions Act 2017, the DC-DC transfer consultation and the expected consolidation of the master trust market.
- Absent trustees and unwilling providers/advisers may also slow consolidation.
- The slowdown is expected to be just a 'blip' before consolidation continues in earnest.

# Pressing pause

**Following TPR's findings that the number of DC schemes in the UK declined by only 3 per cent last year, Laura Blows finds out what's behind this slowdown in consolidation**

'Consolidation' – surely the central theme of a movie about the current UK pensions industry, if one ever were to be made – had been playing along nicely until recently. The rapid take up of master trusts for DC schemes, the idea of superfunds for DB, major providers merging; all underpinned by the concept of consolidation.

However, 'consolidation' is currently being watched in 'slow play' mode.

**Setting the scene**

According to the The Pensions Regulator (TPR) annual *DC Trust* report, as of 31 December 2016 there were still 34,500 trust-based DC schemes in the UK, 32,000 of them micro schemes (fewer than 12 members). These figures represent a decline of just 3 per cent, compared to the number of trust-based DC schemes the year before.

Speaking in January, at the time of TPR's *DC Trust* report launch, the regulator's executive director for regulatory policy Andrew Warwick-Thompson said: "Our concerns are rising about the fragmentation of DC provision and the persistence of a tail of sub-scale schemes. In our opinion, these pose an unacceptable risk to consumer protection. The consolidation trend we have observed and welcomed in previous years has slowed."

Over 32,000 may sound like a lot of small DC schemes, but 72 per cent of these, 23,000, are relevant small schemes, formerly known as small, self-administered schemes (SSAS) and executive pension plans (EPPs).

Relevant small schemes have no more than 11 members, which are usually the directors of the sponsoring company, with all members appointed as trustees of the scheme and decisions made by unanimous agreement. They are subject to fewer regulations than other occupational DC schemes, as the members are deemed to be investing the funds for themselves.

These schemes are running as intended and therefore are not what comes to mind when concerns are raised about the large number of small DC schemes *[Warwick-Thompson's recent comment that SSAS should be banned to protect scams is another matter]*.

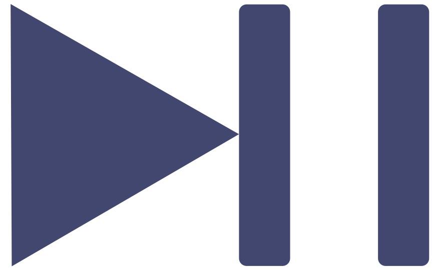
No, it is the approximately 10,000 schemes that are not relevant small schemes that the regulator is worried about.

These tend to be single employer, small, trust-based DC schemes. These small, single-employer DC schemes will be run with a TPA or a GPP dealing with

the administration and a governance board or trust ‘wrapped’ around the whole thing, Salvus Master Trust managing director Graham Peacock says.

For the most part, these will be legacy schemes. Many of these schemes became paid up because of their unsuitability for auto-enrolment, and as they have no ongoing contributions, will be subject to higher charges than modern schemes, ITM executive chairman Duncan Howorth warns.

According to PTL director Alison Bostock, the large number of small DC schemes is a concern “because many are neglected, costly for members and there is no effective governance – we know from TPR that some are not even completing a scheme return”.



**Conflict**

These schemes are likely to be causing concern for the regulator for a number of reasons. The regulator may wish the number of schemes to decline to a more manageable number for its own workload, Peacock says, but its primary focus is ensuring positive member outcomes.

The regulator recently refined its priorities down to eight, from 10, as a result of focusing on five risk areas. One of these risks is poor outcomes for members and sponsors of smaller DC (and DB) schemes that cannot benefit from economies of scale.

Of course, this is not the case with all schemes. As Bostock says, some of these small DC schemes will have valuable guarantees, usually relating to old style with-profits contracts or sometimes on annuity rates, which would be lost on transfer/consolidation, so it would be very hard to tell if it would be in the members’ best interests to take them out of these old-fashioned schemes and put them in a modern scheme with lower charges.

“I have seen some of these where, despite high charges and low annual investment returns, the overall effect of guarantees should result in good member outcome in retirement,” she explains.

**Rising action**

But overall, it seems the adage of ‘bigger is better’ is ringing true.

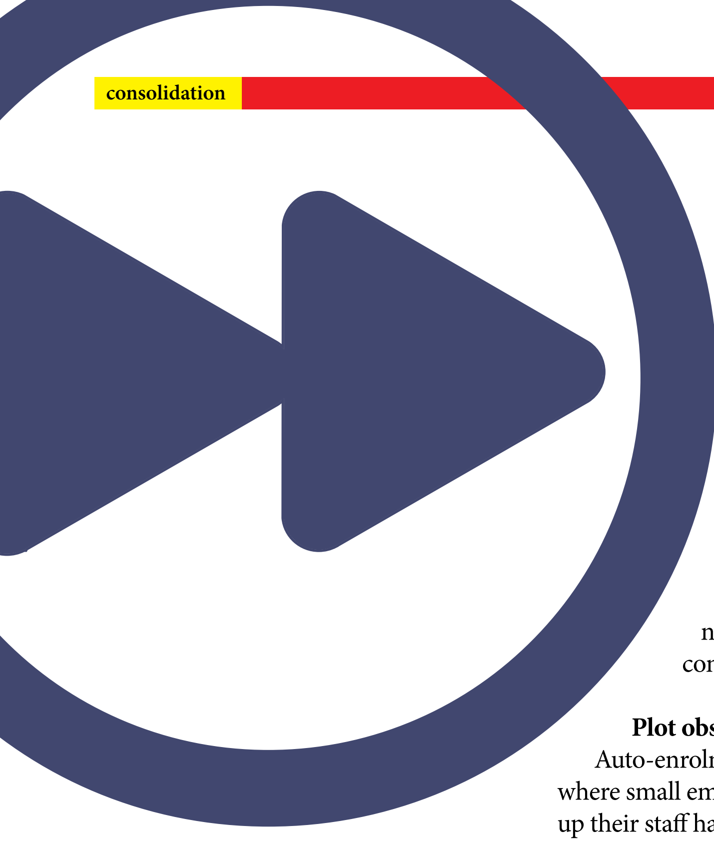
“DC is almost needlessly complex,” Barnett Waddingham head of workplace wealth Mark Futcher says, and because of that level of complexity they are expensive to run. “And unless you have got significant scale, in terms of administration, you can’t run those processes effectively. On the investment side, the more assets you have, the lower charges you get.”

So, it seems clear that small schemes do need to consolidate. However, there is more than one way this can occur. For instance, Futcher does not believe the master trust method is the only way to consolidate the DC market.

“If you think about contract-based providers such as L&G and Aviva, they have massive scale; they have millions of records and run billions of assets. It doesn’t matter what the legal framework is, whether contract based or master trust, the infrastructure in which the DC scheme sits needs to have scale. So you could have a relatively niche master trusts leveraged off the back of a big administrator, therefore bringing scale to that small master trust,” he explains.

Group personal pensions (GPPs) run by an insurer is an option, but when the need for DC consolidation is discussed in the industry, the conversation invariably turns to master trusts.

“Look at the slating the GPP marketplace has taken over the past 20 years – commissions and active member discounts gone, consultancy charging banned, exit penalties up to the dizzying heights of 40 per cent banned and a 1 per cent cap put in place – so even the long-standing insurance companies are launching their own master trust propositions and are thinking that master trusts are the solution. So don’t take my word for it, follow the direction of the big



insurers," Peacock says.

But it is not just the issues with GPPs that are driving the flood to master trust; it has plenty of its own benefits to recommend the structure to employers.

"When you compare a multi-employer solution, such as our own, or The People's Pension (TPP), or any of the well-governed master trusts, the scale of the governance standards, the administrative efficiencies and ultimately the value for members is going to be far better. The default funds of even the large single-employer DC schemes pale into insignificance when you compare it to the size of some master trusts' assets, so it can drive the costs of investing down," Peacock explains.

The Pensions Regulator's focus is certainly in the direction of master trusts, having been assigned new powers in order to oversee these schemes. In April its planned budget for 2017-18 was increased by £3.5 million in order to implement the master trust authorisation regime.

Speaking at the time of the *DC Trust* launch, Warwick-Thompson said: "Through the introduction and implementation of the new authorisation and supervision regimes for master trusts we will seek to create a secure, scalable and value for money cornerstone of the multi-employer DC savings market."

So with the benefits of – and regulatory focus on – master trusts, why aren't the number of schemes moving across increasing? Why instead is there a recent slowdown in the number of DC schemes consolidating?

**Plot obstacles**

Auto-enrolment reaching the stage where small employers are now signing up their staff has played a part in the slowdown of DC schemes' reduction, Futcher says.

When the larger companies were auto-enrolling, they were closing their previous, unsuitable-for-auto-enrolment schemes, he explains, but many of the smaller companies now auto-enrolling may not have had any previous pension provision, so are opening new schemes. However, TPR has expressed concern that of the 750 schemes currently being used for auto-enrolment (an increase from 490 the previous year), 360 fall into the 'micro scheme' category.

Auto-enrolment may be factor, but it does not account for the many legacy schemes failing to consolidate. Instead, it is thought that those managing these schemes may be looking for upcoming developments before deciding to move.

The Pensions Scheme Act 2017 is definitely one to watch out for, as the industry waits to see what actual regulatory changes emerge in practice from this.

The Act is set to increase standards and sustainability of master trust schemes. It requires master trusts to demonstrate that individuals involved in the master trust are fit and proper, that the scheme is financially sustainable, that the founder can meet certain requirements, that governance and administration systems are run effectively, and that it has a reliable continuity strategy.

Master trusts may be de rigueur from the powers above, but the master trust sector itself is expected to consolidate. There are currently 87 master trusts, which is generally agreed to be too many, so the larger master trusts are expected to soon incorporate the smaller ones.

According to Peacock, there will be a maximum of 20 master trusts by 2018. Therefore it is understandable that trustees and sponsors would wait and see which master trusts go the distance before transferring their scheme.

They may also be waiting for the results of the Department for Work and Pensions (DWP) bulk transfer consultation, which closed a few months ago. This explored making it easier for schemes to carry out DC bulk transfers without member consent.

The DWP said the aim of the consultation was to "reduce unnecessary burdens whilst ensuring members are adequately protected".

Under current law, schemes are able to make a bulk transfer of members' pensions without their permission, providing they meet certain conditions.

"These transfers need a certificate from an actuary," Bostock explains, "under guidance and regulations that were designed for defined benefit schemes. These regulations are under consultation, so perhaps advisers are suggesting that employers and trustees hold off until we know if the process will be made easier."

However, even once the results of these legislative changes are up and running, it seems unlikely that all 10,000-odd schemes are going to instantly rush into available master trusts. What other barriers may be preventing consolidation?

Inertia and lack of understanding – two things that the individual saver is often accused of – may also apply to the trustees of these schemes. "In some cases they are perhaps not even aware they are appointed as trustees," Bostock says, "because it was common for the employer to be appointed as sole corporate trustee to a bundled scheme provided by an insurer and the original adviser may no longer be in place."

Also, employers may not be willing to pay the advisory and professional trustee fees needed to guide the transition, and providers of closed bundled schemes may be reluctant to push for action because older and higher-charging structures apply to these schemes, she adds.

Howorth agrees that the blockage that exists with 'absent trustees' is significant and needs resolving, as does the 'who pays for this' question.

"I don't see advisers being the solution to consolidation of these schemes – it's going to need a more holistic, structured approach to the problem – a scheme-by-scheme approach will take forever," he explains.

**Third act resolution**

With these additional barriers to consolidation in place, the regulators may need to give those managing schemes a 'nudge' in the right direction.

According to Howorth, TPR could and should use its powers to appoint independent trustees to replace lost trustees and carry out reviews/wind ups.

"The FCA and TPR could require insurers to review their older DC pension trusts products, like the IPB review for contract-based schemes," Bostock says, "as it seems that relying on trustees to assess value for money and take any action required has not worked."

Employee benefits consultancies have a role to play too. They understand the reasons for consolidation and can explain it to their clients – plus some may have the added incentive of their own master trusts products to want to encourage growth in this sector, Peacock suggests.

Another factor that may drive consolidation, Pensions and Lifetime Savings Association (PLSA) policy lead for defined constribution Tim Gosling states, is that should the charge cap on qualifying default funds be reduced further following the 2017 review, "we would anticipate a sharp increase in the rate of consolidation among small- and medium-sized schemes".

The upcoming pensions dashboards may also have a role to play, Howorth notes, as it may encourage members to transfer into a new or existing scheme into which they are contributing

Bringing all this together, massive consolidation of DC schemes seems inevitable.

"If all the changes occur, with regards to scheme supervision and authorisation, as expected, it will become almost impossible for these small schemes to continue," Peacock says. "The current slowdown in consolidation is just a short-term pause for the Pensions Act, the DC-DC transfer guidance to complete, and for master trusts to consolidate themselves."

So a pause may be the case for now, but it's expected that the industry will soon be fast-forwarding to reach the dramatic climax of the consolidation story.

**Written by Laura Blows**

**What about DB?**

It is not just small DC schemes that have come under fire lately. Concerns have also been growing about the number of small DB schemes in existence. There are currently 6,000 DB schemes with approximately 11 million members, according to the government's *Security and Sustainability in Defined Benefit Pension Schemes* green paper. However, 10 per cent of these members are spread across 81 per cent of DB schemes.

The PLSA's DB Taskforce *[see p53]* finds that while any level of consolidation would provide cost savings and reduce risk, be it through shared services, asset pooling or single governance, it is a full merger into a superfund that it says would most improve security for savers – with some potentially seeing the risk of their scheme failing falling from 65 per cent to under 10 per cent.

"We believe the superfunds have the potential to offer great benefits to members, employers, the regulator, the industry and the economy. Members get a better chance of more pensions benefits being paid. Employers get a lower-cost alternative to buyout. The regulator gets a sector with better managed risks. The economy benefits from improved investment by superfunds and employers are freed from onerous DB burdens," DB Taskforce chair Ashok Gupta said in March.

A recent Pensions Management Institute survey found just over half of its members would support mandatory consolidation of DB schemes in some circumstances.

However, in February, the government declared itself against designing and running a DB superfund through an arms-length body, but it is open to supporting the industry if it wishes to implement voluntary consolidation.

