Fiduciary management
The contrasting experiences within the fiduciary management industry

Value for money
The DWP's proposed VFM framework and the key role of employers

Pot follows member
How PFM might provide a solution to the small DC pots problem

www.pensionsage.com

April 2023

PENSIONS Age

The leading pensions magazine

Interview: *WPC chair, Stephen Timms, discusses the committee's recent inquiries into saving for later life*

Financial incentives: *The emerging trend of financial incentives being offered to members*

How the industry is being encouraged to invest for social good

Case study: The MNOPF discusses its move to a defined contribution master trust

Editorial Comment

2nd Floor, 5 Maidstone Buildings Mews, London. SE1 1GN

Bar a quick mention of 'DC' fluttering my eyelids awake, the Chancellor's Budget last month did little to hold my attention.

I tried to concentrate, I really did, but at 45 minutes-plus of the 'usual' big hitters (fuel and alcohol duty), some more 'interesting' but not professionally relevant announcements (£200 million to help repair potholes, £63 million for public leisure centres), and the pensions changes having been less leaked, and more flooded, to the media in advance, I let Hunt's speech lull me as I waited for the end so that *Pensions Age* could quickly publish our pre-prepared stories.

That is until the 50-minute mark. Finally, here was the pensions segment. Annual allowance increased, as expected, to £60,000. Tick, that filed story ready to launch. Lifetime allowance next, its impact on doctors, yep, calls to increase its limit, yes, all known. Come on Hunty, wrap it up so we can launch our newsletter.

And then, the bombshell.

Jolting me from my stupor was his proclamation that he wasn't increasing the LTA, he was abolishing it. I'd been scribbling shorthand notes as he spoke; now I simply jotted down 'wow'. Having assumed we already knew what pensions-budget news there would be made the surprise reveal all the more unexpected.

Not since the 2015 'pensions freedoms' budget has the industry been so surprised, and just like eight years ago, this change is set to have a significant impact on pension saving.

Or is it?

The LTA's existence seemed to unnecessarily penalise long-term saving and positive investment returns, particularly when there already is an annual allowance to abide by. Therefore, its demise has been described as a colossal boost for saving, setting millions of people free to save more into pensions.

However, this flood of new money into pensions will be from higher earners who had hit, or were close to hitting, the previous £1.07 million LTA ceiling.

I certainly believe that people sensibly saving for their retirement should not face a financial ceiling to their aspirations, due to tax-dodging concerns that can be mitigated in other ways. This pointless rule also putting the beleaguered NHS under further strain was tragic to the point of farce. The government was right to listen to the cries of the industry (and realise how it would serve its own self-interest via the 'grey vote' in the run up to an election) and remove this barrier.

But in reality, the LTA was a problem to few (but admittedly growing) numbers of individuals.

It is the very opposite that is of far greater issue – that too many people are saving too little for their retirement.

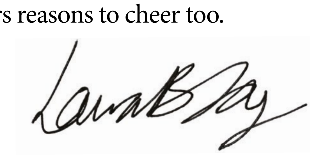
Just last month, the Department for Work and Pensions revealed that 38 per cent of working age people, around 12.5 million savers, are undersaving for retirement. A retirement beyond the bare minimum requirement to survive is a pipe dream for the majority, as it found 51 per cent (17.7 million) of people would not achieve a 'moderate' lifestyle at retirement, as judged by the Pensions and Lifetime Savings Association's minimum Retirement Living Standards, and 88 per cent (30.4 million) would not reach a 'comfortable' one.

"It is a matter of urgency to increase auto-enrolment minimum contributions from the paltry 8 per cent"

Helping so many people who are facing a drop in their lifestyle – or even poverty – at retirement, especially despite most of them having done the 'right thing' by saving into a pension throughout their working life, has to be significantly more important than assisting those whose pension pots are fit to burst.

It is a matter of urgency to increase auto-enrolment minimum contributions from the paltry 8 per cent, which savers often understandably, but wrongly, believe must be the 'government-recommended' enough to give them a decent retirement. Even if the timing isn't right to increase contributions this second, due to the cost-of-living crisis, at the very least a plan for future steps should be set out now, after more than a decade of standing still.

I happily celebrated the Budget's removal of the LTA, while feeling disappointment that, once again, the issue of chronic pensions undersaving had been resoundingly ignored. But, hopefully, the next Budget (or ideally, an even sooner government announcement) will give the majority of retirement savers reasons to cheer too.



Laura Blows, Editor

COVER FEATURE

Theme: Money matters

44

To the rescue?

Sophie Smith takes a closer look at industry efforts to manage social investment factors, and how this could tie in with recent calls for pension schemes to invest more in the UK economy

Features and columns

News, views & regulars

Continued on page 6

Features & columns

Continued from page 5

PENSIONSAge

Publisher
John Woods
Tel: 020 7562 2421

Editor-in-Chief
Francesca Fabrizi
Tel: 020 7562 2409

Editor
Laura Blows
Tel: 020 7562 2408

Associate Editor
Natalie Tuck
Tel: 020 7562 2407

Deputy Editor
Jack Gray
Tel: 020 7562 2437

News Editor
Sophie Smith
Tel: 020 7562 2425

Design & Production
Jason Tucker
Tel: 0207 562 2404

Accounts
Marilou Tait
Tel: 020 7562 2432

Commercial
John Woods
Tel: 020 7562 2421

Camilla Capece
Tel: 020 7562 2438

Lucie Fisher
Tel: 020 7562 4382

Subscriptions
Tel: 01635 588 861
£149 pa within the UK
£197 pa overseas by air

NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 13,004 July 2020-June 2021 print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20).

Managing Director
John Woods

Publishing Director
Mark Evans

ISSN 1366-8366
www.pensionsage.com

2nd Floor, 5 Maidstone Buildings Mews, London. SE1 1GN

Dateline - March 2022

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

1 March The Pensions Regulator (TPR) announced that it was prosecuting the company director of a shooting sports centre in St Leonards, East Sussex, for allegedly evading his duty to pay employee pensions contributions. The case was adjourned later in the month, with a new hearing date fixed for 4 May.

2 March The **Department for Work and Pensions** (DWP) announced plans for a "reset" of the Pensions Dashboards Programme, with a further update expected before summer recess.

3 March The **government** published MP Jonathan Gullis' Private Member's Bill on reforms to auto-enrolment (AE), after it passed its second reading without debate.

6 March The **National Audit Office** published a report on the Atomic Energy Agency Technology pension case following interest from MPs, looking at the scheme's 1996 restructure and subsequent issues faced by members.

8 March The **government** made two technical changes to the Fraud Compensation Fund (FCF) and Pension Protection Fund (PPF) regulations, with the regulations for these changes also made and laid before both Houses of Parliament.

8 March A **Private Member's Bill** looking to give employees the right to have their employer pay their pension contribution to a pension of their own choosing was introduced by MP Anthony Browne under the Ten-Minute Rule. This bill was later withdrawn on the 21 March.

9 March The **Financial Conduct Authority** gave regulatory approval for Schroders to launch the UK's first Long-Term Asset Fund.

13 March A judicial review over the government's proposed method of paying for costs incurred by the McCloud judgment in relation to public sector pension schemes was dismissed by the **High Court**.

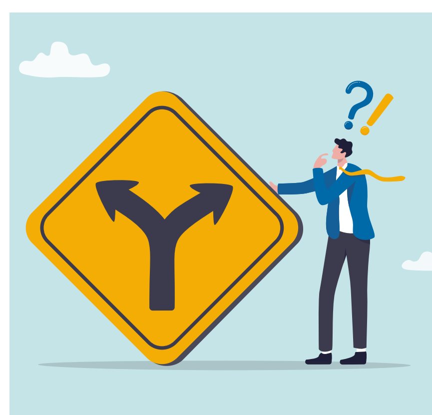
14 March TPR shared guidance reminding trustees and employers of the restrictions on using pension scheme funds for employer-related investments and the risk of criminal prosecution.

15 March Chancellor, Jeremy Hunt, announced a number of pension tax changes as part of the Spring Budget 2023, scrapping the lifetime allowance (LTA), and increasing the money purchase annual allowance, annual allowance and tapered allowance.

15 March The **government** launched a consultation on plans to amend the NHS Pension Scheme Regulations to implement the second part of the McCloud remedy, with the second part of the remedy to come into effect by 1 October 2023. This was the latest in a number of consultations to enact the second phase of the McCloud/Sargeant case remedy, with consultations also launched in relation to the Armed Forces Pension Scheme, the Civil Service Pension Scheme, the Teachers' Pension Scheme, as well as firefighters' and police pensions.

16 March The **Work and Pensions Committee** (WPC) launched an inquiry into DB pension schemes, *[further details on page 16].*

20 March The **Pensions Scams Industry Group** launched an Interim Practitioner Guide, detailing the key due diligence steps that pension practitioners should undertake when assessing a pension transfer *[further details on page 81].*



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

21 March A Living Pension standard was launched by the **Living Wage Foundation,** setting a pension saving target of at least 12 per cent of a worker's annual salary, of which the employer pays in at least 7 per cent.

The Pensions Regulator
Making workplace pensions work

22 March TPR emphasised that it will take action to protect savers where needed, revealing that it saw a roughly one third (30 per cent) overall increase in the use of its AE powers during the six months to December 2022.

22 March Dalriada Trustees' appeals against tax charges levied by HMRC for members of Ark Pension Schemes were unsuccessful in a tax tribunal, triggering "significant tax consequences for both the members personally and the schemes themselves".

23 March The **DWP** confirmed that it repaid £300.1m to individuals impacted by historical state pension underpayments as of 28 February 2023, having identified 46,716 underpayments.

23 March The **government** published the Spring Finance Bill 2023, delivering a number of pension tax changes announced at the Spring Budget.

23 March TPR urged pension scheme trustees to consider how they can improve their governance and reporting of climate-related risks and opportunities, after its review revealed a number of common issues.

24 March Gullis' **Private Member's Bill** on reforms to extend AE moved to the House of Lords following its third reading *[further details on page 17].*

23 March TPR's DB Funding Code consultation closed, with industry organisations warning that the implementation date of 1 October is "ambitious".

24 March Pensions Minister, Laura Trott, and **Economic Secretary to the Treasury,** Andrew Griffith, appeared before the WPC and the Industry and Regulators Committee to comment on liability-driven investment (LDI) in DB pension schemes.

27 March A number of industry consultations closed, including those on the **DWP's** plans to extend collective DC, plans to address the small pots problem, and the proposed value for money framework.

27 March HMRC shared further guidance on the LTA changes and announced plans for an LTA working group.

28 March TPR published equality, diversity and inclusion (EDI) guidance to help pension scheme governing bodies and sponsors to improve the EDI of their scheme's board, and covers a number of key topics, such as the role of the chair, EDI policy and performance assessments, and fixed-term appointments. The guidance was announced hot on the heels of a new regulatory initiative (27 March), which will look to check if DC savers are benefitting from new value for member regulations that came into force in October 2021 *[further details on page 15].*

29 March The **Bank of England** shared its views on the recommended steady-state minimum levels of resilience for LDI funds.