# Putting the 'super' in superfunds

**Joe Dabrowski explains why the PLSA's DB Taskforce is advocating the benefits of consolidating DB schemes**

Although most people in the UK find pensions considerably less exciting than the average *Pensions Age* reader, those who have defined benefit pensions feel "quite lucky … because you keep hearing in the press that they're closing … it just makes you feel happy you've got one". This is the sentiment of a pensioner who was interviewed as part of the work undertaken by the Pensions and Lifetime Savings (PLSA) Defined Benefit Taskforce.

However, while members have confidence in their schemes, this may not necessarily be based in fact in all cases. Analysis undertaken by the taskforce suggests that around three million people with final salary pensions may only have a 50:50 chance of seeing their benefits paid in full. This is a significant risk for these individuals and managing these risks as well as the wider challenges facing schemes has important implications for the pension industry.

So how do we manage this and make sure that members have a better chance of receiving their benefits and maintaining confidence in the pension system? This was the question that the PLSA Defined Benefit Taskforce set out to answer and has addressed in a series of two reports, with the most recent being launched at its investment conference in Edinburgh this year.

The second report, *The Case for Consolidation*, outlines how consolidation and the creation of superfunds could tackle many of the issues facing DB pension schemes, alleviating the unacceptable, and mostly unrecognised, risk to scheme members.

Looking at these four different models of consolidation, the report made the case for greater consolidation to return security to DB schemes:

1. Shared services: combining administrative functions across schemes achieving cost savings through economies of scale.
2. Asset pooling: different schemes' assets are pooled and managed centrally while individual schemes retain responsibility for their governance, administration, back office functions and most advisory services.
3. Single governance: different schemes' assets are consolidated into a single asset pool; governance, administration and back office functions are also combined.
4. Superfund, full merger: designed to absorb and replace existing schemes. Employers and trustees are discharged from their obligations for future benefit payments, which would be paid from the superfund.

The case for greater consolidation is clear, particularly for small and medium-sized schemes. Through shared services, schemes could save on aggregate £0.6 billion per year and an estimated minimum of £0.25 billion per year if they pool their assets. If they consolidate their governance, administration, investment and back office functions, a further estimated saving of £0.36 billion would be added, totalling a saving of at least £1.2 billion per year.

These potential savings are worthwhile and should be pursued but won't make much of a dent in the £400 billion DB pension deficit. Superfunds offer a different type of consolidation, with further potential benefit including improving the security for savers in weak schemes by reducing the probability of their schemes failing from 65 per cent to 10 per cent or even less. This goes much further than making schemes cheaper to run, it's about making them last the distance.

So what is next? The PLSA Defined Benefit Taskforce is working on the third report, which will be launched later this year. This will look at the legislative and regulatory changes that are need to make superfunds possible, as well as a more detailed analysis of potential models. The potential impact on key stakeholders and the characteristics of the schemes that would most benefit from participation will also be reviewed.

At the same time, the PLSA will look to tackle many of the familiar issues facing schemes set out in the Department for Work and Pensions (DWP) green paper, such as inflexible and complicated regulation, challenges in scheme governance, funding, and navigating an increasingly-intermediated system.

This will help meet the challenges facing defined benefit schemes and ensure that members can continue to think of themselves as lucky.

**Written by Joe Dabrowski, head of investment and governance, PLSA**

**Summary**
- The number of sole trustee boards for DB schemes has grown rapidly in recent years.
- Typically small schemes, closed to future accrual, or with an overseas parent company, implement sole trusteeship.
- The difficulty in finding members to join the board can be a trigger to move from a full board to sole trusteeship.
- Moving to sole trusteeship can reduce the time taken by the sponsor's senior management on the scheme, speed up decision making and increase the efficiency and professionalism of the scheme.
- There are concerns that sole trusteeship may result in the trustee board appearing 'distant' to the members.
- When transitioning to sole trusteeship, it is recommended the old board retains an advisory capacity role for a period of time.
- Determining whether to move to a sole trustee board depends on the company's culture and scheme aims.

# Going solo

**Laura Blows explores whether the next generation of DB scheme trusteeship has arrived through the growing number of sole trustee appointments**

Everything is getting smaller nowadays. Take technology for instance. Where once you practically needed an entire room to house a computer, now you can wear a computer as a watch. And where trustee boards once required a whole room filled with member-nominated trustees (MNTs), employer-nominated trustees (ENTs) and independent trustees, now a growing number of DB schemes are finding that one trustee is all that's required to do the job.

While a sole trustee can be one 'superman' (or 'superwoman' of course), attending to all that's required for the running of the DB scheme, sole trusteeship tends to involve handing the reins over to one professional, independent trustee company, who may have a number of people within the company working on the management of the scheme.

## Growing sole trusteeship

The growth of this sole trusteeship model has been steadily increasing over recent years. For instance, BESTrustees trustee executive Zahir Fazal says the company's portfolio of sole trustee appointments has more than doubled from six or seven years ago, and that this trend has accelerated over the past 12-18 months. Others, such as PSIT and Independent Trustee Services (ITS) state a 15-20 per cent increase in sole trusteeship in recent years.

Typically the type of DB schemes implementing sole trusteeship is small in size. However, larger schemes are starting to get in on the act, with sole trusteeship being implemented for schemes with anywhere from £10 million-£500 million assets under management.

DB schemes using sole trusteeship may also have a parent company overseas, of which the UK is a subsidiary. Capital Cranfield Trustees MD Neil McPherson says the professional trustee firm is appointed to over 270 schemes, 70 of which it acts as sole trustee. "An interesting development is our group trusteeship offering," McPherson adds, "where we provide sole trusteeship to multiple schemes in the same sponsor group, often UK subsidiaries of an overseas parent."

## Triggers

Schemes using sole trusteeship tend to be closed to future accrual. However as five out of six private sector schemes are closed to future accrual, that is a common factor, but not necessarily a driver, ITS director Peter Askins says.

"Obviously, schemes face a range of challenges in terms of the volume of regulation they need to comply with; funding and sustainability issues; the number of different external intermediaries involved with the pensions and investment process," Pensions and Lifetime Savings Association (PLSA) policy lead for stewardship and corporate governance Luke Hildyard says.

"This really does necessitate a high level of quite specialised understanding that a professional trustee should be able to provide. So you can see why some schemes would have more confidence taking this approach."

According to PSIT head of trusteeship James Double, a breakdown in the relationship between the trustee board and scheme sponsor can be a significant incentive for moving to sole trusteeship.

The driver for change can also be that the scheme is now in a very different situation relative to only a few years ago, Willis Towers Watson senior consultant Gareth Connolly says. "Closure to accrual, completion of GMP reconciliation and other data cleansing, a move to a fiduciary investment approach, implementation of a journey plan with pre-defined triggers – all these aspects can mean a lighter workload for

trustees once they have taken place, which supports the move to a sole trustee," he explains.

Another trigger to move from a typical 'full' board to the sole trusteeship model may be people problems, such as the difficulty in finding member-nominated trustees. With overseas parent companies, there may be senior finance people in the UK who could join the trustee board, but are conflicted, APPT council member Andrew Bradshaw says. The retirement of a key member of the trustee board can also be a factor.

**Benefits**

So, sole trusteeship removes the issue of finding board members, and with it the need to spend time and costs training lay trustees. It also reduces the amount of senior management time taken up with the scheme, and decreases the time taken to make decisions as there is no longer an entire board to debate choices. This creates faster response times, and "tactical agility for time-sensitive decisions", McPherson says.

The sponsoring employer only has the sole trustee company to work with, which can help make quicker decisions. And on the adviser/provider side, using the sole trusteeship model saves time as these companies know the trustee company 'speaks their language', as Askins says. As a consequence, relationships may become stronger and the sole trustee may feel more able or willing to challenge advisers.

The experiences of times the sole trustee has spent on other trustee boards can also be put to good use. Altogether, governance standards are expected to rise under sole trusteeship, bringing a higher level of professionalism to the board's management.

After all, sponsors need to be able to demonstrate that the pension scheme is being run properly, Bradshaw explains, and so they may be prepared to pay the costs of a professional company to ensure this. Recent pension schemes crises, such as NHS and Tata Steel, are likely to have increased this desire to be seen to be taking pension scheme management seriously.

Double says that using a professional trustee company means that issues are discussed by the team, with appropriate peer review processes in place, along with internal controls.

A professional running the show should also remove conflicts of interests from MNTs and ENTs, who may struggle to forget who their employer is when making scheme decisions.

"There's an argument that it *[sole trusteeship]* liberates the scheme from conflicts of interest," Hildyard says, "although also a counter-argument that the corporate trustee is incentivised to do what is in the interest of the contracting sponsor, rather than the scheme member."

**Limitations**

TUC policy officer Tim Sharp is firmly of the view that sole trusteeship is negative for members. He says: "We believe that the growth of sole trusteeship is not good for schemes. The appointment of lay trustees from the employer and employee side ensures that conflicts of interest and differences in outlook are brought out into the open.

"The employer effectively pays the fees of the sole trustee. There is therefore little motivation for the trustee to negotiate robustly to secure a good deal for members. Sole trustees are typically industry insiders imbued and therefore less likely to challenge the assessments of scheme advisers from a common sense perspective."

Whether sole trusteeship does manage conflicts of interest is debatable, but one agreed downside of sole trusteeship is the distance it creates with members.

The loss of any personal connection with the membership can make decisions on discretionary cases more difficult than in situations where the trustees have close connections with the members involved, Connolly says.

MNTs are often good at noticing if something is going wrong within the admin side of the scheme's management, as well as providing the perspective of how a member will interpret scheme communications, Bradshaw adds.

It is not just the member perspective sole trusteeship can lose, but also a lack of differing views generally. "I do think diversity of perspective is important in order to create a challenging, self-critical environment and having a single corporate trustee makes this harder to achieve," Hildyard says.

"While decision making can become quicker, it doesn't always mean that the best choice is made. Alternative points of view and opinions from a diverse group of individuals clearly do not happen in a sole trustee scenario," Connolly agrees.

There is even the admittedly-slim risk of fraud, with one body in charge. And while improved governance is expected, mistakes can still happen – the recent fine The Pensions Regulator subjected a professional trustee firm to last year is evidence of that.

The sponsors may also not receive

**What about DC?**

Is there any scope for sole trusteeship within the world of DC?

It does already occur, but generally only when a company has a trust-based DC element and has implemented DB sole trusteeship, meaning the DC scheme gets swept up into that sole trusteeship.

PSIT head of trusteeship James Double suggests that sole trusteeship does have a role to play within DC scheme management as "the level of understanding needed is even greater than in a DB scheme because members are more dependent in the oversight trustees bring to help them manage the risk they face".

However Pinsent Masons head of pensions and long term savings Carolyn Saunders states that DC master trusts are an ever-increasing part of the DC market, which has no scope for sole trusteeship. "This is because the charges and governance regime requires a minimum of three trustees," she explains.

as much freedom as expected. Fazal highlights that sole trusteeship means employers are delegating, not abdicating responsibility. Therefore ongoing engagement at a senior level between the sponsor and sole trustee is vital to make the arrangement work effectively.

**Moving process**

When weighing up the pros and cons of sole trusteeship, a key consideration needs to be the culture of the company. For instance, a company may have a strong employee representative presence, making moving to sole trusteeship inappropriate.

In some instances, it may not even be possible to convert to a sole trusteeship model. For instance, law firm Sackers states on its website that, in certain circumstances, there has to be more than one trustee on the board, for instance if the trust owns property or land. A pension scheme also has to fulfil MNT requirements under the 1995 Pensions Act, unless it fits within the many exceptions allowed.

Assuming all is fine, it will be the sponsor that decides whether to move to sole trusteeship. If so, MNTs will be required to resign, they generally cannot be removed. A tender process for the professional trustee company is also likely to take place.

Once the trustee company is selected, a straight handover of responsibilities may occur. However, it is recommended that a transitional period occurs, whereby for a period of time the new trustee sits on the original board, as co-chair for example, or that the sole trustee keeps the previous trustees on in an advisory capacity for a couple of years.

According to Royal London's online information, if the scheme's sole trustee is a company rather than an individual, scheme members have the right to nominate directors of that company – member-nominated directors (MNDs) instead of the usually-nominated MNTs.

Members should be communicated with during the transition, particularly as they are likely to no longer know the people running their scheme, which may cause them concern.

Bradshaw recommends creating a member representative committee that works in an advisory capacity, as it can provide all the benefits of members' knowledge without any of the obligations, such as training requirements, of an MNT, he says.

However, data protection and confidentiality issues need to be documented fully if representative boards are created, as "those representatives won't be bound by the deed and rules in the same way that trustees are", PTL director David Archer advises.

**The future**

The end result of moving to sole trusteeship, Askins says, is usually positive. "My personal experience of acting as a sole trustee on a number of schemes is that the benefits have resulted in better outcomes for all concerned – members, sponsors and providers – than existed under the traditional board arrangement."

But does this mean the growth in sole trusteeship is likely to continue – will sole trusteeship become the norm for DB schemes? Probably not any time soon.

Despite extolling the virtues of sole trusteeship, independent trustee companies generally recommend the traditional full board where possible. For instance, Fazal notes that many of the benefits of sole trusteeship can also be achieved through a traditional board structure.

The choice rests entirely on the specific circumstances of the scheme, McPherson says. "These include the availability, appetite and aptitude of lay trustees; the demographics of membership; the complexity of the issues surrounding the scheme; the relationship between the sponsor and the trustee board; the strategic direction of the scheme. In some instances a sole trustee approach will be the best fit, in others the full board model."

Looking ahead, Pinsent Masons head of pensions and long term savings, Carolyn Saunders, suggests that if the same kind of consolidation occurs in DB as DC – with DB scheme governance and charges requirements following the DC model – then this would mean boards of trustees for DB master trusts, rather than sole trustees.

But for now, just as tablets have not yet done away with the PC, so sole trusteeship and the full board models can continue to coexist.

**Written by Laura Blows**

**Corporate trustee companies**

Question: When can a DB trustee board be dissolved and then reappear with all the same players? Answer: When it becomes a corporate trustee company.

Also a growing trend within pension trustee boards, this conversion usually occurs to protect the trustees of a pension scheme from being individually liable to legal action; trustee companies have greater protection.