30 March The **DWP** confirmed it will not bring forward the date the state pension age will rise to 67, although a review to reconsider the rise to age 68 is expected within two years of the next parliament.

News focus

Spring Budget 2023: LTA abolished; MPAA and AA increased

Chancellor, Jeremy Hunt, confirmed plans to abolish the lifetime allowance (LTA) as part of his Spring Budget 2023, and also announced plans to increase the annual allowance, the money purchase annual allowance and the tapered annual allowance. Alongside this, the Chancellor announced plans to encourage greater DC pension investment into productive finance

Chancellor, Jeremy Hunt, has confirmed plans to abolish the lifetime allowance (LTA), whilst the annual allowance will be increased from £40,000 to £60,000 from April 2023.

As part of his Spring Budget, Hunt also announced his intent to increase the money purchase annual allowance (MPAA) from £4,000 to £10,000, while the tapered annual allowance will also increase from £4,000 to £10,000 from 6 April 2023. The adjusted income threshold for the tapered annual allowance will also be increased from £240,000 to £260,000 from 6 April 2023.

In addition to this, the Budget papers confirmed that open and closed public service pension schemes for a given workforce will be considered linked for the purposes of calculating annual allowance charges.

The reforms are designed to help ensure that high-skilled individuals such as NHS clinicians are not disincentivised from remaining in the workforce, with Hunt suggesting that the changes will stop over 80 per cent of NHS doctors from receiving a tax charge.

The Office for Budget Responsibility also estimated that around 15,000 individuals will remain in the labour market as a result of the changes to the LTA and AA in particular, many of whom are expected to be highly skilled workers, including senior doctors.

Hunt stated: "As Chancellor I have realised the issue goes wider than doctors. No one should be pushed out of the workforce for tax reasons. So today I will increase the pensions annual tax-free allowance by 50 per cent from £40,000 to £60,000.

"Some have also asked me to increase the LTA from its £1m limit. But I have decided not to do that.

"Instead I will go further and abolish the LTA altogether. It's a pension tax reform that will stop over 80 per cent of NHS doctors from receiving a tax charge, incentivise our most experienced and productive workers to stay in work for longer, and simplify our tax system, taking thousands of people out of the complexity of pension tax."

The government has also since published the Spring Finance Bill 2023, which delivered a number of these pension tax change.

In particular, the bill includes pensions tax changes designed to support doctors and other individuals to stay in work, as well as changes to extend the definition of collective DC benefits.

HMRC has also shared new guidance on the LTA changes, confirming that administrators will need to continue to operate LTA checks when paying benefits, for example assessing whether an individual has available LTA, and to issue benefit crystallisation event statements.

In addition to this, HMRC confirmed that members who hold a valid enhanced protection or any valid fixed protections, will be able to accrue new pension benefits, join new arrangements or transfer without losing this protection, provided this was applied for before the Spring Budget on 15 March 2023, and a certificate or reference number subsequently issued, from 6 April 2023.

More broadly, HMRC emphasised that it wants to work "closely" with the industry it continues to work through the detail of the full abolition of the LTA and the impact on legislation and processes, inviting those interested to join an LTA working group.

The changes to the LTA were not unexpected, as industry experts previously speculated that the government was set to increase pension allowances, arguing that these changes could be a "game-changer" for those savers who are currently limited when it comes to saving into a pension.

However, industry experts have since warned that there could be a "sting" in the decision to abolish the LTA, as the government's Budget also confirmed that the maximum pension commencement lump sum for those without protections, the amount of tax-free cash that can be taken from a pension, will be retained at its current level of £268,275 and will be frozen thereafter.

In addition to this, Labour said that it will look to reinstate the pensions LTA if elected, arguing that the government's plan is the "wrong priority, at the wrong time, for the wrong people".

In a statement following the Budget, Labour branded the changes a "gilded giveaway", with analysis from the party suggesting that the change would save the richest 1 per cent around £45,000 when accessing their pension.

"I will go further and abolish the LTA altogether. It's a pension tax reform that will … incentivise our most experienced and productive workers to stay in work for longer"

Shadow Chancellor, Rachel Reeves, stated: "The Budget was a chance for the government to unlock Britain's promise and potential. But the only surprise was a one billion pound pensions bung for the one per cent, a move that will widen the cost of living chasm.

"At a time when families across the country face rising bills, higher costs and frozen wages, this gilded giveaway is the wrong priority, at the wrong time, for the wrong people. That's why a Labour government will reverse this move. We urge the Chancellor and the Conservative government to think again too."

In addition to the pension allowance changes, Hunt's Spring Budget included plans to increase efforts around mid-life MOTs, with the Department for Work and Pensions (DWP) to expand access to its in-person midlife MOT offer, providing financial planning and awareness sessions for 50+ Universal Credit claimants, aiming to reach up to 40,000 individuals a year.

Hunt also confirmed that further changes could be in store in future, stating: "I will return in the Autumn Statement with a plan to deliver that. It will include measures to unlock productive investment from DC pension funds and other sources, make the London Stock Exchange a more attractive place to list, and complete our response to the challenges created by the US Inflation Reduction Act."

The government said that it would "lead by example" in this area, by pursuing the accelerated transfer of the £364bn Local Government Pension Scheme (LGPS) assets into pools to support increased investment in innovative companies and other productive assets.

In particular, the government announced that it will consult on proposed requirements for LGPS funds to transfer all listed assets into their pools by March 2025, and set direction for the future, which it suggested may include moving towards a smaller number of pools in excess of £50bn to optimise benefits of scale.

"While pooling has delivered substantial benefits so far, progress needs to accelerate to deliver and the government stands ready to take further action if needed," it stated.

The Treasury also launched a consultation on plans for a Long-Term Investment for Technology and Science scheme, which will aim to support DC investment into "innovative UK companies", by providing a "key stimulus for industry to create the structures needed to mobilise DC scheme investment".

Written by Sophie Smith

Spring Budget 2023: Industry reacts

This year finally saw the usual pre-Budget speculation and rumours of dramatic pension changes proven true *[see page 10-11 for further detail on the changes]*, with AJ Bell head of retirement policy, Tom Selby, highlighting the Chancellor's speech as a "pensions tax-cutting bonanza far beyond anyone's pre-Budget expectations and the most significant retirement policy intervention since the 2015 'pension freedoms'".

However, whilst industry experts have welcomed many of the changes, concerns have emerged in some key areas. Sophie Smith reports.

The lifetime allowance – Going a step further

The Pensions and Lifetime Savings Association (PLSA) welcomed the changes announced in the Budget, suggesting that increasing the lifetime allowance (LTA), annual allowance (AA), and the money purchase annual allowance (MPAA) will encourage older, often highly skilled or experienced workers, to stay in the workforce and provide more flexibility for retirees to re-enter the world of work.

"These changes will also allow additional scope for savers to contribute lump sums, perhaps from an inheritance or a redundancy payment, into their pension to meet any shortfalls before they retire," PLSA director of policy and advocacy, Nigel Peaple, stated.

Adding to this, LCP partner, Steve Webb, described the changes as a "sea-change in government policy" that will set millions of people free to save more into pensions, predicting a "flood" of new money into pensions from higher earners.

Aon associate partner, Catherine Pearce, also suggested that the changes could be particularly beneficial for Local Government Pension Scheme (LGPS), with "far fewer" LGPS members expected to breach the AA, stating: "Not only will scheme members be pleased but LGPS administrators will also welcome the reduction in the number of members needing to be issued with a Pensions Savings Statement."

However, Hymans Robertson senior DC consultant, Hannah English, questioned whether these changes alone will meet the government's objective of encouraging the over-50s back in to the workplace, suggesting that a more effective mechanism for getting the over-50s back to work is likely to be general taxation.

More broadly, English also stressed that government policy with respect to the LTA or AA over the past 12 years has made it "impossible for individuals to effectively plan for retirement".

Echoing this, the Association of Consulting Actuaries (ACA), emphasised the need for pensions tax policy to be "stable and predictable" to enable individuals to make rational decisions about when they make pension savings and how they draw them.

These concerns have also been heightened following the news that Labour would look to reinstate the LTA if elected, with Canada Life technical director, Andrew Tully, arguing that "you simply can't play political ping pong with the pensions system".

Concerns have also emerged around the lack of support for lower earners, as People's Partnership director of policy, Phil Brown, warned that the measures "will do nothing to solve the problem of under-saving in the UK", arguing that reform to workplace saving will be the "only way to ensure that millions more people can save enough to live on in retirement".

The Investment and Savings Association (Tisa) head of retirement, Renny Biggins, agreed that the changes will have "little impact on most individuals and households whose typical annual contributions and total pension entitlements fall well short of these limits", warning there is a "looming pension crisis ahead for generation DC".

The tapered annual allowance – a missed opportunity?

Pensions Management Institute (PMI) president, Sara Cook, argued that the government missed an opportunity in relation to the tapered annual allowance (TAA).

"Having abolished the LTA, the government could have abolished the TAA, which continues to be unpopular throughout the pensions industry and also among the general public," she stated.

"The tax revenues gathered through the TAA must now be so small that its

retention seems hard to justify. The Chancellor has missed an opportunity to abolish a measure that has few admirers."

Tax-free lump sums – a sting in the tail

LV= retirement director, David Stevens, noted that whilst pensions savers will be "delighted" that the pensions LTA is set to be abolished, many people may not realise that the amount of money they can withdraw tax-free from a pension is also being capped at its current level of 25 per cent of the LTA, an equivalent of £268,275.

WTW senior consultant, David Robbins, also pointed out that in real terms, for someone retiring in 30 years' time, the maximum tax-free lump sum will buy about half of what it does today, "and that's if inflation does not surge again and if future Chancellors resist the urge to reduce what is now a standalone limit".

"It is understandable that the Chancellor wanted to retain a cap on tax-free cash at the same time as ending charges that he worried were deterring people from working," he added. "But this paves the way for less favourable tax treatment of pensions for some higher earners whose retirement is some way off."

Childcare – bridging the gender gap

Whilst not a pensions policy announcement, the Spring Budget also saw Chancellor, Jeremy Hunt, announce plans to give 30 free/subsidised hours of childcare per week for eligible working parents of children aged nine months to three years, with the plan to be rolled out in phases from April 2024.

PensionBee director of public affairs, Becky O'Connor, argued that this will make a "huge difference" to parents' ability to stay in work, arguing that this should in turn help to not only boost mothers' career prospects, but also help reduce the gender pay gap and the gender pension gap.

This was echoed by Smart UK CEO, Jamie Fiveash, who explained that more funding for early years childcare means greater workforce participation for parents and carers, particularly women, giving them the chance to build a healthy pension pot.

"Action is required to address *[the gender pension]* gap and this announcement on free childcare, although phased, will be a cornerstone to bridging the gender pension gap when it's at full implementation."

The legal perspective

Legal firms praised the changes made in the Spring Budget, stating that they will likely result in a simplification of the pension tax system.

Travers Smith pensions partner, Susie Daykin, noted that alongside raising the pension savings that people can build up without triggering the 55 per cent tax charge, abolishing the LTA will also make existing LTA tax protections, introduced as LTA thresholds fell, redundant.

"This will helpfully sweep away what is an extremely complex set of tax rules governing when such protections apply and can be lost," she stated. "As a result, both schemes and individuals will no longer need to worry about certain actions that were previously restricted because of the risk of impacting those protections."

Despite the positives, Sackers partner, Claire Carey, warned that the abolishing of the LTA would have knock-on consequences that will need to be worked through, and that the devil will lie in the detail of the legislation.

However, given the "relative frequency" with which the LTA has shifted previously and the complexity of the accompanying protection measures, its removal suggested "a significant step towards greater pensions tax simplicity", she said.

While the changes are likely to simplify the system generally, Stowe Family Law partner, Matthew Taylor, warned that an unintended impact of the removal of the LTA may be to make high-net-worth pension negotiations in instances of divorce more complex.

As Taylor explained: "Whereas previously, pension sharing could be an attractive settlement route, as it could minimise or eliminate tax paid due to the LTA, that advantage no longer applies, which may lead to more arguments about whether pensions should be shared or not."

The money purchase annual allowance – meeting the calls for change

"While not mentioned in his speech, the change which will benefit the greatest number of individuals is the increase in the little-known MPAA, which will support a greater number of over-55s staying in or returning to the workplace," Aegon pensions director, Steven Cameron, stated.

This was echoed by Royal London pensions and legal expert, Clare Moffat, who argued that the increase in the MPAA will "empower older workers to combine pension income with employment income, while continuing to save for their future".

Quilter head of retirement policy, Jon Greer, also suggested that this will "likely be money well spent given how intent the Chancellor is on driving the over-50s back to the workplace", with the government's spending forecasts estimating that increasing the MPAA to £10,000 from April 2023 will cost £170m by the 2027/28 tax year.

Written by Sophie Smith

BofE urges TPR to set minimum resilience levels for LDI funds

The Bank of England's Financial Policy Committee recently shared its recommendations on steady-state minimum levels of resilience for LDI funds. This included a recommended minimum level of resilience of 250 basis points for LDI funds, as well as recommendations for TPR to expand its remit to consider financial stability considerations on a continuing basis

The Bank of England's Financial Policy Committee (FPC) has urged The Pensions Regulator (TPR) to take action "as soon as possible" to mitigate financial stability risks by specifying the minimum levels of resilience for liability-driven investment (LDI) funds and LDI mandates in which pension trustees may invest.

In particular, the FPC recommended that the size of the yield shock to which LDI funds should be resilient should be, at a minimum, around 250 basis points.

In reaching this decision, the FPC explained that the "severe but plausible stresses" to which LDI funds should be resilient should account for historic volatility in gilt yields, and the potential for forced sales to amplify market stress.

The committee also clarified that while this minimum level of resilience should be maintained in normal times, it could be drawn down on in stress, and should ensure that funds could absorb a severe but plausible historical stress and still have a remaining level of headroom necessary to operate during a period of recapitalisation.

"This level of resilience should allow LDI funds to remain resilient to severe but plausible systemic shocks without triggering forced deleveraging and feedback loops which threaten financial stability," the FPC stated, "while continuing to operate and meet margin and collateral calls and remaining resilient to idiosyncratic risks throughout."

Until an appropriate framework incorporating these elements is put into place, the FPC also recommended that TPR, in co-ordination with the Financial Conduct Authority (FCA) and other overseas regulators, continue to ensure that LDI funds maintain the resilience that has been built up as set out in the FPC's November 2022 recommendation.

The FPC also asked TPR to report back on how it intended to implement the recommendation.

> **"I urge schemes to continue to follow our existing guidance, which is designed to ensure trustees achieve and maintain an appropriate level of resilience in leveraged LDI"**

More broadly, the FPC argued that changes may also be needed in terms of the regulator's remit.

In particular, in order to better allow TPR to implement and enforce guidance on LDI over the long term, the FPC suggested that TPR should have the remit to consider account financial stability considerations on a continuing basis.

The FPC said that this could be achieved, for example, by including a requirement to have regard to financial stability in its objectives, which should be given equal weight alongside other factors to which TPR is required to have regard.

However, the committee acknowledged that in order to achieve this, TPR would need appropriate capacity and capability.

Commenting in response to the recommendations, TPR's chief executive at the time, Charles Counsell, confirmed that the regulator will be looking to issue updated guidance on LDI in April, taking into consideration the FPC's recommendations.

He continued: "We note the recommendations from the Bank of England's FPC on LDI.

"The committee has clearly set out its expectations relating to the minimum level of resilience it wants trustees and fund managers to adhere to when using LDI, and I am pleased this builds on the guidance that we, and the National Competent Authorities (NCAs), put in place in November.

"In the meantime, I urge schemes to continue to follow our existing guidance, which is designed to ensure trustees achieve and maintain an appropriate level of resilience in leveraged LDI funds across pooled and segregated arrangements to withstand a fast and significant rise in bond yields, and improve operational governance of pension schemes."

Written by Sophie Smith

TPR ups enforcement focus with new regulatory intiative

The Pensions Regulator has launched a new regulatory initiative after research revealed that nearly two-thirds of DC schemes required to complete a value-for-member assessment were unaware of this obligation. TPR also shared a broader update on regulatory action, revealing a 30 per cent increase in the use of its auto-enrolment powers

The Pensions Regulator (TPR) has launched a regulatory initiative to check if DC savers are benefitting from new rules that require trustees to assess if they are delivering value for their members.

Under the initiative, TPR will be checking that trustees of DC schemes with assets under management of less than £100m are complying with new value for member regulations that came into force in October 2021.

TPR announced the plans after a survey of DC schemes revealed that 17 per cent of schemes required to complete the value for member assessment had done so, while nearly two-thirds (64 per cent) were unaware of this obligation.

The regulator is looking to take a data-led approach in order to contact selected schemes about their value for members assessment, including those that have indicated they have failed the assessment, before checking that trustees have plans in place to improve their assessments.

Where improvements in compliance cannot be evidenced, TPR confirmed that it will expect trustees to wind up and consolidate into a better run scheme.

TPR executive director of frontline regulation, Nicola Parish, stated: "All savers deserve to be in schemes that provide value for money....If necessary, we will consider using our powers to ensure savers are in schemes that are being run in their best interests."

The initiative also follows TPR's latest *Compliance and Enforcement Bulletin*, which revealed that the regulator saw a 30 per cent overall increase in the use of its auto-enrolment powers during the six months to December 2022.

However, the regulator also revealed that the number of employers due to redeclare their compliance increased by 106 per cent in the second half of 2022 compared with the preceding period, December 2021 to May 2022, suggesting that this trend will continue over the next 12 months.

"Where we suspect ERI breaches, we investigate fully and persistently, and take firm action against those who flout the rules, no matter the size of the scheme"

Indeed, TPR director of automatic enrolment, Mel Charles, confirmed that the increase in the use of powers was in line with expectations, owing to a large wave of small and micro employers who were due to redeclare in that period.

He stated: "The majority of employers are doing the right thing for their staff despite challenging economic circumstances. However, for the small minority who fail to comply with their workplace pension duties, this bulletin demonstrates the enforcement action we take, where necessary, to protect savers."

The bulletin was published alongside a Regulatory Intervention Report (RIR) on the recent prosecution of two former pension scheme trustees for making illegal loans of £236,000 from a company scheme to the sponsoring employer.

The report also follows new guidance issued by TPR, which looks to remind all trustees of their employer-related investment (ERI) duties, setting out the restrictions and the responsibilities that apply.

TPR director of enforcement, Erica Carroll, highlighted both the RIR and the guidance as a "clear reminder" to all trustees that TPR will prosecute those who ignore the rules around ERI.

"Where we suspect ERI breaches, we investigate fully and persistently, and take firm action against those who flout the rules, no matter the size of the scheme," she stated. "I call on all those involved in running pension schemes to therefore ensure they are following our guidance."

In the guidance, TPR confirmed that, aside from certain exceptions, no more than 5 per cent of the current market value of pension scheme assets may, at any time, be invested in ERI, and no assets may be loaned to the employer.

It also stressed that breaches of these rules constitute a criminal offence, highlighting a number of recent examples where trustees have been successfully prosecuted by TPR.

"Trustees should be in no doubt that where we see savers' funds being illegally invested, we will take firm action, which could result in a prison term," Carroll added.

Written by Sophie Smith

WPC switches focus from LDI to DB in new inquiry

The Work and Pensions Committee has announced plans to shift its focus to the DB space, after its inquiry into LDI drew to a close following updates from the Treasury and Department for Work and Pensions

The Work and Pensions Committee (WPC) has launched an inquiry into DB pension schemes, stating that the recent improvement in aggregate scheme funding makes this "an important time to consider the future".

The WPC noted that whilst there are over 5,100 UK private sector DB schemes, with around £1.4trn in assets, DB schemes in the private sector are in decline, with the number of private sector employees accruing new DB benefits falling from 3.5 million in 2006 to just under 0.9 million in 2022.

Despite this, the WPC argued that DB schemes remain "of critical importance", emphasising that 9.6 million members rely on them for a "substantial portion" of their expected retirement income.

In particular, the committee is seeking views on the regulatory framework for DB schemes, also querying what The Pensions Regulator should do to improve the quality of trustee boards.

The committee also queried whether there is sufficient capacity in the buyout market to meet demand, and what steps, if any, should be taken to encourage DB scheme consolidation.

In addition to this, it asked how recent improvements in funding levels could change the future role of DB schemes, and what the implications of improved funding levels are specifically for the Pension Protection Fund (PPF).

The WPC also asked whether changes should be made to the PPF, Financial Assistance Scheme or Fraud Compensation Fund to improve outcomes for members. *[For more details, see page 68 for our interview with WPC chair, Stephen Timms].*

This inquiry came hot on the heels of the WPC's inquiry into DB schemes and liability-driven investment (LDI), which was launched following the gilt market volatility seen in autumn 2022.

Addressing both the WPC and the House of Lords' Industry and Regulators Committee, Pensions Minister, Laura Trott, confirmed that the Department for Work and Pensions (DWP) is looking to take recommendations following the market volatility into account before publishing the DB funding regulations.

Also addressing industry concerns that the new code could lead to DB scheme closures, increase systemic risk and potentially prove contrary to the government's growth agenda, Trott emphasised that "obviously that would not be the intent of the regulations".

"What we're going to be trying to do with this is recognise that DB schemes are in a different place, they're reaching maturity and we need to reflect that in terms of the guidelines," she clarified.