According to Association of Member-Nominated Trustees (AMNT) co-chair David Weeks: "Board members probably feel, whether rightly or wrongly, that they are better protected in law by *[becoming a corporate trustee company]*. I think that this reassurance can be an advantage in itself."

As The Association of Corporate Trustees (TACT) president Keith Wallace says, employers, who have to nominate people within the company to the board, may find their staff require their personal exposure to risk to be mitigated before joining the board. MNTs may also be put off without this protection.

Wallace adds: "Litigation against a trustee board of individuals can be terrifying if things are asserted to have gone wrong. Contrast being a director of a trustee company. Psychologically as well as legally, you're in a much more protected position."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**Smart sustainability** – *David Harris explains how a smart sustainability index can give pension providers controlled, sustainable exposure* ***p60***

**Jumping into the pool** – *Sandra Haurant analyses developments within the local government pension schemes pooling sphere and what needs to be done ahead of the April 2018 deadline* ***p62***

# LGPS focus:

## Nurturing change

**David Harris, head of sustainable investment, FTSE Russell**

# Smart sustainability

## David Harris explains how a smart sustainability index can give pension providers controlled, sustainable exposure

A major recent shift has been observed with asset owners moving from a 'tokenistic' approach to environmental, social and governance (ESG), to integrating it into core investment strategies. The pensions industry is considering ESG themes, including the transition to a green economy, as an integrated part of their investment philosophy and processes. Asset owners, including DB schemes, are citing ESG risks as central to their fiduciary responsibility. FTSE Russell recently surveyed 200 asset owners globally and asked what was their strongest motive for incorporating ESG considerations into their investment decisions. The top motive was not 'societal good' but rather 'avoid long-term risk'.

In responding to these trends and meeting the changing requirements of our clients, FTSE Russell has developed an approach that combines a commitment to ESG with the sophistication of smart beta indexes. We are calling this combination of sustainable parameters and risk premia via factor exposure within a single index solution 'smart sustainability'.

The launch of the innovative FTSE4Good Index 15 years ago was one of the first clear and decisive moves into the sustainable space by an index provider. At the time, the index appealed largely to the retail rather than the institutional market. However, in the intervening years we have seen a profound change in asset owner attitudes to ESG, with a growing appreciation of the economic drivers associated with sustainability, as well as the reality and growing risks associated with the transition to a green economy.

This trend has been reinforced by a swathe of multinational, institutional- and country-level legislation and directives designed to mitigate global warming, improve corporate working practices, and strengthen corporate governance. In relation to climate change these include, and are often framed by, the over-arching Paris Climate Agreement made between more than 200 governments in 2015, which aims to limit increases in average global temperatures to 2°C.

There have also been a number of investor-focused initiatives, including the Montreal Pledge launched by the Principles for Responsible Investment, the G20 Green Finance works stream co-chaired by the People's Bank of China and the Bank of England, and the Financial Stability Board's Taskforce on Climate-related Financial Disclosure.

The accelerating global trend towards the reduction of greenhouse gases presents all investors with a range of risk factors to consider. Mark Carney, the Governor of the Bank of England, set out in a speech at Lloyd's of London that there were three key risks to financial stability due to climate change: liability risks, transition risks, and physical risks.

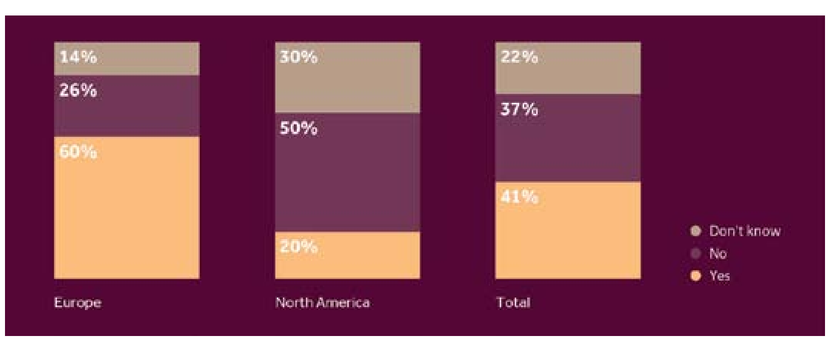
These risks have also been picked up by the UK Institute of Actuaries (IFoA), the international professional body for actuaries. In May this year the IFoA sent a 'Risk Alert' to all its members drawing their attention to the "material risk" that climate change poses, stressing its members' responsibility to "consider how climate-related risks affect the advice they are providing".

The results of the FTSE Russell smart beta survey for 2017 clearly illustrate the extent of the shift in attitudes. Among asset owners who are using, evaluating or planning to evaluate smart beta index-based strategies, 41 per cent anticipate applying ESG considerations to a smart beta strategy. While the move towards ESG appears to be global, it is most pronounced among large European institutional investors.

In response, FTSE Russell has developed two different types of data sets to help asset owners better understand and evaluate ESG risks. The first is based on FTSE Russell's ESG Ratings data model. It measures how well companies manage operational risk exposures and evaluates over 4,100 companies on 14 different 'themes' such as health and safety, anti-corruption, tax transparency, climate change, and water use. Based on a precise and clearly defined methodology, a tiered data set of ESG ratings are calculated, which reflect each company's overall exposure to, and management of, ESG risks.

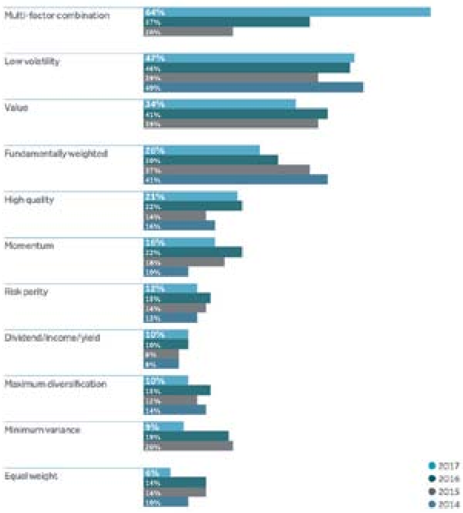
The second data set – the FTSE Russell Green Revenues Low Carbon

**Do you anticipate applying ESG considerations to a smart beta strategy?**




Source: FTSE Russell, Smart beta: 2017 global survey findings from asset owners
Segment = Have a smart beta allocation OR are currently evaluating smart beta strategies OR are planning to evaluate smart beta strategies in the next 18 months

**What type of smart beta strategies are you currently using?**




Source: FTSE Russell, Smart beta: 2017 global survey findings from asset owners

Economy (LCE) data model – focuses on the revenues companies generate from green products. The Green Revenues (LCE) data model, which includes detailed corporate financial history, covers 13,500 companies (99 per cent of global market capitalisation), of which more than 3,000 have green revenues from one or more of the 60 LCE green industrial subsectors. The model is based on line-entry level revenue data from constituent companies, collected and collated by FTSE Russell analysts according to a rules-based and transparent process, and mapped across a new industrial classification system specific to the green economy, the Low Carbon Economy Industrial Classification System™. FTSE Russell's sustainable investment data platform enables users to drill down to companies' data attributes, conduct portfolio analysis, measure exposures and perform attribution analysis.

The increased focus on ESG has coincided with the rapid rise in investors' adoption of smart beta index-based strategies. Market demand is now moving from single factor index-based strategies (eg value, quality, yield, size, volatility and momentum) to strategies combining a number of factors (multi-factor). The FTSE Russell smart beta survey for 2017 shows that among asset owners with a smart beta index allocation, multi-factor combination strategies have grown from 20 per cent in 2015, the first year asked, to 64 per cent in 2017. Not surprisingly, we are now seeing a growing desire for an integrated approach that achieves different factor and sustainability objectives in a consistent manner.

The concept of a Smart Sustainability index provides investors with tools to assist them in implementing sustainable investment strategies with greater sophistication than in the past. By incorporating ESG considerations with a smart beta index methodology, a single Smart Sustainability index can now allow asset owners to address their investment beliefs on both traditional risk premia and ESG parameters.

In creating such indexes, FTSE Russell can combine a wide range of sustainable investment data into a single Smart Sustainability index solution. To see how this works, consider the design of the new FTSE All-World Climate Balanced Factor Indexes. It applies factor tilts based on four risk premia factors (volatility, quality, value and size) and integrate this with three climate parameters. FTSE Russell uses a unique and transparent methodology, a system of sequential tilts which can be applied consistently to 'traditional' risk premia factors as well as to sustainability parameters. This contrasts with a composite index approach, which is akin to applying separate allocations to each different element of the smart beta and sustainability methodology and consequently does not consider the interactions between each component.

In the FTSE All-World ex CW Climate Balanced Factor Indexes, the three climate parameters achieve the following;

1. Reduced exposure to companies with carbon intense fossil fuel reserves
2. Reduced exposure to companies with higher carbon emissions through tilting the weights of companies within a sector based on their relative operational carbon emissions
3. Increased exposure to companies leading the industrial transition to a low carbon economy through 'green revenues' from goods, products and services.

This 'Smart Sustainability' index launched in November 2016 and was developed in cooperation with HSBC Bank UK Pension Scheme and Legal & General Investment Management (LGIM). HSBC Bank UK Pension Scheme used it as the basis for its DC equity default option, worth £1.85 billion, through LGIM's new pooled Future World Fund that tracks the index.

This is the start of the next phase in the evolution of both smart beta and sustainable investing. FTSE Russell is providing a flexible framework and tools to combine a variety of sustainability and risk premia factors together into new indexes. The new era of ESG integration into passive investment has dawned.

**Written by David Harris, head of sustainable investment, FTSE Russell**

**Summary**

• In George Osborne's 2015 summer budget it was announced that 89 local government pension schemes (LGPS) should be combined to form a group of far larger, pooled investments of around £25 billion each. The deadline in which these pools should be operational is April 2018.

• The decision to pool the funds was aimed at dramatically reducing the running costs for the multitude of very different schemes, improving governance and improving investment into infrastructure. But the idea was initially met with a mixed bag of opinions.

• Project POOL said over the very long term, the costs of transition and establishing and running the pools will be more than recouped by savings and other benefits.

• Based on current asset allocations and market values, and allowing for future asset growth in the range 3 to 5 per cent per year, the estimated eventual savings in year 10 values could grow to be in the range £190 million to £300 million per year.

• Capacity could be one of the issues facing the newly-formed pools as they may be directed towards a few selective funds, though this could be mitigated to some extent by a broader selection of managers. Some pools are looking at passive as a way of allocating.

# Jumping into the pool

**Sandra Haurant analyses developments within the local government pension schemes' pooling sphere and what needs to be done ahead of the April 2018 deadline**

Time moves fast and the announcement in George Osborne's 2015 summer budget that 89 local government pension schemes (LGPS) should be combined to form a group of far larger, pooled investments of around £25 billion each, is still fresh in many minds. And yet, while that may seem recent, the April 2018 deadline by which these pools should be operational is also approaching rapidly.

### Initial reactions

The decision to pool the funds was aimed at dramatically reducing the running costs for the multitude of very different schemes, improving governance and improving investment into infrastructure. But the idea was initially met with a mixed bag of opinions. For some, it was simply not enough. Centre for Policy Studies research fellow Michael Johnson was quoted in the *Financial Times* in January 2016 saying: "What we are witnessing is mere tinkering, masking the fundamental truth that the LGPS is not sustainable." Johnson said the government should move away from defined benefits (DB) altogether and instead provide a defined contribution pension scheme.

Others suggested that combining funds was an unwieldy task that would cause more problems than it would solve. It demands, after all, the bringing together of one of the largest DB schemes in the world and the largest DB scheme in England and Wales – with some 13,000 employers, 5.3 million members and assets of £217 billion, according to the LGPS advisory board's 2016 annual report. Some said the challenges of matching and bringing together multiple pension schemes, finding those that sufficiently shared investment philosophies and management approaches, were too great to be of benefit. And then there were the governance issues involved.

"There was some initial reaction to it from many stakeholders and participants, who probably wanted to test the theory that bulking up and making these larger pools would be able to deliver any kind of cost savings and improved governance as well as ability to invest into infrastructure, which were all of the things that DCLG were looking for," Aon Hewitt head of public sector investment consulting Dave Lyons says.

"But a lot of those implicated collaborated on a piece of work called Project POOL, and I think that having done that recognised that there were indeed potential benefits, and that this was something that they should embrace."

### Project POOL

Project POOL had three main aims: to produce an evidence-based and objective analysis of pooling options; to enable LGPS stakeholders to gather round one or a small number of options that satisfy the government's criteria; and to form a basis of discussion between the LGPS and government on the best way forward. The collaborative project drew a number of conclusions including the most appropriate approach to management, structure, governance, and, of course, the cost-saving potential.

The report concludes that: "Over the very long term, the costs of transition and establishing and running the pools will be more than recouped by savings and other benefits. However, in the short term the costs of implementing change and transitioning assets are likely to exceed the savings."

Nonetheless, savings will not be uniform by any means – there will, the report says, be "winners and losers," with the latter including those funds that currently use a high level of in-house management and who will likely face higher costs. Nonetheless, over the longer term, potential overall savings make it broadly beneficial. "Based on current asset allocations and market values, and allowing for future asset growth in the range 3 to 5 per cent per year, the estimated eventual savings in year 10 values could grow to be in the range £190 million to 300 million per year," it says.

**Economies of scale**

A large part of these savings is likely to be found in simple economies of scale. As PiRho managing director Phil Irvine states: "Given the larger sizes of asset pools (on average over £25 billion in the eight pools) then the key advantages are fee negotiations and sharing the governance burden."

Indeed, as Lyons says, the savings are already becoming apparent: "Within the passive management that a lot of LGPS funds utilise, we have already seen significant reduction in management fees just from what is effectively collective procurement. Fund getting together within their pool and going out to tender for a single passive manager across their group, which means we are seeing significant cost savings start to come through already."

But, as FTSE Russell director, asset owner group EMEA Jennie Baruxakis comments, there is some way to go yet.

"There have been some cost reductions for schemes, as they look to request a unified pricing model for their assets. Substantive cost reductions however, will not be apparent for a number of years, as the new company structures are established at operations bed down," she says.

And while the costs of investments can be reduced, there is, of course, no such certainty around returns. "Even with the pooling of the top investment talent directing investment decisions at the pension level, one can never guarantee performance. Pooling will not automatically guarantee that the chosen managers are in fact the managers producing the expected returns."