"But I think it's very important that we do look at this in light of what happened last year that we make sure that we are talking to you, talking to the Lords Committee, understanding your recommendations in this area and that we incorporate that into the regulations."

Commenting on the issues around LDI more broadly, Trott suggested that whilst the volatility showed that there are a "number of deficiencies" in the way LDI funds were managed and governed, particularly around the collateral they were asked to hold, data, and overall resilience in the financial system they have played a "useful role over the past couple of decades".

She stated: "That's not to say that we've not learned a huge number of lessons... but it still remains the case that LDI has a useful place I believe in the overall investment options available to pension schemes."

Trott also confirmed that the DWP currently has no plans to make the use of leveraged LDI conditional on, for instance, trustees meeting certain standards or reporting requirements.

Adding to this, Economic Secretary to the Treasury, Andrew Griffith, highlighted the need for "balance", arguing that there is a "trade-off between making people's pension assets work well to deliver performance, to reduce burdens on the state and deliver people prosperous time in their longevity, and the risk in the financial system".

Griffith was also asked about the potential regulation of investment consultants, confirming that whilst there have not been reports of deficiencies in investment advice, "we are committed to bringing investment advisers within the regulatory period".

However, Griffith was not able to provide a timeline for this, noting that "there is a lot of work for the Financial Conduct Authority at the moment".

Written by Sophie Smith

Private Member's Bill to extend AE moves to House of Lords

A Private Member's Bill looking to extend auto-enrolment to lower earners and younger workers has moved to the House of Lords. The government has already backed the bill, with a consultation on the implementation approach and timeline to be launched in the autumn

MP Jonathan Gullis' Private Member's Bill to extend auto-enrolment (AE) to lower earners and younger workers has passed its third reading, and will now move to the House of Lords.

The bill seeks two extensions to AE, abolishing the lower earnings limit for contributions and reducing the age for being automatically enrolled to 18.

Commenting in the House of Commons during the third reading, Pensions Minister, Laura Trott, congratulated Gullis and MP Richard Holden, who had previously introduced a similar Private Member's Bill, on their efforts in this area, suggesting that they will "improve the retirement aspirations for millions across the UK".

Trott stated: "I'd like to acknowledge too the support of members across the house in progressing this legislation.

"The broad consensus around workplace pensions, which has existed since the pensions commission, is a testament to the importance we all place on delivering improved retirement outcomes for our fellow citizens.

"A lot has been achieved in the last decade of the reforms. It has been especially transformative for women, low earners and young people, who historically have been poorly served by, or excluded from, workplace pensions.

"This bill sets us on a path to do more for all those groups, who will benefit from increased saving in retirement, with many gaining access for the first time to employer contributions.

"I am delighted to say that the government supports this bill, and will continue to support it as it moves through parliament. I wish it every success."

Whilst the provisions in the bill are not intended to result in any immediate change, Trott previously confirmed during the committee stage of the bill that the government will look to consult on the implementation approach and the timetable for the reforms by the autumn.

"We will report to parliament on the outcome of that consultation, before bringing forward the necessary secondary legislation, which will also be debated in this house," she continued.

"I look forward to engaging with honourable members on these details to ensure that the expansion of AE is done in the right way for employers, workers and taxpayers."

Trott also addressed queries as to how the changes would be communicated to younger people, stating: "Once we are through the consultation stage and we have a timeline for when we can progress forward, that is something we need to work a plan around and I will come back to the house on."

> **" I am delighted to say that the government supports the bill and will continue to support it as it moves through parliament. I wish it every success"**

While the bill looks to extend AE from those over 22 to over the age of 18, MP for Glasgow East, David Linden, called for this to be lowered to age 16.

In response, Trott said that the government "could also look at what we can do for 16-year-olds", stating: "Even if we do not get quite where the hon. Member for Glasgow East wants us to with the age, I think there is more we can do to encourage them to opt in. We can discuss that as part of the consultation."

This is not the only recent Private Member's Bill focused on pensions, as MP Anthony Browne also introduced a bill looking to give employees the right to have their employer pay their pension contribution to a pension of their own choosing, calling for a 'pot for life' model.

However, although industry experts had suggested that the approach could make a demonstrable improvement in the number of small pension pots, the bill has since been withdrawn.

Written by Sophie Smith

Ark members to face tax charges after failed tribunal

Members of the Ark Pension Schemes could face 'significant' tax consequences after Dalriada's appeal against HMRC's tax treatment proved unsuccessful

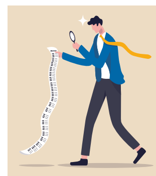
Dalriada Trustees' appeals against tax charges levied by HMRC for members of Ark Pension Schemes were unsuccessful in a tax tribunal, triggering "significant tax consequences for both the members personally and the schemes themselves", the firm has confirmed.

In its letter informing members of the Ark Pension Schemes of the tribunal ruling, Dalriada explained that the decision centred on the application of the law as it stands, stating that "the judge recognised that, in applying the law, this resulted in unfavourable (and, in some cases, unfair) outcomes for members".

The High Court previously ruled that the payments by the Ark Schemes to individuals constituted unauthorised payments under the Finance Act 2004. As such, members and the schemes themselves were liable for tax charges. However, HMRC and Dalriada disagreed on how the charges should be calculated.

HMRC argued that a tax charge arose on a payment of the Maximising Pension Value Arrangement (MPVA) loans 'to or in respect of' a member.

In contrast, Dalriada argued that it was never the intention for there to be member-to-member matching and that the correct approach to taxing the MPVA loans was as determined in the earlier High Court proceedings, essentially in the same way as if they had received an employment-related loan.



However, the tribunal's decision was that member-to-member matching was intended, and that members should be taxed on the amount of MPVA loan the member (or members) they were matched with received.

The tribunal also decided that, because a member is seen to have received an unauthorised payment equivalent to the amount of MPVA loan (or loans) made from their scheme to a person (or persons) they are 'matched with', it is irrelevant that that member may not have transferred in enough money to fund the MPVA loans he or she has 'made'.

Dalriada Trustees stated: "Clearly the decision is both incredibly disappointing and frustrating for the members and Dalriada. Dalriada and its advisers will carefully consider the full detail of the decision before deciding whether or not there are any merits in an appeal against the tribunal's decision

Leaving aside the merits or otherwise of any appeal, Dalriada will continue to work with others in the wider pensions industry in considering what alternative means of redress might be available to members."

Written by Laura Blows

NEWS IN BRIEF

The **Pensions Administration Standards Association** published new guidance on preparing for pensions dashboards, including interim guidance on communicating with savers about dashboards before they become universally acceptable, and an update to its data matching convention guidance.

The **Pension Protection Fund** confirmed that it will push ahead with its proposals to change the assumptions it uses for certain valuations that provide an estimate price for bulk annuity providers in the buyout market.

The **Taskforce on Nature-related Financial Disclosures** published its fourth and final beta framework for nature-related risk management and disclosures. Participants will for the first time be able to see a full representation of the framework, including the proposed approach to disclosure metrics.

A Living Pension standard has been launched by the **Living Wage Foundation**, setting a target for at least 12 per cent of a worker's annual salary to go into pensions saving, of which the employer pays in at least 7 per cent.

DB transfer values fell by around 4 per cent to £168,000 over February, **XPS Pensions Group** revealed, marking the lowest month-end value since the tracker was launched in June 2016.

Four technology providers, **Target Professional Services, MypensionID, Bravura** and its subsidiary **Delta Financial Systems,** have partnered on a new end-to-end solution for pension providers looking to onboard to the dashboards ecosystem.

The **Shoe Zone Group Pension Scheme** secured a £34m buy-in with Rothesay, covering the benefits of 367 pensioners and dependents and 166 deferred members.

Diary: April 2023 and beyond

PMI DC and Mastertrust Symposium
20 April 2023
Waldorf Hilton, Aldwych
The DC and Master Trust Symposium is set to cover a range of topics related to DC governance, workplace pension provision, investment, the pensions dashboards and more. It is a must-attend event for employers, trustees, DC pension fund members and any pension professional working within the DC pension market.
For more information, visit:
pensions-pmi.org.uk/events

Pensions Age Spring Conference 2023
27 April 2023
Hilton London Tower Bridge
The Pensions Age Spring Conference, which has become a firm favourite in the industry, offers pension funds and those working in the sector the opportunity to learn and network alongside their peers at one of the most dynamic times in UK pensions history. With speakers from the Pension Protection Fund, The Pensions Regulator, and a range of industry organisations, delegates can be sure this conference will offer them the updates they need to manage their schemes.
pensionsage.com/springconference

PLSA Investment Conference
6-8 June 2023
EICC, Edinburgh
The PLSA's Investment Conference returns to Edinburgh in 2023, aiming to bring together the full investment chain to discuss the latest big-picture challenges facing schemes. The three-day conference is open to CIOs, trustees, investment board members, pension managers, finance professionals and advisers, and will provide insight into the major trends affecting UK investors and markets.
For more information, visit:
plsa.co.uk/events

European Pensions Awards 2023
6 July 2023
London Marriott Hotel
The European Pensions Awards, now in their 16th year, were launched to give recognition to and honour the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds over the past year. The awards are free to enter and open to any pension fund or firm that serves European pension funds.
For more information, visit:
europeanpensions.net/awards

Visit www.pensionsage.com for more diary listings

Month in numbers

£420bn
The market value of private sector DB and hybrid schemes decreased from £1.7trn to £1.28trn between April and September 2022, according to data from the Office for National Statistics.

33%
One in three working single mothers are ineligible for a workplace pension under auto-enrolment rules, research from Now Pensions and the Pensions Policy Institute (PPI) revealed.

12.5million
Data from the Department for Work and Pensions revealed that 38 per cent of working age people, around 12.5 million savers, are undersaving for retirement. This was measured against a target replacement rate before housing cost, and was based on converting the full value of an individual's DC pension into an annuity. It also found that 12 per cent of working age people are undersaving for retirement against the Pensions and Lifetime Savings Association's minimum Retirement Living Standard (RLS).

VIEW FROM THE SPP: The future of the UK gilt market

The UK gilt market, even ignoring the mini Budget crisis, has had a torrid time over the last year, losing some 25 per cent of its value. Long-dated nominal yields have risen from under 1 per cent to over 4 per cent in little more than a year, mainly related to inflation and monetary policy.

This has been largely beneficial to pension schemes and has sparked some speculation as to the future of the gilt market once DB schemes are no longer large buyers.

Interest rates have risen globally so large moves are not unique to the UK.

However, one measure of gilt market distress, the gap between similar maturity swaps and bonds, is showing warning signs. The premium available for investing in gilts, rather than the pure exchange of cashflows from a swap, has risen by 0.4 per cent since 2022, indicating that at least part of the rise in gilt yields reflects concerns about slowing demand against the issuance the government will need. With the Bank of England simultaneously starting quantitative tightening, this is not unjustified.