Nonetheless, the project is certainly taking shape, and momentum appears to be picking up.

"The speed at which they were asked to move this forward by the government was ambitious, but I think that on the whole *[the sector]* has responded very positively and enthusiastically," says Lyons.

"We've got eight proposed and established asset pools at the moment, which is quite a feat, as perhaps the biggest challenges they faced was to actually find a number of like-minded funds to collaborate with on this project."

For Johnson, the changes to LGPS may have looked like tinkering, but for Lyons "it's an absolute sea change."

GSAM head of UK institutional business David Curtis agrees. "People think about LGPS as a very different marketplace to how they used to think about it," he says. "When it comes to simple but obvious benefits like pricing, there has been a wholesale change in how the asset management market has approached LGPS, and I think that is a big advantage for LGPS already."

**Challenges**

Of course, there are still challenges ahead. "Capacity could be one of the issues facing the newly-formed pools as they may be directed towards a few selective funds," Baruxakis mentions, though she adds that this could be mitigated to some extent by a broader selection of managers. "In addition, some pools are looking at passive as a way of allocating assets where they know that they cannot all use the selected manager. There are other issues like governance, which are coming to fruition, as schemes look at how they are managing their governance responsibilities in the new pooled framework."

Autonomy could be an issue too – when a host of schemes that are used to operating in their own way are brought together, decision making processes can change. "From the current pooling efforts, we see that quite a lot of decisions are taken away from the schemes," says Baruxakis.

"Some schemes continue to hold tight to the investment decisions taken, and their committees continue to push to have their views and thoughts heard. As pooling takes effect, schemes do have a duty of care to ensure that they are making the right decisions for their members, and this should continue to see schemes involved in investment decisions."

But as we edge closer to the April 2018 deadline, there are plenty of reasons to be positive, says Lyons: "It is a massive project, not just in terms of the number of schemes and people, the amounts of assets, but the difference between schemes investment approaches, their investment management arrangements, and so on. It is a very substantial task, but I think LGPS has really risen to and shown itself to be a very formidable force for change."

**Written by Sandra Haurant, a freelance journalist**

In association with FTSE Russell

**Summary**
- Concerns over an auto-enrolment capacity crunch have not come to pass.
- It can cost a provider money to process small contributions, therefore relying on cross-subsidies from larger contributions to make doing so worthwhile.
- Smaller pots can be time-intensive for schemes to administer.
- A number of small master trusts unable to make contribution charges cost-effective through cross-subsidies have had to exit the market.
- The issue of administering small contributions is helped by the upcoming pensions dashboard, which should encourage members to voluntarily consolidate small pots.

# Sweating the small stuff

**Fears of an auto-enrolment capacity crunch have not materialised to date, but a wave of small value contributions have exercised minds in trust-based schemes**

Along with the millennium bug, the Mayan calendar signalling the end of civilization in 2012, and the planet reaching peak oil in the 1990s, the auto-enrolment capacity crunch could soon be shelved in history's predictions-that-never-quite-came-true file.

With the smallest employers now enrolling their staff, there appears to be space for everyone, whether that be in a contract or trust-based arrangement. Nest has played a large part in allaying fears that potential savers would have the door closed on them, as have some master trusts, who have voluntarily chosen to accept every man, dog and investment risk profile.

Nevertheless, such openness does not come without its issues. The reason some providers have turned their backs on new savers is simple. Most of them can only afford the smallest of contributions. And for many DC trust-based schemes small value pots add up to one thing. A big headache.

Put simply, the maths doesn't add up, says independent trustee provider PTL managing director Richard Butcher. Take someone on average earnings, he says. Deduct the auto-enrolment minimum contribution, and then apply the charge cap. The result is that a scheme only recovers pennies from that individual.

He was recently told by one large-scale administrator that it costs about £157 a year to administer a pot for one member.

"So if you can recover pennies but you're spending £157, you can see that there's a mismatch here. It's not economically sensible," says Butcher.

"The reason it can work is because while there may be a whole bunch of people who are paying the auto-enrolment minimum who are on national average earning and therefore creating a cost drain on the provider, there are also a large number of people who are contributing far more than £157 a year. So this only works because there is cross-subsidy.

"That's something we have to grapple with as IGC members and as trustees – is there a reasonable distribution of value in the cross-subsidy?"

**Time and money**

Another cost factor that is aggravated by small pots is the general pension scheme levy.

Head of benefit solutions at Ascot Lloyd, which has its own master trust, Brian Smyth, explains that the levy is a significant charge on a DC scheme. As it cannot come out of members' funds, it is a cost to running the scheme that could become an even heavier burden in the near future.

"I can see a point where the larger master trusts – with Nest being a good example – end up having thousands and thousands of deferred members with low savings and paying a levy of £1 or £2 per member. They've got to make that money up out of their overall costing structure."

Small pots can put a further strain on finances by taking up a lot of administrative time. Smyth says that larger companies within sectors such as retail usually have a number of deferred members with small funds, which can become quite difficult to manage.

"We had a trustee meeting the other week for one scheme and were trying to contact someone who is over 55 so that they can claim their very small amount of savings in cash and we can't get in touch with them."

Headaches of this sort could be alleviated, says The Pensions Administration Standards Association (PASA) chair Margaret Snowdon through better economies of scale in administration and rolling out automation.

"With full automation, many small contributions can be handled more efficiently. Unfortunately the market is not efficient yet. *[And]* efficiency takes investment.

"Economy of scale is vital, but without efficient automated processes and controls, even large schemes and providers will struggle to make money."

**Shrinking pool**

A number of small DC master trusts, unable to cross-subsidy, achieve economies of scale or properly automate systems, have already had to exit the market.

"It will never be economic to run small, low-value contribution schemes as many small trusts have found to their cost," says Snowdon.

"Many set up with a plan to reach scale, but it takes many years to break even and recoup the costs of set up. Ironically, the bigger the number of providers, the less scale for all but the most successful."

Butcher agrees, saying that economy of scale is impossible with the lamost 90 DC master trusts that are currently operational in the UK. In his view it is the master trusts with a long-term vision who will survive.

"If you talk to insurers, their model suggests that they are not going to make an operating profit for at least 10 years," he says.

"You've then got to recoup your losses from the past 10 years. So these things don't turn a proper profit for 15 to 20 years. Any provider has got to be able to survive that time scale and that's quite demanding. That's what's really driving consolidation.

"But if you underestimated the extent of your small pot problem, then that's going to push back your period to 20, 25 years."

Smyth reveals that Ascot Lloyd has been approached by another master trust looking to leave the market and expects to see others follow suit. Many master trusts that are struggling to stay afloat are also finding their governance standards affected, he says. The Pensions Regulator has already clearly aired its concerns over stewardship and master trusts unable to invest in improving governance are left with little choice but to find an exit route.

The need to meet increasingly-onerous governance standards is also affecting standalone DC trusts. Smyth was at another recent trustee meeting for a company that employs in excess of 1,000 people and has always had its own trust-based DC scheme. It is now seriously considering shifting its members into a master trust because of the requirements and the pressure on its trustees.

Further consolidation of small standalone DC schemes is inevitable, says Snowdon. However, she warns, the pensions industry needs to ensure that members do not pay the costs of exit by providers who find they cannot make ends meet.

**The dashboard – a solution?**

In order to put a stop to the small pot dilemma, policymakers have toyed with two mainstream solutions in recent years.

The first of these, pot follows member, suffered an ignominious death in 2015 following the last General Election, after being championed tirelessly by then Pensions Minister Steve Webb and the coalition government. With cost savings at the top of the list in every ministerial portfolio, the government judged that the significant expense of pot follows member would rapidly reduce any overall economic value.

The second, the pensions dashboard, looks set for a life beyond the planning stage.

"The regulatory and legislative hope is that if workers see all their savings in one place, then they will start to voluntarily consolidate them," says Butcher.

"And if they start to consolidate them, then you reduce the impact of small pots."

The obstacles in the way of a successful dashboard remain significant, however.

Redington head of DC Lydia Fearn says that at present administrators and providers remain in silos, sharing little. From a dashboard perspective, that needs to change, she warns.

"Blockchaining could be a way of underpinning systems driven to the dashboard, but there are a lot of legacy issues in the industry and it's not easy for it to take on these new technologies; plus they're very expensive," she says.

"So if we want to do more to have the members see what they've got, then we'll have to be more collaborative."

Another piece of the puzzle involves protecting DC savers from the growing number of scams that have arisen since pension freedoms.

Fearn says that with a saver's information segregated from every other scheme member, and checks and balances in place to ensure security, allowing easy access to pension data is getting harder.

"As the industry grapples to try and prevent scams, in a way it puts a barrier against giving members the information they need to make future decisions."

Add to the mix hesitation over contribution auto-escalation, and a fear over how members will react to higher savings, and it's clear that the small pot problem will continue to provide trustees with a headache for some time yet.

**Written by Marek Handzel, a freelance journalist**


# The final stage

**With more small businesses reaching their auto-enrolment staging dates, Talya Misiri talks to the Federation of Small Businesses policy adviser Alex Metcalfe about the challenges and benefits of auto-enrolment and future pension reform**

**How have small employers taken to the responsibilities of auto-enrolment?**
Overall, many of our members see the benefit of auto-enrolment for society as a whole. But of course there have been concerns about the extra burden – both administrative and financial – it would place on a small business owner, alongside various other increases in the cost of doing business. In FSB's pension auto-enrolment survey last year, only 35 per cent of members expected automatic enrolment to be a straightforward process. But 47 per cent of those who had actually experienced the process found it straightforward – suggesting that it can be easier than expected.

**What have been the main difficulties in encouraging small businesses to engage with their pension responsibilities?**
Of those businesses yet to start complying with auto enrolment, our research found a majority didn't understand very well what they needed to do. Within this group, the vast majority said the reason was because they had not read up on the rules or worked out what their business needs to do (71 per cent). This may be because their staging date is not for some time. However, it is also likely that many will be leaving it late – a trend that The Pensions Regulator has identified as increasing in its recent compliance bulletin.

**Has there been high opt-out rates? If so, what are main the reasons for this?**
Anecdotally, we've heard that opt-out rates have been below expectations and remained stable as the programme rolls out to smaller employers, but we do not have any of our own data on employee opt-out rates.

**Do small employers value having to provide a pension scheme as a benefit or is it seen as more of a burden?**
A majority of our members (51 per cent) told us they felt confident that their business would be able to cope with auto-enrolment. Many of them agree with the overall benefit to society. But at the same time, around three quarters of our members have had concerns about the extra pressure auto-enrolment would put on their business. Many of our members only employ a handful of people; they don't have HR and compliance departments to look after the admin – that all falls on the business owner themselves.

**What has the FSB done to encourage greater pensions engagement?**
We provide FSB members with access to a really strong workplace pension solution designed to help smaller businesses to put in place a fully compliant and competitive scheme that's quick to set up.

**What would you like to see the next government introduce for small business pensions?**
The previous government was completing the *2017 Auto-Enrolment Review* – the first statutory review of the programme. There is considerable discussion about raising the contribution rates for employees and employers, as well as expanding the scope.

It's not the role of FSB to advise on what contributions are required to provide an adequate pension. Our focus is on making sure that any increases are implemented over an extended timescale because it is important to give both employers and workers time to adapt. Raising minimum contributions too quickly could have unintended consequences, for instance it could lead to an increase in opt-out rates as well as having a larger fiscal impact on employers. Smaller businesses could be more inclined to cut costs elsewhere in response, and this could impact on other areas, for example, lower or frozen wages.

We also believe there is scope for extending the principles of auto-enrolment to the self-employed, and this would need specific arrangements to be devised and put in place as the arrangements for employees aren't appropriate for the self-employed.

To help increase retirement savings amongst the self-employed, our *2016 Self-Employment Report* recommends that self-employed people should be given the option to opt into a private pension when completing their self-assessment. This voluntary opt-in should be supported by the practical application of behavioural economic theory, by providing a simple enrolment journey for the self-employed, while also offering simple default solutions to limit the number of choices required when a self-employed person decides to save into a private pension.

**Written by Talya Misiri**

**Summary**
• Smaller DB pension schemes are finding that more and more insurers' doors are open to them when it comes to de-risking, due to the recent attention on the significant number of small DB schemes in existence.
• Small schemes are looking to de-risk as they still struggle to have the same investment opportunities as larger schemes.
• Many small schemes are looking to offload responsibility for their retirees by negotiating a bulk annuity deal with an insurer. Innovation in the marketplace has made bulk annuities more achievable for small schemes to obtain.
• In order to conduct a de-risking transaction, schemes are recommended to undertake a data cleansing exercise.
• Fiduciary management as a solution for smaller schemes can also help to reduce risk, as does consolidation of DB schemes.

# Small and secure

**Louise Farrand explores the growing number of options available for small-sized DB schemes looking to de-risk**

Small is beautiful. At least, that's what insurers increasingly think. Smaller defined benefit (DB) pension schemes are finding that more and more insurers' doors are open to them when it comes to de-risking.

"The landscape has turned more towards looking at smaller schemes," explains Independent Trustee Services (ITS) managing director Chris Martin. He points to the Pensions and Lifetime Savings Association (PLSA)'s DB Taskforce *Interim Report*, published in October 2016. The report identified the fact that there are a small number of schemes with large numbers of assets and members, but there are very many small schemes. In fact, the PLSA found that the average scheme (by mean) has only 1,845 members and £217 million of assets under management.

"The research really drew the attention to the fact that actually, by bulk of numbers, *[schemes are]* down at that small end. Therefore, the market is turning its attention in that direction," explains Martin.

Martin's comments are echoed by Willis Towers Watson senior consultant Gemma Millington. "Across the board, not only among small schemes, we have had a busy start to the year. We have seen a lot of schemes approach the market and move on to transacting."

European legislation slowed the market down in early 2016, as pension schemes waited to see whether insurers' pricing would be affected by Solvency II legislation. "That slow start to 2016 resulted in the pick up we are now seeing," explains Millington. "Solvency II didn't have an adverse effect on pricing, so schemes that were sitting back and playing a waiting game have now moved towards a transaction."

Most insurers target a specific scheme size. Legal & General are unusual in the sense that they have always dealt with schemes of every size. "We have done transactions with a value of below £10 million this year, says Legal & General head of pension risk transfer Costas Yiasoumi. "As a scheme of a larger size you will be given more quotes and at a smaller size you will probably get smaller numbers. My experience is that every transaction is different and insurers are keen to transact."

It's no wonder that small schemes are looking to de-risk. While Martin believes it is now easier for them to access well-priced investment advice, they still lack the buying power of large schemes when it comes to investment. "You still have to get the quality investment advice, and that can be disproportionate, plus you have to monitor all the managers. That starts looking quite expensive for a scheme with £4 million, £5 million, or even £20

million of assets. Add to that the fact they need to monitor the covenant, and the costs of running a scheme can get quite high."

**Bulk buying**

Many small schemes are looking to offload responsibility for their retirees by negotiating a bulk annuity deal with an insurer.

"Bulk annuities are very efficient because it is straightforward to add extra liabilities into an already very large fund," says Yiasoumi. "The small end of the market is always very active. The very big transactions are few and far in between, but when they happen they tend to get a lot of publicity."

Millington reports that bulk annuity deals are more attainable than ever for small schemes, thanks to innovation in the market. "Particularly over the last 12 to 18 months, we have seen streamlining in bulk annuity and longevity hedging markets, which have opened up opportunities for schemes to carry out transactions on attractive terms."

Specifically, insurers are standardising the wording and terms in their contracts, which helps to make the process more efficient, she explains. That way, schemes can take advantage of pre-negotiated terms, which saves time all round, leading to cost savings.

Standardisation is also a trend Pension Insurance Corporation's head of business origination, Jay Shah, is seeing.

He reports: "By and large, bulk annuity contracts have been standardised across the market. Most insurers have relatively similar terms in their contracts, which helps. Once you have reached a commercial agreement with the trustees, putting terms in place is relatively streamlined, which helps manage the process for smaller schemes."

Shah adds: "If, as part of a process, an insurer is having to provide two, three or four rounds of quotations before a trustee is able to select their insurer, that is quite an overhead. It is more difficult to make it economical for a smaller scheme. Standardised contracts take out the costly aspects of the transaction."

**New ideas**

Innovation is also happening elsewhere in the de-risking market. "Fiduciary management as a solution for smaller schemes is something we are seeing quite a lot, and we absolutely support that. It is a way of helping trustee boards that may not have much of a governance budget to spend on running their investment strategy," explains Martin.

The PLSA published *DB Taskforce: The Case for Consolidation*, in March 2017. The report argues that the UK's proliferation of small schemes creates problems for sponsors, trustees and regulators and that pensioners would be better served by consolidating assets and achieving economies of scale in investment, administration and governance.

Several defined benefit master trusts have come to market recently, seeking to achieve similar economies of scale, Martin observes. "Especially in DB schemes, which are genuinely legacy – when they relate to former employees

> **"Bulk annuity deals are more attainable than ever for small schemes, thanks to innovation in the market"**

and there is no interest in running it in house, it makes sense to delegate," he says. "But will they all survive? They all need critical mass."

**Making the case**

Small schemes that are looking to embark on a de-risking project like a bulk annuity transaction should choose their advisers carefully. Independent trustees who have been through the process numerous times can carry weight with insurers, says Martin. "Generally, when we have been appointed to lead a transaction we make it happen. Insurers are generally more confident committing their time and capital to a discussion. We also get more airtime because we deal with big and small schemes."

Schemes should be sure that their advisers have good relationships with insurers, says Millington. Insurers tend to specialise in a particular size of scheme, and a good adviser will know the whole market and be able to play matchmaker. "Before you approach the market, it is important to work with your advisers to work out what the best option is for you. Both before and during transactions, it is really important that *[advisers]* know the market, know what they are looking for and are able to position the opportunity to insurers in the right way in order to get those best terms."

Shah suggests that trustees should work closely with their advisers to get a clear understanding of the market and what would constitute attractive terms for them. "We have had a few opportunities where trustees have said, 'we have a pretty good view on where insurance companies are pricing, we know what would be a great deal for us and what would be a great deal for you, and if you can get to this pricing level and these terms, we can transact pretty quickly.' "That is attractive from an insurance company's perspective. It avoids a lot of iterations of refining a proposal because you know what the clients wants and you are able to assess whether you are able to deliver that or not."

Getting your data in good order is also vital to getting attractive de-risking terms. Yiasoumi advises: "The schemes that just want a rough price tend to be the ones who have not spent the time going through and cleaning up the data. Sometimes things like cleaning data is driven by trustees, so if they are not willing to make that investment until they have a bulk annuity price, it gets a bit chicken and egg. I would always say that given you ultimately need clean data anyway, it is an expense you need to incur sooner rather than later."

He adds: "Small schemes should make themselves as attractive as possible. Have clean data and know your benefits, demonstrate you are ready to transact and have a target price. Advisers should be able to give small schemes guidance on what price they should be willing to transact at. All those things help an insurer prioritise what cases they should focus on."

**Written by Louise Farrand, a freelance journalist**

# The menu of choice

**Lynn Strongin Dodds looks at the ways smaller DB schemes are now widening their investment choices to ride the prolonged low interest rate environment**

**Summary**
- Small defined benefit schemes used to have a limited investment menu to choose from. Scarce resources and constrained governance budgets precluded them from venturing into anything too risky or expensive.
- There is now far greater choice thanks to more sophisticated pooled and passive offerings across strategies and the asset class spectrum.
- Since it is fairly commonplace for small schemes to be in deficit, many are retaining allocations to growth assets to help close the gap, as well as allocating to liability-driven investments (LDI) to hedge those risks.
- There has also been an explosion of MAC funds, which typically lump together loans and high-yield bonds alongside emerging market debt and securitised debt, collateralised loan obligations (CLOs) and non-agency issuance.
- A core DGF market of 47 funds from 36 providers in the UK will grow from around £124 billion of assets in 2014 to £218 billion in 2019.

In the not too distant past, small defined benefit schemes had a limited investment menu to choose from. Scarce resources and constrained governance budgets precluded them from venturing into anything too risky or expensive. However, today, there is far greater choice thanks to more sophisticated pooled and passive offerings across strategies and the asset class spectrum.

One reason is that in the prolonged low interest rate, quantitative easing environment the traditional asset classes such as equities and bonds were not delivering the promised goods and trustees were willing to look further afield. However, the first step in assessing different investments should be the same for smaller schemes – which is a relative term as some label them below €1 billion – as for their larger counterparts.

**Keeping watch**

"The starting point for any scheme is to look at scheme funding levels, the strength of the sponsor, their funding levels, risk appetite and governance structures," M&G Investments global head of institutional distribution Ominder Dhillon says.

"Since it is fairly commonplace for many to be in deficit, we are seeing them retain allocations to growth assets to help close the gap, as well as allocating to liability-driven investments (LDI) to hedge those risks."

This has translated into diversified growth funds (DGFs), multi-asset credit funds and LDI pooled vehicles. The latter are a relatively new phenomenon in the small pension fund community, with research published last year by KPMG showing that LDI mandates grew to 1,287 in 2015, from 1,033 in 2014 and of these, three quarters were pooled.

Meanwhile, there has also been an explosion of MAC funds, which typically lump together loans and high-yield bonds alongside emerging-market debt and securitised debt, collateralised loan obligations (CLOs) and non-agency issuance. They are more popular in the UK because the winding down of the DB market has forced trustees to focus much more on sustainability or buyouts than their continental European peers. This means looking closely at managing interest-rate risk in their portfolios.

"With the yield on traditional fixed-income allocations, such as gilts and investment-grade corporate bonds, having fallen so far, investors have needed to seek alternative sources of return in fixed income," BlueBay Asset Management head of sales – UK & Ireland Anthony Pickering says.

"Furthermore, many finance directors have sought to reduce their exposure to equities in a bid to reduce the impact that material valuation changes to their pension fund can have on their financial statements. These two realities have seen investors increasingly allocate towards higher-coupon fixed income where in the UK, solutions such as multi-asset credit have become increasingly popular."

However, as a 2016 report from bfinance points out, it is important to understand the biases of the MAC funds and the potential sources of return given the diversity of products currently on offer. The consultancy, which examined 75 fund performance track records from 60 different asset managers, found that within that data set no two products were alike. In fact, some of the strategies weren't even MAC, despite the label on the tin.

In addition, while MAC strategies have generally performed in line with their objectives in the last three to five years in terms of risk and return targets, this has occurred in an environment where spreads have generally fallen. Last year the tide had turned and returns were negative, which was in line with the poor performance of most fixed income sectors.

**DGFs**

The same words of warning have been applied to DGFs, which continue to be one of the most popular products for the relative minnows. Spence Johnson, the London-based research firm, has estimated that a core DGF market of 47 funds from 36 providers in the UK will grow from around £124 billion of assets in 2014 to £218 billion in 2019.

However, just as with MAC funds, the quality can vary, with some investing only in mainstream asset classes – almost exclusively equities and bonds – with largely static asset allocation, while others can be highly dynamic and employ complex long/short derivative strategies as well as a wider variety of asset classes. They also produced disappointing results last year, trailing 10-20 per cent behind equity markets, which continued to reach ever-dizzying new heights.

Perhaps though investors should not be that surprised. "There is something of an obsession with dampening down volatility but when taken too far you remove some of the upside and it is much more difficult to generate equity-like returns," says Dhillon.

Aon Hewitt senior partner John Belgrove adds: "Investors were disappointed by the performance of the DGFs but I think many have misunderstood the nature of the product. In the long run you would expect them to lag the equity market but the aim is to produce a smoother performance."

Willis Towers Watson UK head of delegated services Pieter Steyn states: "DGFs have done a reasonable job, but can be a slightly blunt tool, because they are also structured to appeal to the DC world where liquidity matters. However, DB funds do not need the same level of liquidity, because they tend to have a different time horizon. DGFs do not necessarily offer the best opportunities for DB funds."

As a result, while DGFs will continue to be a large part of the stable, market participants expect them to be combined with multi-asset funds, which can be a subset of DGFs such as fund of hedge funds as well as MAC and LDI pooled solutions.

"What we are seeing is increasing industry discussions on cashflow driven, and not just liability matching, investment", Stamford Associates head of fiduciary management advisory Carl Hitchman mentions. "A cashflow approach requires pension funds to map specific cashflows to pay out their benefits and this entails a rethink in the way they structure their portfolios and the assets they invest in. One of the challenges for smaller schemes is how to implement such an approach in a cost-effective manner."

**Fiduciary management**

This changing mindset perhaps explains the move to fiduciary management, which offers integrated solutions by combining investment advice as well as the administration of simple as well as the more complex strategies being incorporated *[see p74]*. The Netherlands has led the way but it is gaining ground across Europe, including the UK.

"Around 10 per cent of the UK pension industry has adopted fiduciary management and has been very popular with smaller schemes in particular," says Steyn. "This is because it gives smaller schemes access to scale that can help lower volatility and improve returns in different market conditions. The KPMG report last year showed that between 80 per cent and 90 per cent of all the mandates were for schemes under £250 million. About half of our mandates are under £250 million."

As with investments though, investors are advised to look beneath the packaging. Last year, the Financial Conduct Authority raised concerns about the conflicts of interest when investment managers provide fiduciary management services, and proposed to introduce greater standardisation of price and performance of the managers due to the opaque nature. "A lack of publicly available, comparable performance information on fiduciary managers also makes it hard for investors to assess value for money," according to the watchdog.

**Written by Lynn Strongin Dodds, a freelance journalist**

**DC and DGFs**

Although market participants are looking at different options for the accumulation phase of the defined contribution market, DGFs remain the backbone. However, the industry is still in its nascent stages and in time, market participants expect greater innovation, product development and education to cater to the different members' needs in the early stages.

DGFs are still the most popular investments in the accumulation phase for defined contribution schemes, although given the market rally there has been some concern about the product, Redington head of DC Lydia Fearn. "I think they are more suitable though for the mid-stage of a members journey as they offer some protection but we are encouraging younger people to take more risk at the earlier phase where they need to see investment growth and can afford take a higher level of risk," she adds.

**Summary**

• Historically, fiduciary management services were the preserve of large pension schemes, but offerings have now expanded to smaller schemes. Solution innovation is at the heart of the fiduciary management space and continues to evolve.

• Fiduciary management was originally suited to the mid-sized schemes of around £100 million to £300 million.

• The 2016 KPMG *Fiduciary Management Survey* found that 64 per cent of schemes using fiduciary management in the UK had under £250 million in assets under management.

• In a traditional consulting model, smaller schemes experience inconsistencies in the level of reporting and costs compared with larger schemes. This recognition is likely to lead to more schemes of this size considering fiduciary management.

• Trustee boards are now more tuned-in and better equipped to challenge their fiduciary providers than ever before.

• For many smaller pension schemes fees can be lower than legacy solutions, more transparent and better value for money.


# Infiltration and beyond

**Fiduciary management is now increasingly available to small-sized DB pension schemes. Adam Cadle analyses this development and looks at how fiduciary management works in this sized market**

Historically, bespoke fiduciary management services were the preserve of large pension schemes, but offerings have now expanded to smaller schemes. Solution innovation is at the heart of the fiduciary management space and continues to evolve at the required pace to keep up with the investment needs of many pension scheme trustees.

**An evolving scenario**

According to Aon senior partner and head of European distribution Sion Cole, fiduciary management was "originally suited to the mid-sized schemes, of around £100 million to £300 million" but solutions now also cover the smaller schemes.

"Solution innovation has been so rapid more recently that over the past year or so, some providers are now able to offer fiduciary solutions specifically designed for schemes £5 million in assets upwards."

Initially smaller schemes were priced out of many fiduciary management solutions, Russell Investments director UK fiduciary management Paul Wharton states, due to "minimum fees that many fiduciary managers operated with".

"As competition in the market has evolved, so the fees on smaller mandates have reduced, enabling more trustees to take advantage."

Indeed, the 2016 *KPMG Fiduciary Management Survey* found that 64 per cent of schemes using fiduciary management in the UK were under £250 million in assets under management.

One key trend in this segment, SEI institutional group managing director, EMEA, Patrick Disney comments, "is the recognition by the industry that in a traditional consulting model, smaller schemes experience inconsistencies in the level of reporting and costs compared with larger schemes".