But it is not all one-way traffic. Higher global yields have reawakened investors to the attraction of debt markets. Global asset allocators are realising that there is now an alternative to equities: Investing for income is now a realistic possibility. The UK's growing DC assets may not provide a like-for-like replacement as DB schemes wind down, but I wouldn't bet against the return of the annuity as yields increase. All this creates demand for gilts that has not been there for 10 years.

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

SPP member, Robert Scammell

Appointments, moves and mandates

Jon Hatchett

Hymans Robertson has named Jon Hatchett as senior partner.
Hatchett will lead the firm from 1 April, taking on the role from John Dickson who, with the rolling tenure of the senior partner role, will be resuming a focus on strategic investment advice. Hatchett joined the firm in 2006 and became a partner in 2013, before being invited to be an equity member of the firm in 2017, having held various leadership responsibilities during that time. Prior to this, he was head of corporate DB consulting, where he advised on pension issues, such as long-term strategy, and led the development of the firm's at-retirement education and engagement programmes.

Legal & General has added Heather Lauder and Helen Carey to its Independent Governance Committee (IGC).
Lauder holds over 30 years' experience, having previously held large-scale customer strategy, customer operations, digital and transformational executive roles at NatWest, RBS, Tesco, VirginMoney and Co-Op Bank. Carey, meanwhile, is AV Trinity compliance & operations director, and has 25 years of experience working in financial services. She is also an independent member on the Hargreaves Lansdown IGC. "We're delighted to welcome Heather and Helen as new members of our IGC," LGIM co-head of DC, Rita Butler-Jones, said. "Their appointments underscore the continued strength of the committee, ensuring that we have the right governance in place to continue delivering the retirement outcomes that our members deserve."

Kylie Arbon

Broadstone has appointed Kylie Arbon as head of transformation.
Arbon will lead the integration of current and future acquisitions within the firm's consulting & actuarial business, as well as maintaining the automation of Broadstone's primary client functions. She brings over 12 years of experience in the pensions industry, having worked at BBS Consultants & Actuaries from 2011 before it was acquired by Broadstone in 2019. Commenting on her appointment, Arbon said: "I look forward to integrating our existing acquisitions even closer into the Broadstone model and establishing a framework to welcome more businesses into the group efficiently and effectively."

Raman Dhillon

Sackers has named Raman Dhillon as a legal project manager to its project management team.
Dhillon has project management experience in legal and financial services, including time with both Hogan Lovells and EY. She has experience of managing large, complex projects across the corporate and finance sectors. "Raman's skills and experience will not only complement those of the existing team, but will also ensure that she's able to hit the ground running on client projects," Sackers senior legal project manager, Elizabeth Nolan, said. "She will be working closely with our lawyers to deliver the high levels of service clients have come to expect from us."

The Universities Superannuation Scheme (USS) has announced that Carol Young will succeed Bill Galvin as group chief executive later this year.
Most recently working as NatWest director of reward and employment, Young is expected to begin work at USS in September this year, while Galvin, who announced his decision to stand down from the role last year, will continue to lead the organisation until then. Young has been with NatWest since 2014, previously spending almost five years as Heineken UK head of pensions, and as an investment consultant for Mercer between 2000 and 2009. Throughout her career, she has led on the development and delivery of all aspects of DB pension strategy, including funding, investment, capital and accounting treatment, regulatory engagement, and benefit design. She is also a Pensions and Lifetime Savings Association (PLSA) non-executive director and has chaired PLSA policy councils and the Confederation of British Industry (CBI) pension panel. USS board chair, Kate Barker, led the search for Galvin's successor, with University and College Union and Universities UK-nominated directors also joining Barker on the interview panel. Commenting on her appointment, Barker stated: "Bill is a very hard act to follow, but I have every confidence that USS will continue to thrive under Carol – who was the stand-out candidate in an outstanding set of applicants. Carol has a career-long interest in pension policy, is held in high regard across the pension sector, and brings a relatively unique mix of skills to the role: A proven pensions and HR executive who is also a CFA charter holder and a former investment consultant. This is a critical role in USS, and that has been reflected in how we've approached the appointment process."

The Pensions Administration Standards Association (Pasa) has appointed Gallagher as its expert partner for engagement and communications.
As part of the partnership, Gallagher will lead the Pasa working group in creating guidance and content on the role of the administrator in supporting effective engagement and communication, the development of the saver journey, and the messaging needed around legislative, regulatory or process transformation. This was in addition to guidance and content on addressing how those involved in pension administration can practically raise societal engagement with pension savings, complementing the efforts of related pension industry initiatives. Announcing the appointment, Pasa chair, Kim Gubler, argued that "saver-centric pensions administration is only possible with good quality engagement and communication strategies".
Commenting on the appointment, Gallagher director of retirement communication, Karen Bolan, added: "Gallagher is pleased to join Pasa as their engagement and communications expert partner. We're looking forward to creating thought leadership content for employers, trustees and administrators to support in motivating, inspiring and retaining pension savers. Gallagher and Pasa share a common purpose in our desire to improve saver outcomes, and we believe supporting understanding and decision making is the key to growing confidence and engagement. Gallagher offers award-winning pension communications which remove complex terminology and help savers to understand their options and empower decision making and we're excited to share this expertise in helping to create clear industry guidance and content, on 'what good looks like.'"


Steve Robinson

Cartwright has announced the appointment of Steve Robinson as head of investment implementation.
Robinson joins from Mobious Life, where he spent four years as head of asset transfers and latterly two years as implementation director. Prior to this, he was BlackRock vice president, responsible for designing, implementing and managing asset transitions for its platform clients, and at Mercer Investment Consulting, where he managed the asset transition function. In his new role, Robinson will look to identify and assess clients' risks and opportunities for asset transitions and other types of strategy design and implementation.


Ian Maybury

TPT Retirement Solutions has appointed Ian Maybury to its funding committee.
Maybury joined TPT in January as a co-opted expert for TPT's funding committee. He is a fellow of the Institute and Faculty of Actuaries, and previously served on pension scheme committees for British Airways, the Universities Superannuation Scheme, Unilever's UK Pension Scheme, and Royal Mail's Collective DC Pension Plan. In addition to this, he has served as an independent member of the John Lewis Partnership Pension Scheme trustee board since 2018. In his new role, he will provide support on matters relating to the funding and investment strategy for TPT's DB schemes.


Andy Cox

Capital Cranfield has appointed Andy Cox as chairman
Cox spent his earlier career with Aon as a senior member of their EMEA and global leadership teams, has been a non-executive director (NED) of the firm for the past three years, and is also a professional trustee. He succeeds Martin Jones. Commenting on the appointment, Capital Cranfield managing director, Harus Rai, stated: "Over the past three years as our NED Andy has made a major contribution to the firm and was the unanimous choice as chair once Martin had signalled his intention to step down. We are all looking forward to working with Andy in his new role."


Dan Carpenter

XPS Pensions Group has named Dan Carpenter as a partner in its investment team.
Carpenter joins from Aon and brings more than 20 years' investment experience to the role, having advised schemes of a range of sizes on investment strategy and implementation. Commenting on his appointment, XPS Pensions head of investment, Ben Gold, stated: "With the significant improvement in funding position seen by schemes in aggregate in the past year, alongside ongoing market turmoil, we are seeing more schemes looking for our bespoke and directive advice. Dan will be at the forefront of helping us support more schemes that are looking for this approach."

A week in the life of: BESTrustees trustee director, Ann Rigby

Life is busy all the time but that's how I like it. I live on a hill-farm in North Yorkshire with my partner and two teenagers; I do the book-keeping for our family plant-hire business and when I have a spare moment, there's a barn conversion on the go!

I also have a day job as a professional trustee and director of independent trustee firm BESTrustees. My day is full of meetings or calls with trustees, advisers, as well as my BESTrustees colleagues. I am a trained actuary, but sometimes I need the viewpoint of a lawyer or an accountant and I am lucky I have colleagues from a wide variety of backgrounds I can speak to.

I have a portfolio of 12 schemes, so the first thing to do is check my diary for the week. I don't pass on work to junior support staff, I'm your professional trustee and I do it all, so my weeks are full but rewarding.

Monday

First thing is a call to builders' merchants to order some building materials for the barn conversion. There is a life outside of pensions! Well, for 45 minutes there is. Then, it's a trustee call we hold each Monday morning to discuss wind-up progress on a buyout exercise for a large insolvency scheme, where buy-in has already been achieved, followed by a quarterly administration subcommittee meeting covering preparation for buy-in, regular pension increases and legal issues involved in preparing a benefit specification. In the afternoon, I do a little final preparation for a trustee meeting on Wednesday, checking latest status of agenda items. In the evening I have a local non-for-profit nursery directors meeting where I am a voluntary director.

Tuesday

I have a video call with trustees and advisers to discuss an actuarial factor review, discussing appropriateness of commutation terms following gilt yield rises. Next, I have to call one of our plant drivers to check they can drive a digger next week! At midday though, I'm back to the world of pensions with an email exchange to consider a member complaint where a transfer value quote has been significantly reduced. After lunch, I have a call with an auditor to discuss needs of scheme and request a proposal and quote following retender exercise, followed by an Employee Forum meeting, where BESTrustees employees get to air their views and make suggestions for change, like the charitable donations matching policy we recently introduced.

Wednesday

A big day and an early start to travel to London for a face-to-face trustee meeting, so I catch the 5:58am train from Darlington to Kings Cross. The meeting includes a training session on General Code and risk transfer options, then we'll discuss DB Funding Code proposals ahead of forthcoming valuation. The train journey is when I catch up on the day's emails so I get home at 8:00pm, 15 hours after I left.

Thursday

First thing is a call to a building inspector to arrange a visit to our barn conversion, then pensions again with a call with the regulator and a couple of my colleagues to discuss the industry approach to preparing for dashboard requirements. In the afternoon, I have a call with the company and advisers to discuss a possible move of a DC trustee-based scheme to a master trust, then another call with trustees to discuss a discretions case and decide to whom we should grant a death-in-service lump sum payment. I end the day with some more barn stuff – calls to three builders' merchants to order more building materials!

Friday

It's been a long week and I'm feeling like I need some exercise so I might go for a 5k run before the calls start. I then have a call with advisers to discuss de-risking framework with the company to agree trigger points and meeting expenses from the scheme, followed by a review of meeting papers for a trustee meeting next week. After lunch I have a call to the office to firm up on our next internal meeting agenda and speakers, then a client call to discuss progress with a data rectification project and draft report to be shared with full trustee board. Then – finally – it's the weekend!

Supporting DC members

Donna Walsh considers how to support members with rising costs and fulfilling The Pensions Regulator's guidance

Amid the current economic uncertainty – and concerns that the value of some defined contribution (DC) pension pots has fallen – The Pensions Regulator (TPR) issued guidance in January 2023 for DC trustees on how they should support savers with the rising cost of living.

The guidance sets out a 20-point checklist on how trustees should strengthen their member support.

How our existing member support satisfies TPR guidance

The guidance mirrors how Standard Life already supports master trust members and helps own trustees meet the 20-point checklist too.

Here are three of the ways that our support and communications already satisfy TPR guidance.

Using insights to shape how we help members

TPR's guidance recommends that trustees use insights to inform their guidance and saver engagement plans.

Standard Life Master Trust Board chair, Richard Butcher, says: "We've been concerned about the rising cost of living for some time, and that members might opt out or opt down. While this may well be sensible when they have bills to pay, they could also do long-term harm to their future self."

To support trustees, we already gather data and monitor what members say and do, to ensure our support aligns with their individual circumstances. For instance, less than 1 per cent of our member calls mention rising costs.

With our research showing that 49 per cent of people are cutting back on everyday spending due to increased costs, we've added specific cost of living-related questions to our member surveys, so that we can continue to evolve the design of our insight-led support package with members' needs at its heart.

Strengthening our support where it's needed most

Strengthening member support and targeting efforts towards those most in need of help is another recommendation from TPR's guidance.

At Standard Life, we've always focused on supporting vulnerabilities, including financial difficulty, long before the cost-of-living crisis took hold.

We've enhanced our existing support to cover a wide range of financial wellbeing topics that go beyond pensions – including how to check for eligible benefits and where to find local food banks.

We also partner with Samaritans, who provide additional training for our staff on how to listen and respond with empathy and compassion.

Richard says: "We're pleased to see how quickly Standard Life added to its already established vulnerable customer support, by making wider financial and mental wellbeing resources available for members."

Providing reassurance and helping members to make informed decisions

Another recommendation from TPR's checklist is for trustees to review communications to ensure savers can make informed decisions about their investments, especially given the short-term volatility.

"More members could become vulnerable due to financial stress and become more susceptible to scams or find it hard to make long-term, complex decisions. This makes it essential that decisions like these are made in an informed way," says Richard.

We include messaging in our annual benefit statements to reassure members that their pension is a long-term investment, and that they should consider taking a long-term view before making any decisions. This includes information on market volatility and the cost-of-living crisis, and how these can affect their pension savings. We also do this in the app, online dashboard, over the phone, at key decision points throughout member journeys.

These are just three ways we're already fulfilling the guidance set out by TPR. And we're proud to have measures in place that support each of TPR's 20-point checklist. We believe that through the strength of the governance of the master trust, including the collaboration between trustees and Standard Life to gather insights and react to change, we can continue to deliver to help towards better member outcomes.

Written by Standard Life head of master trust, Donna Walsh

In association with

Standard Life
Part of Phoenix Group

Soapbox: Helping the few, not the many

In March, we had the busiest Budget since I started working at *Pensions Age* in 2018. As with many Budgets, the government had leaked most of the announcements ahead of time and we thought, as we had been in the past, that we were fully prepared for what was to come. Sitting in the office listening to Chancellor, Jeremy Hunt, reel off the list of changes the government would be implementing, we were becoming impatient for what we thought was a formality confirming what we already knew, as pensions were left to the end of the speech. Then he dropped the bombshell that the lifetime allowance (LTA) wouldn't just be increased, it was going to be scrapped altogether.

This led to us scrabbling around, changing copy and angle before being able to break the news to our readers. We are of course used to this, with any breaking news creating an almost comical scene where we are frantically typing, reading and barking at one another about any nuance, potential angles and work delegation. However, with this Budget already having so much pensions content, we really had our backs against the wall trying to cover it all as fast as possible.

While the news created mild panic amongst me and my colleagues, it is not comparable to the panic that many people around the country are feeling about their finances. With some people choosing between eating or heating as the cost-of-living crisis bites, this was the government's opportunity to help those who need it most.

In some of their announcements they did just this, such as the extension of the energy bill support, but not with pensions. The scrapping of the LTA will provide no solace to those in the most dire circumstances. While it will benefit the NHS, with senior staff being less inclined to retire early due to the previously restrictive LTA and other allowances, it was not a change that was immediately necessary for most people.

That is not to say that the changes were not needed in the NHS, but increasing the LTA and other allowances, especially the annual allowance, would have likely been enough.

People that are able to put more than £1 million into their pension pots are not the people that need help right now. It's the people that cannot afford to save anything into their pensions, or those who are thinking of drawing on their pension early to make ends meet in the short term. Its part-time workers who juggle multiple jobs to keep food on the table, or people that are having to take time out of work, and therefore halting pension contributions, in order to provide care to elderly relatives or children.

These announced changes will help the few, not the many, and most people in the country will not see any benefit. It's again down to the industry to innovate and provide support to their members during these tough times.

I'm sure that it is up to the task. Most people got into these jobs to help people have a secure and comfortable living in retirement, but some government assistance would make this task easier.

Written by Jack Gray

VIEW FROM THE ACA: The small pots challenge

We welcomed the government's call for evidence to address the small pots challenge and supported automated approaches to tackling this issue. Separately, commenting on the value for money (VFM) consultation, with the same response date, we also welcomed the proposed inclusion of the quality of member communications and other services within the VFM framework, elevating the assessments beyond a pure cost focus. This will help reduce the risk of a 'race to the bottom' on charges.

In the first of those responses, we spell out the pros and cons of solutions to deferred small pots. On balance, our preferred approach is the "multiple default consolidators" framework. We have a concern that pot follows member could fail to meet the stated criterion on delivering improved value for money outcomes.

Dashboards too have a key role to play in supporting 'self-serve' consolidation but should not be relied upon to deliver effective consolidation.

Turning to the separate value for money consultation, our response says VFM is an essential component of good member outcomes and we were pleased to see the holistic breadth of the proposals, covering areas beyond just costs and charges. In our view, the aims should be to raise the bar on expectations to improve member value in all areas, and to equip boards with the appropriate data to assess value.

ACA chair, Steven Taylor

ASSOCIATION OF CONSULTING ACTUARIES

View from the AMNT: The great communicators

The BBC are showing some of their classic serials and documentaries. I have indulged in watching *Life on Earth*, presented by a youthful David Attenborough. The series charts the evolution of life on earth from simple microorganisms through the variety of animal species ending with the last programme devoted to homo sapiens under the title, *The great communicators.* The programme's main thesis is that our ability to communicate in various forms has been a major factor in our species becoming the dominant animal on the planet.

We communicate in increasingly diverse mediums with each message competing with a plethora of information.

The Pensions Regulator expects pension funds to communicate with members on a range of issues, such as, pension benefits, scams, tax relief and a plethora of other issues. Pension boards engage with their members over these issues using a number of communication channels, which will shortly include the pension dashboards. However, the art of communication is not only about making your voice heard but also listening to others; particularly those who have placed their trust and money in you.

We can all inform but are we engaging? Perhaps the time has come to listen more and tell less, after all communication is a two-way process and we evolved through talking and listening.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

View from the PLSA: Pensions in the Budget's spotlight

Recently, we saw pension tax reforms speculation turn into reality as the Chancellor abolished the lifetime allowance (LTA) and increased the annual allowance (AA) and money purchase annual allowance (MPAA).

The PLSA has long argued that tax relief is needed to encourage behaviours that help more people achieve an adequate income in retirement.

Abolishing the LTA and increasing the AA and MPAA will encourage older, often highly skilled or experienced workers, to stay in the workforce and provide more flexibility for retirees to re-enter the world of work. Savers will also have the ability to contribute lump sums, from an inheritance or a redundancy payment, into their pension to meet any shortfalls before they retire.

Positively, the government did not bring forward the date at which the state pension age would rise to 68 – and now will be pushed back beyond next year's election. Many people rely heavily on the state pension for their retirement income. Increases in the state pension age fall disproportionately on people on lower incomes who generally have poorer longevity.

The Budget also included several items on pension fund investments, notably a plan to announce new measures in the Autumn Statement on encouraging DC pensions to invest in UK growth and moves to further consolidate the eight investment pools in England and Wales of the Local Government Pension Scheme. The PLSA will be proactively talking to government on these issues to ensure the needs of pension funds and their members are central to any proposals.

PLSA director policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: Auto-enrolment reform

In a surprise announcement, the government has announced that it will support a Private Member's Bill that will reform the auto-enrolment regulations. From next year, the lower earnings threshold is to be abandoned and the minimum age for eligible jobholders is to be lowered to 18. This will have the effect of ending entitled worker status.

This move has been received positively throughout the pensions industry, and is consistent with a view expressed to PMI in a research project that we carried out in March last year. In a series of interviews, we found that more than eight in 10 young adults believe that pension saving should start before age 22 and over 60 per cent of young adults believe that all of an individual's salary should be pensionable.

We believe the government deserves credit for this step, which will see it commit to introducing a significant reform during a busy two years leading to the next election. However, it is important to remember that there is a further reform to the current regulations that has also been requested by the pensions industry.

There is strong consensus throughout the industry that the minimum statutory contribution rate should be increased. Our research found that nearly six in 10 young adults think contribution rates should be greater than the current statutory minimum of 8 per cent of qualifying earnings.

We would urge the government to consider implementing this change too. Is it prepared to grasp this pensions nettle?

PMI director of policy and external Affairs, Tim Middleton

From A-Z

Mercer UK wealth strategy leader and Association of Consulting Actuaries chair, Tess Page, chats to Sophie Smith about how she settled on a career as an actuary, why she prefers books over TV, and her favourite book podcast

What's your employment history (including jobs outside of pensions)?
First job – Café Royal in Fleetwood, where I was paid £21 per day, rising to £23 after six months training! I joined the pensions industry from university, after finding 'actuary' in the A-Z of careers in the library and thinking it sounded fine and would avoid me having to wade my way through B-Z.

What's your favourite memory of working in the pensions sector?
I have a 'women in pensions' friend group and our Blackpool weekender has become the stuff of legend.

If you did not work in pensions, what sector do you think you would be in instead?
I'm a huge bookworm so have occasional fantasies about opening a small and very unprofitable bookshop.

What was your dream job as a child?
Journalist – I think it was the idea of the notebooks and pencils that lured me in.

What do you like to do in your spare time?
I have recently embraced jigsaws and have formed a jigsaw sharing club, so please contact me to join the cool kids. I'm also a charity trustee for a charity that aims to improve the lives of women, girls, and the community in the North West, which is a hugely inspiring and energising role outside of work.

Do you have any hidden skills or talents?
I used to do gymnastics training four nights a week after school and can still do an excellent cartwheel.

Is there a particular sport/team that you follow?
Blackpool FC – the tangerines.

If you had to choose one favourite book, which would you recommend people read?
Sorry, as a book lover this is too hard. I'll give you a books podcast instead – *Backlisted* breathes new life into old, forgotten books. Every book they cover is an absolute belter.

And what film/boxset should people see?
I don't actually own a TV so this is not my field of expertise – pass!