"This recognition is likely to lead to more schemes of this size considering fiduciary management because, through their scale and resources, fiduciary managers are not only able to provide smaller schemes with access to a broader range of investment styles, asset classes and investment managers than would otherwise be available to them but are also able to offer a bespoke level of reporting regardless of size."

Within the fiduciary management market a greater choice of provider is now available, as more players have entered the market. Asset managers are able to bring operational platforms and risk management techniques to the fore, which provides greater comfort to schemes.

Head of the client strategy team for BlackRock's outsourced chief investment officer services Sarju Mehta comments that "a greater focus on the governance of fiduciary appointments, and monitoring of providers, has pushed trustees to increase their awareness and understanding in this area".


"Trustee boards are now more tuned-in and better equipped to challenge their fiduciary providers than ever before. This has also provided opportunities for the truly independent evaluators to ensure a level playing field. Transparency of fees and quality of reporting are key areas that are now in the spotlight."

**Benefits**

So what can fiduciary management actually offer to small pension schemes? "Fiduciary management offers schemes the ability to be more dynamic in the face of increasingly challenging markets and continued pressure on scheme funding levels," Mehta states.

"It also provides trustees with more time to focus on the most important decisions, such as agreeing the funding plan, defining a risk budget and setting overall investment objectives, by delegating the implementation to an investment specialist. For smaller schemes in particular, where there may be less in-house expertise and assets are lower, fiduciary management allows trustees to access more sophisticated investment at a lower cost than they would have been able to otherwise. Fiduciary management also provides a way for trustees who have avoided liability hedging, for example due to a view that interest rates can only rise, to move into liability driven investment strategies while minimising their 'regret risk.'"

Cole adds that fiduciary management comes with "enhanced reporting benefits that covers the entire portfolio, rather than reviewing multiple managers' reports, and, because the LDI and growth are managed holistically together, it means the trustees don't need to worry about cash calls and collateral management".

Interestingly however, Gatemore Capital Management managing director, UK, Mark Hodgson believes that the fiduciary management case "is not for everyone" and one of the biggest criticism of fiduciary management is that "advisers are blaming trustees for their historical decision making and selling fiduciary management as the solution".

"However, it is the same investment firm then being sold as the fiduciary management provider, with the same decision makers but at a higher cost – it is not always the panacea."

It must be noted as well that fiduciary management offerings for small pension schemes compared to large pension schemes do differ. This is a point raised by Mehta, who says that the three main differing areas are around "discretion, customisation and frequency of interaction".

"Larger schemes often retain the option to keep more discretion over multiple aspects of their portfolio, perhaps because they have in-house experts who are well equipped to form part of the investment decision making process. While the range of services offered is similar for small and larger schemes, larger schemes usually ask for more customisation. Larger schemes also typically look for a higher frequency of interaction with a fiduciary manager and require more adhoc analysis and advice."

**Fees**

As with any offering comes the issue of cost. Not so much an issue for the large pension schemes, but are small pension schemes put off by the costs associated with fiduciary management? Disney thinks not.

"It is a popular misconception that fiduciary management is more expensive for smaller schemes than a traditional model. In our experience this is just not the case. For many smaller pension schemes fees can be lower than legacy solutions, more transparent and better value for money. The reduced investment management fees that come from a fiduciary manager's bulk buying power can offset the cost of the additional and higher value services delivered. When you consider that a fiduciary manager also replaces the existing investment consultant, thus removing the need for their fees, the total investment budget may not need to change and can be even lower."

The future looks bright for the number of small schemes utilising fiduciary management provider capabilities to enhance their portfolio returns and ultimately achieve the ultimate objective of continuing to pay their members. Cole believes that the take up of fiduciary management by schemes under £30 million "will soar".

"The Pensions Regulator recently reminded trustees of smaller schemes that investment opportunities continue to develop and innovate to assist with risk management."

Hodgson is of the same opinion but with it issues a warning.

"Fiduciary management will continue to grow but trustees should be buying it based on need, not having it sold to them," he argues.

**Written by Adam Cadle**

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## CHAIR

**Kim Gubler, Deputy Chair, Pensions Administration Standards Association (PASA)**
Kim is the deputy chair of PASA, as well as chairing the standards and accreditation committee. She was re-elected as a PASA board director in 2014 and has served since 2011. Kim set up KGC in 2002, an independent pension and management consultancy. Over the past 25 years she has developed a deep knowledge of both occupational and contract-based pension schemes, acquired as part of the structured research process she designed for the firm.

## PANEL

**Richard Butcher, Managing Director, PTL**
Richard joined PTL in 2008. He became managing director in 2010. Immediately before he was at PTL he ran his own small independent trustee and consultancy business. Richard has been involved in pension scheme governance since 1985 and has worked with, or as a, pension scheme independent trustee since 1989. Richard is a Fellow of the Pensions Management Institute (PMI) and is on the PMI Council. He is chair of the Pensions and Lifetime Savings Association (PLSA) DC Council and sits on the PLSA board. He is a regular contributor to the trade press.

**Lorraine Harper, Director, JLT Employee Benefits**
Lorraine is a director at JLT and head of client engagement and governance for JLT's largest clients. Lorraine was previously head of governance services at JLT, providing active support and guidance to trustee boards and DC pensions committees on the management of pension schemes. She is a pensions management consultant specialising in governance and administration and, over the last 39 years, has worked with many of the major advisory firms and as an in-house pensions manager. In February, Lorraine became the Chair of PASA's Accreditation Committee.

**Catherine Redmond, Trustee Executive, BESTrustees**
Catherine is a Fellow of the Institute of Actuaries, with over 20 years' experience in the pensions industry. For the past 10 years she has held senior roles in the executive management teams supporting the trustee boards and governance committees of two of the largest private sector pension schemes in the UK - the Barclays UK Retirement Fund, and the BT Pension Scheme. Catherine has a particular interest in good scheme governance, and has had involvement in a number of trustee effectiveness reviews.

**Paul Sturgess, Director, Private Sector, Equiniti**
Paul is a member of the EQ Paymaster pensions executive team. He joined Equiniti in February 2015 from Capita, in a new role as pensions strategy director and has since assumed responsibility for services provided to private sector clients across the firm's administration and software propositions. Paul has over 30 years' experience in the pensions and life assurance industry. Over the years he has been involved in a number of leading-edge pension developments and acted as an industry spokesperson.

Admin roundtable

# Admin: Meeting the challenge

**The Pensions Age administration panel reflects on the challenges presented by changing legislation, the pensions dashboard, data security and more**

**Chair:** How are pensions administrators feeling about the current pensions environment?

**Sturgess:** We've seen some fairly big developments in the marketplace. We have seen suppliers step away from administration-only, for example, and that's driving a lot of people to do reassessments that they might not otherwise have done. Let's see how that unfolds. From our perspective, we're looking at it positively, but it does distort the market a little.

More generally, what we've noticed over the past couple of years is a broad increase in member activity volumes which is a good thing, fundamentally, because it's demonstrative of people engaging with pensions in a better way, whether it's based on DC freedoms, or whatever it might be.

Engagement I see as a positive, but it's also something we have to gear up to and respond to, and talk to our clients about to make sure they're equipped to deal with these higher levels of member engagement.

Finally, wherever you look, there are lots of things going on with data.

**Chair:** So you're feeling positive?

**Sturgess:** Yes.

**Chair:** Catherine *[Redmond]*?

**Redmond:** Increasingly we see clients looking again at the administration market and probably wanting to have more choice and they are most definitely seeing administration as a key component of their agenda for the future – whether that's in relation to risk management or whether it's about making sure they're discharging their responsibilities as trustees correctly.

**Harper:** Work volumes have certainly gone up. They began to rise after the announcement of the pension reforms in 2014. At that stage we weren't sure quite where they would go. But going into 2015, they stayed at high levels, so we're working from a new baseline. The baseline we had before April 2014 is now defunct.

This year, in January, we saw a 44 per cent increase in queries coming into our helpline. That rose steeply until the end of March and has now plateaued off a bit, but again, the baseline has gone up.

The biggest change has been in the number of people asking about transfer values, and that's concerning because that's in relation to DB schemes as well. The administrators, of course, have also had pension scams to deal with and the difficulties and concerns around handling those cases.

Now the new concerns are around whether people are getting advice for their £30,000 plus transfer values or not. Administrators are dealing with IFAs and all that kind of thing – it's quite a stress on them, I would say. They're in the front line and they are feeling the strain, without doubt.

**Butcher:** There are a number of challenges that face administrators – challenges that should be on their radars, if they aren't already. Pricing pressure is one. Continuously now, we're having discussions with CFOs of businesses that sponsor DB schemes and the finance functions that sponsor DC schemes. They're saying this is just too expensive to administer – particularly DB.

So what can we do to bring price down? Administration is the coalface of pension scheme governance. It's the engine room, but it's also the cheapest end, or the lowest-priced component part. So the challenge for administrators is to continue to innovate and up their

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# Admin roundtable

game and find ways that they can make this more price competitive and react to that pricing pressure.

Overlapping with that is another challenge, which is a challenge that trustee firms face, that pension lawyers face, that scheme actuaries face, which is that there are fewer and fewer DB schemes. There's a drift towards scale in DC so, frankly, there are going to be fewer appointments around.

So, how are you building your business, administrators, so that you can have longevity? Because if I appoint an administrator, I want them to be around for the next 20 or 30 years. I don't want them to pop out of existence in five or 10 years.

Two other things – new risks. We're getting new risks all of the time. Paul *[Sturgess]* mentioned data, but also cybersecurity. The cyber thieves are becoming more and more intelligent and every time data moves from one place to another, there's a vulnerability, so we've got to think about that.

Then the final thing, and DC-specific, we're seeing an increased trend towards people using freedom and choice and wanting to use their pension like a bank account. This isn't a bank account and I think that's a challenge for administrators, as well.

**Chair:** You mentioned DC. When we're talking about durability of administrators, not all administrators have a lot of DC in their portfolio, and as you rightly said, with practically no new DB schemes, the admin market is churn for DB.

How can trustees assess administrators from that DC perspective, look beyond the DB and decifer how durable you're going to be over time?

**Butcher:** With any company that wants to operate through a distant future, it's about assessing their business plan, about assessing their strategic objective. So, what are you going to do to drive revenue over the next 10 to 15 years? Because that's what businesses need in order to survive. What are your plans? If they've got a plan, great – you consider it. More often than not, they haven't actually got a plan.

**Harper:** I work for an organisation that constantly looks into the future. Our shareholders demand that we do that. But it's interesting because you have to prepare for the eventuality that perhaps pensions might not actually be around for that much longer. If you look at younger people moving up through the job market, their interests are not pensions-related at all. Things like the help-to-buy ISAs are far more attractive to them.

We've seen a lot of clients actually look at, as part of their flexible benefits, making a sum of money available to people and then letting them choose what they do with it. If they've got an auto-enrolment qualifying scheme that they're inviting people to join, there is a basic minimum that people have to pay or they opt out; but increasingly, employers are looking at other forms of saving to put into the workplace.

**Redmond:** I agree that the future could look different for new savers but, having said that, it is important that people really understand that there are still huge benefits to pensions, when you think of tax relief and matching and so on. We need to make sure that that's front of mind, although LISAs and newer products are clearly going to be very attractive.

Also, there is still a huge traditional pensions legacy, and in order to manage that legacy there will have to be activity. I don't think there is any room for complacency – there is still a lot of work to do and a lot of innovation that could be driven.

**Harper:** Well, we don't have a single retirement age any more. That's gone. So HR functions have completely dropped the notion of retirement age now, and with the state pension being pushed further and further out, towards 70, I think the whole concept's going. The final nail in the coffin would be tinkering with the tax later this year, if we get more cut-backs on the tax benefits of pensions.

**Sturgess:** I think that's right, but we increasingly talk about retirement provision rather than pensions, per se, because people know that they need to make some kind of retirement provision, in its broader sense, which may or may not be a traditional pension product.

For employers it's going to be really interesting, though, picking up this point about retirement age. There is going to be a point where employers will need people to retire and it's going to be in the interests of people to be able to retire. It will take a while for that to evolve, and we're very much in an interim position in terms of how employers behave.

**Chair:** Everyone talks about the issue of change and how administrators are struggling to keep up with that, but

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Admin roundtable

should we not be used to change by now?

**Butcher:** Perhaps. But more importantly, whilst change creates challenges for administrators, it also creates opportunities.

In the context of different patterns of wealth, health and work, the challenge is how do we help members through that process? How do we integrate what we do as pensions administrators with the Lifetime ISA, or other forms of long-term savings, so that we can deliver something that's consistent to the member?

There are opportunities here for those who are willing to innovate. Of course this is something that administrators have done consistently and continuously over the years. The difficulty this time around is that it's out of the box. Innovation in pensions administration has happened for many years. Innovation in pensions administration, such that it brings in other components of lifetime saving, that's thinking out of the box.

**Redmond:** But also, a lot of the things that we're talking about do require investment and possibly significant investment, and if you're looking at what could ultimately be a declining market, it's harder to get people to make that investment.

**Sturgess:** Just coming back to my point about a wider retirement provision – it's about making the pension element of it integrate and work with it.

Systems to administer pension schemes have been around for heaven knows how long. The ability to automate transactions has been around for heaven knows how long. If you actually look at what goes on, and the levels of automation that exist, and the levels of work, there are various elements to the jigsaw that are gradually being brought together. So as people focus on data, they can create more automation, they can deliver greater online activities.

So those are the things that make me positive about it. That, and the point that was made at the beginning, which is that people are giving the administration process a little more attention than before. That's what makes me positive, that people pay greater interest in it than they ever did.

**Legislation and regulation**

**Chair:** Moving on to a related issue – pensions legislation and regulation. What are the issues that are causing you concern in these areas?

**Harper:** I treat legislation as my friend, to some extent. I know that the new general data protection regulations are going to be particularly onerous to implement. But actually, when you think about it, we've got all these cyberattacks all the time, we've got an increase in fraud and all that kind of thing so actually, we do need to be aware of all of these threats and be doing something.

**Sturgess:** I wouldn't say it's my friend, but legislative change has just always been there since I joined the industry and I just don't see it going away.

**Butcher:** I don't have a problem with legislation. I have a problem with the legislative process. First of all, we are having to live with freedom and choice as a matter of legislation. But, more importantly, the legislative process – we get ideas floated by chancellors or pensions ministers. They perhaps go into consultation. They then appear as legislation. The time-span for some of these things seems to me to be compressed.