Is there any particular music/band that you enjoy?
Huge Take That fan (from the beginning, not one of these Johnny-come-latelies), though more of a disciple than a fan.

Who would be your dream dinner party guests?
All five members of Take That would be perfect. I've made my peace with Robbie after years of processing his betrayal of the band, so even he can come along.

Is there an inspirational quote/saying you particularly like?
I've never found the source but I love: "Don't make yourself small for anyone. EVER. Be the awkward, funny, intelligent, beautiful little weirdo that you are. Don't hold back. Weird it out."

Written by Sophie Smith

VIEW FROM TPR: How we are taking the initiative

All pension savers deserve to be in schemes that are well run, well governed, and deliver value. That's why we've launched two initiatives that trustees of defined contribution schemes should be prepared for.

The first is to check trustees of schemes with assets under management of less than £100 million are complying with value for members (VFM) regulations, which came into force in October 2021. This follows our survey of DC schemes last year, which found just 17 per cent of those required to complete the VFM assessment had done so and, worryingly, 64 per cent were unaware of this statutory obligation.

We will also check trustees of schemes with at least 100 members (unless exempt) have published a Statement of Investment Principles (SIP), which details policies controlling scheme investments, including consideration of financially material ESG factors. Trustees must also publish an Implementation Statement (IS) – which shows how the principles in the SIP have been implemented.

A review of a cross-section of SIPs and ISs will follow in the summer. We will share the outcome to highlight good practice.

These two initiatives are a clear demonstration of TPR's commitment to put the saver at the heart of what we do.

Trustees know our expectations and now need to take the initiative and deliver the outcome savers deserve.

TPR executive director of frontline regulation, Nicola Parish

The Pensions Regulator
Making workplace pensions work

VIEW FROM THE ABI: Government actions

Pensions policy making can sometimes seem a slow process but then there are weeks where, to borrow from the Oscar-winning film, everything, everywhere happens all at once. The past few weeks have been a particularly exciting time, with the government backing Jonathan Gullis MP's Private Members Bill on automatic enrolment and making pension tax reliefs more generous. Both are areas where the ABI has been calling for reform for many years, so we were delighted that the government has taken action to support people in their retirement planning.

The increase to the money purchase annual allowance is particularly welcome, and scrapping the lifetime allowance simplifies the pensions tax system. Combined with a boost to midlife MOTs, these changes could encourage more people to work and save for longer, building financial security.

With the return of the Pensions (Extension of Automatic Enrolment) Bill, these reforms could soon be coupled with lowering the age limit for auto-enrolment and paying pension contributions from the first pound people earned, so that more people can benefit from saving more money for their future.

Improvements to childcare support are also warmly welcomed, as they will especially help more women return to work and boost their financial resilience. This matters not only for the gender pay gap, it is also vitally important for reducing the gender pension gap.

ABI

ABI long-term savings policy adviser, Ben Infield

VIEW FROM THE PPI: DC investment

Traditional passive equity/bond splits that dominated DC investment are no longer the best way to deliver member outcomes. Economic uncertainty and the changing shape of retirement provision as DC continues to grow have placed a spotlight on investment strategies and we are all looking for the best way to make members' money work for them.

While alternative asset allocation has been slow to grow, the current economic challenges have increased focus on how these assets could help DC schemes to protect and increase members' pots during turbulent times.

Despite growing recognition of potential benefits, challenges still remain to DC schemes looking to engage more effectively with alternative assets; primarily lack of scale, limited platform offerings, insufficient expertise, and higher cost that are particularly challenging within the context of competition in the DC market.

But there is a lot going on in this space at the moment. The government's productive finance agenda aims to facilitate and encourage greater investment in alternative, particularly illiquid, assets, DC scale continues to grow, and the introduction of new investment vehicles, such as Long-Term Asset Funds (LTAFs), should help to alleviate availability challenges.

With current economic challenges leading investors to look beyond traditional investment strategies, there could be a longer-term re-evaluation ahead for DC schemes and a subsequent acceleration of DC investment into alternative assets.

PPI senior policy researcher, Lauren Wilkinson

PENSIONS POLICY INSTITUTE
PPI

Going beyond a band-aid solution

A closer look at the recent changes to the NHS Pension Scheme, the impact of wider pension tax changes on the NHS, and the concerns that remain

Pensions have been an underlying issue in the NHS for some time, with industry experts previously warning that the NHS could be facing a potential exodus of doctors as punitive pay and pension rules pushed senior doctors to consider retiring.

Yet the past month has brought news of major changes to the NHS, including wider scale pension tax changes that are expected to stop over 80 per cent of NHS doctors from receiving a tax charge.

In particular, the government confirmed that it will proceed with plans to implement pensionable re-employment and permanently remove the 16-hour rule from 1 April 2023. This is alongside further changes to the scheme rules from 1 April 2023 to address inflation, and will be followed by the implementation of partial retirement on 1 October 2023.

Scheme shake up

Following an industry consultation, the Department of Health and Social Care (DHSC) revealed that, overall, the majority (87 per cent) of responses were supportive of the proposed new flexibilities.

According to the DHSC, respondents, including the Scheme Advisory Board (SAB) for the NHS Pension Scheme, suggested that the proposed flexibilities could help the NHS to retain experienced staff, give NHS Pension Scheme members more options for their retirement and make the rules of the scheme fairer.

Alongside retirement flexibilities, the DHSC confirmed plans to change the revaluation date in the 2015 regulations and move the date that dynamising factors are applied to 1995/2008 scheme practitioner pensionable earnings from 1 April to 6 April from April 2023.

The DHSC said that most respondents (82 per cent) also welcomed these proposals, although it acknowledged that there were some broader concerns raised around the annual allowance (AA).

The British Medical Association (BMA), for instance, raised concerns around the implications of no revaluation, for AA purposes, for the tax year 2022 to 2023, and the impact for members retiring during tax year 2022 to 2023 and whether they will receive the appropriate proportion of the revaluation that they are entitled to under the existing arrangements.

In addition to this, the BMA was among several organisations, including the British Dental Association, and the Association of Independent Specialist Medical Accountants (AISMA), and NHS Pensions Scheme Advisory Board, to raise the issue of 'negative pension growth' in AA calculations and advocated for amendment of section 234 of the Finance Act to address this.

In light of these concerns, the DHSC confirmed that the tax year 2022 to 2023 will be a transitional tax year to facilitate the change in the scheme revaluation date from 1 April to 6 April.

Closing the floodgates

These concerns may have since been alleviated further, as in addition to these scheme-specific changes, Chancellor, Jeremy Hunt, confirmed plans to abolish the lifetime allowance (LTA) as part of the Spring Budget 2023, while the AA will be increased from £40,000 to £60,000.

The reforms are designed to help ensure that highly skilled individuals such as NHS clinicians are not disincentivised from remaining in the workforce, with Hunt suggesting that the changes will stop over 80 per cent of NHS doctors from receiving a tax charge.

Hunt stated: "I have listened to the concerns of many senior NHS clinicians who say that unpredictable NHS charges are making them leave the NHS just when they are needed the most, and we will shortly publish a long-term workforce plan. But ahead of that, I don't want any doctor to retire early because of the way pension taxation works."

The Budget papers also revealed that, to help increase retention in the workforce of the public sector, open and closed public service pension schemes for a given workforce will be considered linked for the purposes of calculating AA charges.

This aims to allow members to offset any negative real growth for AA purposes in legacy public service pension schemes against the AA.

The BMA highlighted the news of the Spring Budget as the culmination of "years of lobbying", arguing that the changes should effectively close the floodgates to keep more senior doctors in the NHS workforce.

"The scrapping of the LTA will be potentially transformative for the NHS as senior doctors will no longer be forced to retire early and can continue to work within the NHS, providing vital patient care," BMA Pensions Committee chair and Consultants Committee chair, Dr Vishal Sharma, stated.

"We are pleased that the Chancellor has acted decisively to avert a major workforce crisis, as a failure to do so would have resulted in a major risk to the NHS, to our patients and to the junior doctors we mentor and train."

However, Sharma clarified that these changes don't address all of the issues and some doctors will still be adversely impacted by the AA, particularly the tapered AA, which hasn't been "meaningfully modified" in these reforms.

"We hope to continue our constructive discussions with the Treasury in order to find a way forward to address this outstanding issue," he continued.

"It is also vital if we don't want to end up in this situation again that these limits must be kept under review to ensure their value is not eroded in real terms. Otherwise, we will simply find ourselves in the same situation in a few years' time."

The devil in the detail

The NHS Confederation also raised broader concerns, arguing that whilst there was "very welcome news" in the budget, the reality is that it leaves "more questions than it answers when it comes to the NHS".

"On the one hand, there is very welcome news on pensions reform as lifting the LTA and AA will help incentivise more medical staff to carry out extra shifts – this is vital if we are going to reduce waiting lists," NHS Confederation chief executive, Matthew Taylor, stated.

"But on the other hand, we are facing a staffing crisis in the NHS and this budget does not provide any further clarity on how the government is going to address it."

Industry experts have also warned that the desired impact of the pension tax changes could be dampened by the news that Labour would reinstate the LTA if elected.

In a statement following the Budget, Labour branded the changes a "gilded giveaway", arguing that the government's plan to abolish the allowance is the "wrong priority, at the wrong time, for the wrong people".

Guiide founder and pensions actuary, Kevin Hollister, for instance, warned that, given Labour's response and current lead in the polls, a doctor considering returning to work as a result of the changes in pension tax "can clearly see that any additional work may actually lead them to a large tax bill later if Labour wins and reinstates the LTA at the current level".

He continued: "Labour's response without specific parameters as to the level at which the LTA would be restored at, will cause the current issues to remain. The level of the proposed LTA on any reinstatement of it must be confirmed now by Labour to avoid the issue continuing.

"The Labour Shadow Chancellor stated a solution could be worked out for doctors or other key occupations specifically. This is just simply unworkable. Aside from the legality of one occupation having different tax benefits to another, how could you possibly define which well-paid professions are worthy enough not to be subject to the LTA and which are. It's a political soundbite that is simply unworkable."

Written by Sophie Smith

Getting out from under a (Mc)Cloud

The government has also launched a consultation on plans to amend the NHS Pension Scheme regulations to implement the second part of the McCloud remedy, with the second part of the remedy to come into effect by 1 October 2023. This second retrospective part of the remedy aims to remove the effect of the transitional protections.

The changes are expected to impact around 1.1 million NHS Pension Scheme members with remediable service, and will give members a choice of whether to receive, legacy scheme benefits or 2015 scheme benefits for their remediable service benefits, both of which are payable from the legacy scheme.