For example with freedom and choice, we didn't have the framework until a couple of months or even weeks before it was due to launch. How on earth are you supposed to assess whether it's worth investing in that system, then build and deliver and test that system in those sort of compressed timescales? So that really gets my goat.

I don't think the regulator helps either. The regulator wants to get something out almost all of the time – just look at their website. The amount of guidance that they've got on there is just phenomenal – far more than anybody can actually read.

**Chair:** And all of this has to be delivered, doesn't it?

**Butcher:** All of this has to be delivered. All of it has to be read. They're almost making too much noise for everybody to keep up with. So we need a bit of peace and calm and quiet from the regulators and also from the legislators, so that we can properly absorb what we've got.

**Chair:** Are we going to get that peace and calm?

**Sturgess:** No. Pensions is still seen as a soft target for change, and we've just got to get used to that.

**Chair:** We've talked about freedom and choice, and we have touched on the increase in transfer activity, but is there anything that you have really welcomed?

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Anything that, as administrators or as trustees who appoint administrators, that has made your lives easier?

**Sturgess:** I've welcomed stuff, but I don't think any of it has made my life easier.

**Harper:** We needed something on QROPs. We've needed that for a long time because administrators and trustees alike were quite exposed before. So that's helped a bit, but it hasn't made life easier, really. It's hard to think of anything that's made life easier.

**Harper:** A lot of things will ultimately make things easier, but not in the short term.

**Sturgess:** I'm not even convinced of that.

**Harper:** I can think of something that would, but I'm not sure the regulator would bite the bullet. It relates to the whole issue of data integrity. At the moment, it's up to individual sponsors and trustee boards as to whether or not they launch a project to clean up the scheme data once and for all. Most don't do it because there's a big cost attached, but if the regulator said, "okay, you've had enough time and I don't see you really making much of an effort – so you need to do it by x time", then that would actually be quite helpful, because that would mean, as a firm of administrators, there's all sorts of efficiencies we could introduce that are currently not available.

**Sturgess:** There are quite a lot of drivers in that space already though. We know, for example, that the regulator is frustrated about data quality and if you look at some of the responses to their surveys, there's little surprise they're frustrated. Also, in the private sector, the move towards buyouts and de-risking has given people a motivation to look at their data for the first time, but it's not across the piece.

**Harper:** You're right – it's just happening in pockets of the market. A buyout, for example, might just be in relation to the pensioner population so they will just focus on those data and ignore all the rest. It's very bitty so it's hard for any administrator, particularly of a large scheme, to say the data for the entire population is good order.

**Redmond:** But partly that's a legacy thing. So many of these schemes are so old that you may have records going way back that are even still on microfiche and it's very hard to justify extracting it all and automating it.

**Data and data security**

**Chair:** I'd like us to focus a little on DC data, particularly DC conditional data, which seemingly has not had the focus that DB data, even in its bitty sense, has had. Also, not all pension schemes are administered by large, third-party administrators. Some have smaller administrators, some are in-house. How do you feel about trustees' ability to grapple with both DB and DC data and all that entails?

**Redmond:** For the very small schemes, having clear guidelines and requirements is helpful and maybe even more helpful in the case of very small schemes, but there probably should be some tolerance and understanding around the timescales and the processes that people have to go through to get there. But ultimately, it is as important for a small scheme as it is for a multibillion pound scheme to get the data right. They actually may be the sector of the market that sees some of the most change in years to come. There'll be consolidation or be buyouts for example. So, while it's as important for small schemes to get their data in order, the regulator and the legislators have to accept that there's an issue in terms of the pace at which that can be achieved.

**Sturgess:** When DC really got traction in the UK market, the industry didn't do it terribly well – the industry used DB skillsets to run DC, despite them being completely different animals. I remember going out and trying to talk to people in the early noughties about the importance of reconciliation in DC schemes. Nobody knew what I was talking about. Did I ever get asked in procurements then about reconciliation? No – but that's the absolute foundation of a DC scheme. So if I wasn't being asked about that, back then, that told me a lot about where the industry was. I like to think it's learned something in the intervening period.

**Harper:** It's that DB mindset – with DB you fixed problems when you had to and you only had to when there was a crystallisation event. But with DC, if you get something wrong in one month and you don't fix it, it's going to be worse the next month. The problem is compounded on and on and on and I have seen schemes in the past that have had to be reconstructed back from day one.

**Butcher:** Even at the trustee table, I've seen so many trustee boards who try to use DB skills to govern DC schemes when it's a completely different skillset. But to pick up on the earlier point, the idea behind DC systems should be that they self-check as you go through the process so that there should be much less scope for error. The system capability should be built in, to avoid that risk.

**Sturgess:** I think that's fair, and if you've got a half-decent system today for running a DC scheme, that would be right, but if you track back, there are legacies there that are undisturbed.

**Chair:** We touched on data security earlier and someone once said to me the pensions industry does not operate within the real security world. The types of securities we use are not as robust as those used in banking and the like. Are we doing enough?

**Sturgess:** At an industry level, we're probably not. My particular organisation is involved in things that go well beyond pensions such as share registration, all of those things. We spend a lot of money on data security, and it's not going to go away.

**Redmond:** There's much more awareness now than there has been, and it's almost in the last year to 18 months that it has escalated. You see it on the agendas of lots of conferences and events now. That wasn't the case to the same extent before. So I think trustees always had an awareness of data and an awareness of the importance of it, but now there's just so much more hype – not just in the pensions industry, but more generally, about scams and cyber fraud and cybersecurity that it is just going up the agenda.

**Redmond:** It's a very rapidly-evolving area and it's a very dynamic thing. So it's not even a case of playing catch-up – we are watching developments as they unfold, to the extent that you can't get ahead of them; and that is difficult, particularly when we're still making investment in systems to get the core aspects right.

**Butcher:** I just want to play devil's advocate here and ask, how much of this is hype? How much of this is being driven by the data protection industry who want us to spend more and more money on system security? Yes we hold lots of data but, actually, how many horror stories have there been?

**Chair:** Well, are we the next horror story?

**Sturgess:** If you look at some of the things that have happened outside of pensions, those events have focused people's minds. There are examples of organisations that have seen their share prices collapse under the threat of cybersecurity.

As a result we certainly get a lot more questions than we ever did – whether that's about hype or not. It might be a function of the types of schemes that we work with and the scale of them, but we get a lot more questions about what we're doing around this, and that's a good thing. Is it hype? Well, it would only take one significant failure to cause considerable damage.

**Harper:** Don't just think about the horror stories, because there's an awful lot of potential horror stories that have been successfully avoided by the security in place. Large organisations have departments devoted to checking every email coming in and out of the business; have penetration testing contracts with external providers; and there are many attempts at hacking that have failed.

**Butcher:** I'd like to see some of those hard facts, just to give a sense of actually what is going on.

**Redmond:** But firms aren't necessarily going to want to give out this kind of information, because it makes people nervous.

**Chair:** It does, and it makes the market nervous.

**Redmond:** Also, it's not just the loss of membership data. If it progresses to a scam type activity, individuals may have an enormous amount to lose. For most people, their pension is a very significant part of their overall wealth.

**Chair:** Should administrators be acting like the big organisations and doing penetration testing?

**Butcher:** I think they are. Isn't every organisation now?

**Chair:** I wouldn't say that all administrators are.

**Sturgess:** That's worrying. You've got to. You've got to be smart about what you spend, because what you don't want to do is to inform hackers or potential hackers of what you have done, which avenues you've closed or whatever, but penetration testing, if you're a serious administrator, is an absolute must.

**Redmond:** And it's not just for administrators either.

**Sturgess:** It's not and that's a really good point because it's not just about how easy it is for somebody to get to the database and get through security into that underlying data storage. It's also about shifting that data. You've got to look at the interim process and work out what are the points of vulnerability.

**Butcher:** Absolutely and there's an awful lot of everyday behaviour that goes on that creates vulnerability. There's little point spending millions of pounds trying to close some obscure loophole when you are sticking data onto discs and putting them in the post.

### The pensions dashboard

**Chair:** Will the pensions dashboard will make things better, or worse? I am asking this question from an administration perspective rather than

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# Admin roundtable

a policy perspective. Now that we've got the prototype, we know what it looks like and we know, effectively, how it's going to work and what's going to be demanded of administrators, how do administrators feel?

**Harper:** In terms of administration there's going to be a lot of work to do to get ready, because we're all using different systems, we're all holding data in different ways. Going back to the earlier point, with data integrity, when you do validations across databases you can find a lot of apparent anomalies, but actually it's because people are holding things in different ways, in different places, so all of that has got to be reviewed in terms of getting data ready for the dashboard.

That's no mean feat, and that's on top of the general data protection regulations coming in as well, and all the review work that will generate. So it makes sense to do the two together, but we don't know what the time scales, genuinely, are going to be.

**Butcher:** Theoretically, they're due to launch at the end of next year.

**Sturgess:** It's difficult to argue with the concept of people being able to view their data in a collective way. It helps people engage.

From an admin perspective, it's really about addressing the same kind of issues that many of us have been looking at for online access capability. You've got to have systems that are built in the right way, that are configured in the right way with the right security, and all of those things. I think the limitation will be, if you look at an industry level including the insured areas, and you look at all those legacy products that existed, there are a lot of bits and pieces of pensions being run on very old systems and this might be one of those things that will encourage someone to take it out of the 'too complicated box' and do something with it. Because if you've got a system that's not web-friendly, what are you going to do? So I think it is going to lift everybody's game.

**Butcher:** It's either going to lift their game or cause them to have to spend a phenomenal amount of money.

**Harper:** Most people will have to spend, for sure.

**Chair:** Well it depends on what administrators are going to have to provide for the dashboard.

**Harper:** Also how it's received at the other end, because you mustn't forget that the members going into the dashboard will see benefits and expect to receive what they see.

**Redmond:** It may not need to be perfect.

**Butcher:** It will need to be perfect. If it's not all-inclusive, all-singing, all-dancing, people will look at it once and say, well, that's only half my pensions. They may go back six months later and look again and still – it's only half my pensions. After that, they won't pay any attention.

**Redmond:** The dilemma is then, do you wait for it to be absolutely perfect? Or do you go to 80 per cent, 90 per cent?

**Butcher:** No, you've got to get it all-singing, all-dancing, all-inclusive at the point of launch, otherwise it will lose credibility.

**Harper:** When you send a benefit statement out, it's full of caveats such as 'information shown is subject to the rules'; 'information is at a point in time and may change' etc. The dashboard will need to carry some caveats to help manage member expectations.

**Chair:** Having seen the prototype, I think that imperfection is deemed as being better than nothing – giving people an opportunity to explore. Paul *[Sturgess]*, do you think that it should be perfect?

**Sturgess:** I understand the point that Richard *[Butcher's]* making, about levels of engagement, but at a practical, realistic level, if we look at how the dashboard has evolved and where the early participants in the dashboard have been, which have largely been from the insurance sector, from the contract base sector, then levels of imperfection exist.

The acid test will be, when it gets started, whether people will look at it and say, "it will never really work", or will it be allowed to mature? That will be an interesting point. Intellectually, I understand the point you're making about perfection, but the reality is that it will get there in stages. It will have to get there in stages.

**Butcher:** Will people still be going to look at it by then? Because they'll have looked at it once, twice, and thought, this is a pile of rubbish – I'm not going to bother to go back to this.

**Redmond:** It depends how you position it with people.

**Sturgess:** Yes, people will still, at some point, fundamentally need to understand what they've got where.

**Chair:** But from an

administrator point of view, money is going to have to be spent, and that's fine if you're a very large organisation, where commercially it is a driver, but what about in-house schemes and small administrators?

**Sturgess:** It's going to get harder – there's no doubt.

**Chair:** Will it push consolidation?

**Sturgess:** It will push consolidation at one level. Something I get asked for a lot now is a statement of commitment to the marketplace, which is understandable, given recent events. For us, it's an easy thing to offer, because pensions administration is a very big part of what we do. But simply saying, yes, we're committed isn't going to be enough anymore. You're going to need to be able to demonstrate that.

So it is going to drive those organisations that are serious about the marketplace they operate in, those organisations that have got the wherewithal to continue to participate and probably those organisations that are a little bit broader than just the pensions piece. So, for example, if you're providing services to a life company as well as an occupational pension scheme, that broadens out the range of things that people are going to ask you to do. It makes it easier for you to drive the financial case to build something. It's going to be harder for the small boutique.

**Chair:** What about the in-house scheme? The in-house administrator? Where do they get the money from?

**Butcher:** Either the sponsor or they just don't do it.

**Redmond:** They have to be able to make a compelling case for doing it to their sponsor.

## PASA

**Chair:** I'd like us to talk about the PASA accreditation. It is beginning to gain traction in the market – why do you think it has taken so long?

**Butcher:** Why has it taken so long? There are a couple of reasons. One is because it involves spending money and you've got to be able to justify that expenditure. In the early days nobody was going to get the FD to sign off on spending money when they had never heard of PASA. You've always got to build up a period of time to get that reputation.

Secondly, because in the past six years since PASA was set up there's been a phenomenal amount of stuff that administrators have had to deal with and that means sometimes parking the 'nice to deal with' things. So freedom and choice was a massive bill at very short notice. Getting through some of the DB things; GMP reconciliations, massive amount of work. There have just been other priorities.

**Chair:** Is it something, as a trustee, that you value when looking at your scheme's administrators?

**Redmond:** I expect over time it will become increasingly important as there's more awareness and understanding of what the benefits of accreditation are, but I'd agree that in the short term there have been so many competing priorities over the last few years that it's been one of many things to factor in.

**Sturgess:** I think it's part of that long-term, overall, very gradual trend for people to look at administration more than they did. It's a function of that. It's not that long ago where schemes never saw their administrators at a trustee meeting. They might have had a subcommittee that reported once a year. It's been a long and gradual trend towards increased professionalisation. It's only going in one direction, in my view, and that's a positive, but it's taken a long while to get there.

**Redmond:** But the momentum is building for sure.

**Harper:** I would say that looking at the pipeline for accreditation, it's probably the healthiest it's ever been at the moment. We've got major TPAs now accredited, many more interested, actively talking to us about it. We have got local authorities actively involved as well now. Master trusts have approached us for accreditation. So it is looking healthier than ever.

The accreditation is a challenge. Organisations who've been through the process do say that it is a challenge and that they've had to make changes – but they've improved on what they did. So it's certainly been worthwhile.

**Chair:** From a PASA perspective, we do see that the momentum has been increasing and at a much faster rate over six to nine months, or so.

## Looking ahead

**Chair:** To conclude, what would be on your wishlist from an administration perspective for the next year or so?

**Butcher:** I don't want the new government to bring anything in. That's my one wish.

**Harper:** I'd like them to make a statement about tax reform, because it's so uncertain at the moment and plans for some are hanging in the air. We'd like things to be a bit more stable in that area.

**Redmond:** I'd like some breathing space, to allow people to consolidate the sheer volume of change that has gone on and so they can do some planning and prioritisation for the future.

**Sturgess:** One of my wishes would be that when somebody's making a benefit design decision, they stop to think about the processing of it and the operation of it and the administration of it, before they make that decision. After 30 years, I'm still an optimist!

**Summary**

- Soft skills, such as empathy and leadership, can be underrated in the pensions industry compared to more technical skills.
- Improving member education and engagement is considered a key challenge for the sector.
- Member surveys can be a useful tool to demonstrate listening skills, especially if the results are acted upon.

# A soft touch

**In such a complex, technical world, it's important the pensions industry can communicate and empathise with members on a more basic level, with the aim of securing the best outcomes at retirement. But just how prevalent are soft skills among the industry? Lauren Weymouth explores**

"Technical skills within our industry are a given – we all need to be able to prioritise and identify the technical issues facing members, employers and trustees," Punter Southall Aspire principal Andrew Constantinou says. "But we also need to understand the key issues that may be keeping them awake at night."

Understanding the issues that trouble members requires a very specific skill set, but they're far from technical. These skills are soft and so basic that they form our daily interactions with people. But using them in the workplace can be a little less simple. For many, who are experts the field but have no experience in management, the use of these skills can feel somewhat unnatural.

The kind of skills we're talking about are leadership, multi-tasking, empathy, listening and exercising judgement. The skills that, if used well, can provide fantastic results, but if used poorly, can have devastating consequences. While technical accuracy should be a basic skill, softer skills like these help to ensure members are well informed and are able to express their concerns.

The world of pensions is intricate; it has its own expansive vocabulary and a set of rules that are consistently changing, it's never an easy task trying to keep members engaged.

"Imagine a social situation where the pensions professional is the centre of attention, surrounded by a crowd being charmed, entertained and engaged by their display of exemplary soft skills. If only this was the case – then engaging members and interesting them in a topic they find complicated, and to be frank often boring, would be so much easier," Constantinou says.

**A level of understanding**

But unfortunately, this isn't the case. According to Capita Employee Benefit's *Pension Scheme Insight Report 2016*, which surveyed pension managers and trustees, 43 per cent of schemes think improving member education and engagement is a key challenge for the 12 months ahead – the second highest ranked priority – and schemes appreciate this is an area that needs to be significantly improved.

The research also found 64 per cent of respondents want to help explain

**"Focusing on money and cost can sometimes distract from the fact that there are real people within pension schemes"**

retirement options to members better and 58 per cent want to encourage members to take greater control of their benefits. So why aren't they doing this already?

The results highlight, as Capita Employee Benefits engagement manager Gareth Davies explains, that one of the main skills to have been overlooked in the industry is empathy.

"The pensions industry – providers, advisers, trustees, regulators, legislators – have all contributed to the successes, and failures, of workplace pensions," he says. "But despite good intentions we have collectively been guilty of sometimes missing out the actual end user in our discussions – the individuals actually in the pension scheme."

Broadstone technical director David Brooks agrees that empathy is a key skill often overlooked, despite it being key to making sure members' problems are resolved.

"People only speak to pensions professionals (who are people too) when they need something. Retirement, death, valuation, funding problems etc. We've always got to be able to understand what their problem is, and even help them to understand it, before we resolve the situation," he adds.

But while empathy is one of the more underrated skills among industry figures, there is no doubt many have been working hard to get down to the same level as savers. The Pensions Regulator has launched numerous campaigns, companies have worked to build apps and games for members, and administrators have researched extensively into the best methods of communication. Yet there still appears to be a missing link.

Growling WLG partner Jason Coates says there isn't a simple solution, but there is a place to start. "Perhaps the industry could create a jargon-free bank of explanations of key concepts and share better good examples of plain English communications," he argues.

Interestingly, research conducted by Nest found clear communication is of the utmost importance as over half, 52 per cent, of Nest members claim only basic knowledge of pensions and that the majority of members are passive rather than active participants.

"To make pensions understandable and accessible, communicating well is about using the right language and giving information at the right time," Nest director of marketing Ranila Ravi-Burslem says.

Making changes to the way the industry communicates with members is one step to gaining a better understanding of what members want and need, but to do so requires another essential soft skill: leadership. "Leadership is key," Coates says. "We need people with the vision to see the big picture changes required and, at the same time, the soft political skills to build consensus to deliver that change."

For many, taking control and making the final decision is hard. There is a huge tendency to 'follow the leader', yet there is rarely somebody willing to take the lead. "Collective decision making is all well and good but sometimes you need an effective ringleader to force the point of making a decision," Brooks explains. "If effective and decisive decisions can help with the smooth running and consistent strategy of a scheme this will certainly improve member outcomes."

**Increasing soft skills**

So what can be done to increase the prevalence of these skills within the industry? Davies argues that while talking to people is one approach, depending on the size of the membership, it's not always so straightforward.

"Surveys can be a great way in not only understanding more about members, but this can also have the added benefit in showing members that you are interested in their opinions," he says. "This two-way approach can be really powerful, especially if schemes provide effective follow-up – "you asked, we did". This is a win-win for both the scheme and the membership and is a perfect way to demonstrate real empathy."

AMNT co-chair David Weeks notes how it would be valuable for trustees in particular to have specific training in how to use soft skills to engage with members. "Our AMNT members tend to find that the best way to learn is by listening to market practitioners, and then comparing what they say. Our members tend not to be so interested in formal certificates. Trustees are like non-executive directors, they can put the advice of experts into overall context for their scheme members," he says.

**Too soft?**

However, PTL director David Archer argues that the industry doesn't lack any skills – that is it is a "technically competent sector, with a lot of very bright and hard working professionals supporting decision markers".

"As in all walks of working life some people are occasionally promoted beyond the level of their personal competence. However, within pensions there are lots of checks and balances and it seems very rare to find a trustee or manager activating flawed decisions."

There is, of course, also the risk that being too soft will result in apathy. Former pensions minister Steve Webb famously argued that contributing just 8 per cent isn't enough, but in order to get members to contribute more, there needs to be a level of formality that goes beyond gently easing members into saving, and more directly pushes them into doing so.

"Thirty or more years ago, there was a tendency for well-intended amateurs to have more control than was perhaps healthy, allowing room for the Maxwell scandal and others, Archer says. "However, the move to a more professional approach has ensured that risks are properly monitored and managed."

There are cases for and against putting more focus on the development of soft skills in the industry, but due to its complex nature, there is no doubt that there needs to be a bigger focus on empathising with, and understanding members better.

As Brooks concludes: "There isn't much risk of people being too soft in pensions. It can be quite a hard and cold business. Focusing on money and cost can sometimes distract from the fact that there are real people within pension schemes. I think a slightly softer, people-focused perspective would help."

**Written by Lauren Weymouth, a freelance journalist**

# Enough?

**A 'Philip Green Charter', to protect pensions from 'irresponsible bosses', was announced as part of the Conservative Party's election manifesto. *Pensions Age* asks: Is this enough to stop future BHS-type scenarios?**

"The so-called 'Philip Green Charter', making it a criminal offence for company bosses to neglect their duties to scheme members would clearly focus minds – provided there is a credible threat of action. The balance between rewarding investors through dividends – a central tenet of the UK economy – and paying off deficits will remain a difficult one to manage. Ultimately this clampdown will likely see more companies looking to sell their DB liabilities to insurance companies in order to get the risk off their balance sheet."

**AJ Bell senior analyst Tom Selby**

"It was always recognised that the 1995 Pensions Act would not prevent another Maxwell/Mirror Group Pension Scheme type event. Whilst Philip Green, unlike Robert Maxwell, did not break any laws, but the same logic must, nevertheless, apply. That is to say, the so called 'Philip Green Charter' will not of itself provide a cast-iron guarantee in terms of preventing a future BHS scenario. A more robust response could be achieved by introducing, in addition to new powers for the regulator and trustees to tackle future events, measures to help achieve a wider settlement for DB pension schemes."

**JLT Employee Benefits head of technical John Wilson**

"A key issue is whether the regulator should take action in advance, in order to pre-empt future BHS scenarios. The alternative is, of course, to wait until a problem arises, and then to take rapid action to provide a remedy. Both of these approaches have their cheerleaders. Theresa May clearly thinks that a 'charter' against a pantomime villain, such as Sir Philip Green has become, representing 'irresponsible bosses' as he does, will sound tough. Let us hope that she will also think through how it will work out in practice. The dementia tax debacle shows the problems of making up policy on the hoof."

**AMNT co-chair David Weeks**

"It's not clear what the 'Philip Green Charter' could include. The regulator already has a clearance process for corporate activity (to ensure that the pension covenant isn't weakened) but it has fallen out of fashion due to the time and financial cost involved. Making the clearance process mandatory is one way of implementing such a charter, although this will have knock-on consequences for regulatory resources and M&A activity. Many more corporate sponsors will struggle over time as their covenant is weakened by structural changes in their industry and they become unable to meet the funding needs of their pension scheme – a 'Philip Green Charter' will do little to help these."

**Lincoln Pensions CEO Darren Redmayne**

"The strengthening of protections for pension scheme members can only be welcomed; but the idea that these proposals would have addressed the key issues in BHS are misplaced. For example, there are many British businesses paying their shareholders rising annual dividends while carrying large pension deficits. TPR needs to be given not only new powers around but also additional resources to use them. There are lessons to be learned from the BHS case but if the government feels that deficit reduction should be put ahead of shareholder dividends then we are moving into new and uncharted water."

**ITM executive chairman Duncan Howorth**

"A headline-grabbing change to criminalise willful or reckless neglect is unnecessary and unhelpful. Most employers make every effort to fund their schemes properly. Looking at BHS, there were no dividends paid to shareholders since 2004 and the scheme was in surplus as recently as 2008. The trustees moved to a more cautious investment strategy and the employer doubled contributions but there still wasn't enough cash when the company went bust. The proposed changes would make no difference at all in this scenario."

**SPP president Hugh Nolan**

# Quantum Advisory partner and actuary Stuart Price

**What is your pensions career CV?**
I started at the DWP as a benefits officer for the state pension. That is when my 'love affair' with pensions started! I then joined NPI as a pension administrator where I became aware of what an actuary actually was. I wanted to be one! I joined Bacon & Woodrow as an actuarial student and then in 2004, I joined Quantum Advisory where I qualified as an actuary and am still here today.

**What is your greatest work achievement so far?**
No doubt qualifying as an actuary is high on the list. Appearing on BBC television and radio talking about pensions was nerve racking but rewarding, knowing that my thoughts would been seen and heard by many (including family, friends and colleagues who would be highly critical) and hopefully be of benefit to all.

**What do you still wish to achieve?**
I am very passionate about explaining pensions in a simple way that everyone can understand and would like to ensure this message is conveyed and delivered across the industry. I would also like to set up a brand new defined benefit pension scheme – but who am I kidding!

**What is your biggest regret within your career?**
Starting the actuarial exams late in life. It meant my social life was on hold during my 30s and I never got the chance to carry out a Minimum Funding Requirement (MFR) valuation!

**Excluding your current role, what would be your dream pension job?**
My ideal job would be Pensions Minister – so someone who really knows about pensions (me?) would be making the decisions and could make a real difference to private and state pension provision in the UK.

## Fun and games

### Wordsearch

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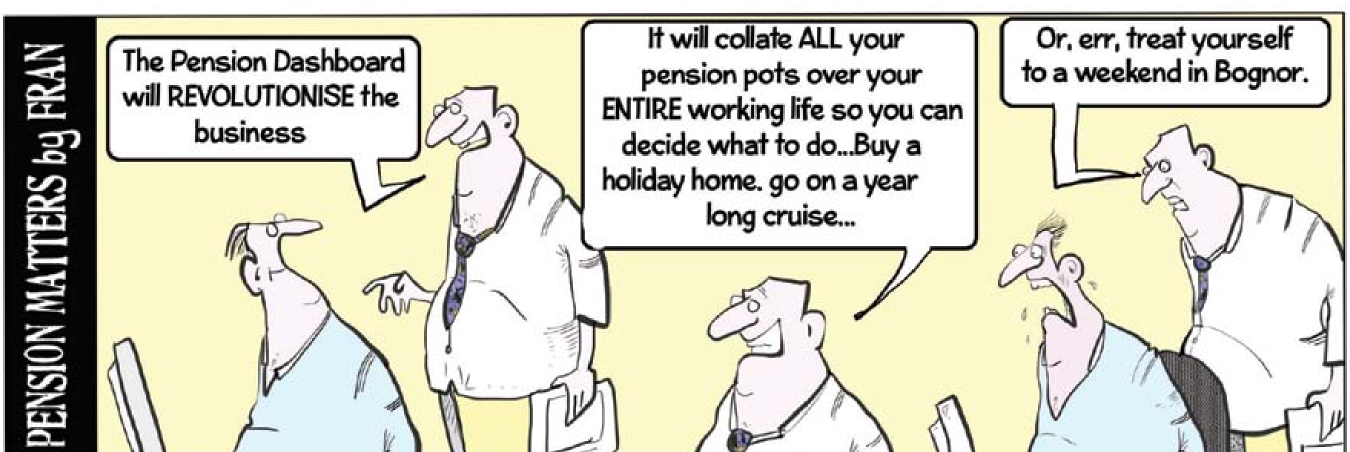
Answer at bottom of page

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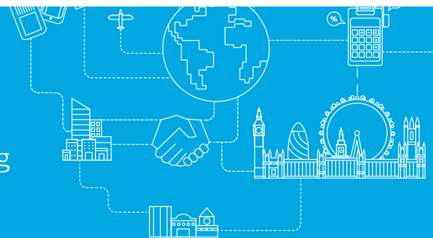

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