Pensions Age Spring Conference: A sneak preview from our keynotes

27 April 2023 | Hilton London Tower Bridge

The Pensions Age Spring Conference has already generated a huge buzz, with hundreds of delegates already booked on, keen to hear presentations from a range of high-profile speakers from a broad range of pension disciplines

Taking place at the beautiful Hilton London Tower Bridge, next to the River Thames, and chaired by well-known pension and benefits professional, Jerry Gandhi, this one-day event will cover topics across the DC and DB arena, to include sustainable investing, longevity and mortality, inflation, the role of admin in the member's end-to-end pensions journey, preparing for a cyber-attack, insurance-linked strategies, ETFs, dashboards and lots more, culminating in a networking drinks reception for all speaker and delegates at the end of the day.

We asked our keynote speakers for a sneak preview of what they are planning to cover at this popular one-day event.

Opening Keynote Speaker: Pension Protection Fund (PPF) chair's ambitions for sustainable growth
Kate Jones, Chair, PPF

Events such as the Pensions Age Spring Conference are essential for our industry to come together, explore new ideas and grow our ambitions for providing savers with the best retirement outcomes.

Since growing up in the Midlands, with no connection to financial services, or even London, I've seen the landscape of the pensions industry change dramatically throughout my career, during my time at Barclays Global Investors, BlackRock and Schroders. And in my current role as chair of the PPF, I'm thrilled to see that our collective ambitions continue to grow.

As climate change, social inequality and corporate purpose receive unprecedented global attention, it's important that we consider material ESG risk and opportunities not only in our investment decisions, but also reflect these across all our activities.

Responsible investment (RI) is an important part of our overall strategic plan and our core investment principles and strategy. By encouraging responsible practices, our ambition is to better serve our members and levy payers by protecting our investments and catalyse the growth of a sustainable pensions industry.

Our focus on responsible investment, diversity and inclusion, and employee engagement for a number of years has enabled us to make tangible progress; we are now looking at the impact of our own operations and our supplier relationships and building on progress made, as well as how we can make a greater difference in our community.

As a strong advocate for empowering women in all communities, with a focus on female leaders in the financial sector, I'm determined to play my part in creating a sustainable world where everyone receives a financial education and is given the opportunity to exceed their own expectations. I look forward to discussing future opportunities and challenges with fellow pension professionals at the conference this month.

Dashboards update
Chris Curry, Principal of the Pensions Dashboards Programme (PDP), Money and Pensions Service

Chris Curry will be speaking about the recent written ministerial statement on pensions dashboards from the Department for Work and Pensions (DWP). The PDP will face a delay, meaning changes to the timeline for pension providers and schemes to connect. This is due to a series of challenges and the complex nature of the programme. PDP will be working closely with the government on putting together a new achievable plan for delivery. DWP will be providing a further update on amending legislation before parliament's summer recess.

Chris will cover what DWP set out in the written ministerial statement, and what the delay means for pension providers and schemes, and third parties looking to connect to the dashboards central digital architecture. During a 'reset' period, PDP will continue to engage with industry to address concerns and issues about what they can still be doing to prepare for dashboards until the new connection timeline is released. Pension providers and schemes should be working to ensure that their data is accurate, up to date, and in a digital format. They should decide on criteria for data matching.

Trustees should also be making decisions about whether their scheme will connect directly or through a third party, as well as ensuring that teams throughout their organisations are aware of dashboards.

Update from The Pensions Regulator (TPR)

Anthony Raymond, Director of Governance, Risk and Assurance, TPR

I'm looking forward to speaking at the Pensions Age Spring Conference. Change is in the air at TPR; in April both our executive director of policy (David Fairs) and our current CEO (Charles Counsell) will have departed. Our new CEO (Nausicaa Delfas) will have just started, and all colleagues will be getting ready to up sticks and move to a new location in Brighton. We have a new home being kitted out as I type, and everyone is very keen to get first dibs on a window seat.

Alongside the changes to TPR itself, there is plenty of movement with the pensions world.

Delegates will no doubt be bringing their own concerns and questions and I am keen to let you know what we have been doing and plan to do.

I'll be bringing conference delegates up to speed on some of our latest projects; including our thinking on 'value for money', where we are with our various codes and how proposed changes to auto-enrolment might make an impact. I will also have some thoughts on the dashboards and some words about liability-driven investment.

I also want to hear from you. I'm looking forward to some good, old-fashioned networking. The opportunity to catch up and have a chat has been a rarity in recent years.

Pensions Age always provide excellent opportunities at their events and the roster of speakers at this one is amazing. I'm keen to hear from colleagues about their plans and challenges; I'm sure you are too.

I look forward to seeing you later this month.

Agenda

08.30 – 08.50: Registration and refreshments

08.50 – 9.00: Chair's welcome
Jerry Gandhi, Trustee Director, Vidett

09.00 – 09.30: Opening Keynote Speaker: PPF Chair's ambitions for sustainable growth
Kate Jones, Chair, PPF

09.30 – 10.00: Latest mortality trends and what this means to pension schemes looking to de-risk
Ken Hardman, Partner, LCP
Stuart McDonald, Partner, Head of Longevity and Demographic Insights, LCP

10.00 – 10.30: The return of inflation risk - lessons from 2022 for DC investors
Ian Rees, Investment Director, Ruffer

10.30 – 11.00: The role of admin in the member's end-to-end pensions journey
Geraldine Brassett, Senior Consultant, WTW

11.00 – 11.30: Coffee break

11.30 – 12.00: Preparing for a cyber-attack
Saskia Drake, Senior Consultant, Mercer
Freddie Witzmann, Senior Manager, Marsh Cyber Risk Consulting

12.00 – 12.30: Insurance linked strategies – the most attractive investment opportunity in a generation
Alistair Jones, Managing Director, Business Development and Head of ESG, Leadenhall
Lorenzo Volpi, Managing Partner, Deputy CEO, Leadenhall

12.30 – 13.00: Don't delay data!
Rebecca Morgan, Head of Technical Research, ITM
Andrew Lowe, Executive Pensions Consultant, ITM

13.00 – 14.00: Lunch break

14.00 – 14.30: Dashboards update
Chris Curry, Principal of the Pensions Dashboards Programme, Money and Pensions Service

14.30 – 15.00: Mind the Gap: Tackling the Pension Administration resourcing and skills shortage
Matt Dodds, Chief Growth Officer, Capita

15.00 – 15.30:Partnering on your sustainable journey
Manuela Sperandeo, Managing Director, BlackRock
Katherine Nell Ng, Executive Director, MSCI

15.30 – 16.00: Closing Keynote Speaker: TPR update
Anthony Raymond, General Counsel and Director of Governance, Risk & Assurance, The Pensions Regulator (TPR)

16.00 - 16.10: Chairman's roundup and close of conference

Risk transfers in 2023 and beyond

Rosie Fantom looks at recent developments within the bulk annuity market

Many more DB pension schemes are now expected to be able to fully secure their liabilities with an insurer, whether due to steady progression of their de-risking journey or unhedged positions leading to an unexpected funding improvement during 2022.

We are expecting to see the market top £40 billion in 2023. In absolute terms, this may not break 2019's record for bulk annuity volumes. However, if adjusted for recent long-term interest rate changes, this would represent far more than that seen in past years.

In reaching a funding position where a transaction is affordable, schemes must act quickly to lock-in these improvements in scheme funding and protect against potential subsequent falls in yields over 2023.

Failure to do so could mean some of the significant funding level improvements seen over 2022 could be lost.

Improved insurer pricing

Following a gradual improvement over the second half of 2021, pricing improved significantly in early 2022. This reflected an increase in the additional yield available on corporate bonds compared to gilts resulting in a sustained period of attractive pricing. Although credit spreads narrowed towards the end of 2022 and into 2023, pricing remains attractive compared with historical levels.

While demand for transactions is set to be high, healthy insurer competition should support attractive pricing.

Given the outlook for a busy marketplace, it is more important than ever that schemes are well-prepared for a transaction before approaching the market. Data readiness, comprehensive benefit specifications, and effective governance structures will help gain greater insurer engagement.

Gilt crisis impact

Liability-driven investments (LDI) were particularly challenged during the gilt market volatility over September/October 2022. Rapidly falling gilt prices caused leverage levels to increase and collateral payments were needed at very short notice to maintain hedging levels. In some cases, hedging exposure had to be reduced, either at a scheme level because insufficient collateral was available or within the pooled funds themselves where there wasn't time for collateral to be called from investors.

As a result, LDI managers have permanently reduced leverage levels to make the funds more robust in the event of future market volatility, considering communications from the regulators and market trends.

This has implications for investment strategies which could impact the speed and certainty of buyout journeys. Schemes will now have to:

- invest more in LDI to achieve the same level of hedging and therefore less in return seeking assets; or
- retain the same allocation to LDI but accept lower hedging levels, and therefore more volatility in funding position.

Schemes should use leverage with caution when building a buyout-ready investment portfolio.

Alternative transaction options

Superfunds

Given the lack of transactions announced in 2022 in this space, the industry will be watching to see whether 'superfunds' can get off the ground with their first transactions, and indeed whether we will see other capital-backed solutions utilised by more schemes.

With Clara-Pensions having completed its regulatory assessment in late 2021, there has in theory been no barrier to transactions, although the first deal is yet to be announced: Schemes initially considering superfund transactions may now be in the zone where an insurance transaction is achievable may account for this. That said, we can see some merits in these options for schemes where insurance transactions are not viable.

The industry will be paying attention to challenges faced by other providers in this market, noting the well-publicised failure by The Pension SuperFund to emerge from its own regulatory assessment process.

Other capital-backed solutions

Similarly, 2023 will be a year in which the market for other forms of capital-backed risk transfer may take off. Only one capital-backed journey plan (CBJP) transaction has been completed, in 2020, but several new providers have entered the market and commenced detailed discussions with scheme sponsors and trustees.

CBJPs are primarily investment products, meaning there are fewer regulatory barriers to transaction. Scheme specific circumstances tend to be key for these deals, rather than a blanket solution for all schemes.

The CBJP providers will continue to progress conversations with schemes and sponsors during 2023, with every possibility of further deals being announced.

• This article was adapted from BW's 2023 Risk Transfer Report.

Written by Barnett Waddingham head of bulk annuities and risk transfer partner, Rosie Fantom

In association with

BARNETT WADDINGHAM
beyond the expected

Reforming the state pension age

Former Secretary of State for Work and Pensions, Chloe Smith, considers how state pension age reform should be a profound debate

#*LesReformesdesRetraites* saw France on fire. With hundreds of arrests and injuries, a town hall ablaze, and our own King Charles postponing a state visit across the Channel amid strikes and violent protests, pension reform is suddenly a hot topic.

Other countries, like Spain, are embarking on reform too. So how should a nation consider reform to state pensions, without "descend(ing) into a madness that might take hold of the country, with violence and resentment", as one French trade unionist put it? The UK's government has just published its review of the state pension age; what should we do with it?

This review has had to balance tough factors. The government has concluded there isn't a case for change to the rises to 67 and 68 that are already legislated for and will look again in two years.

Taking the long view, since pensions were first introduced, of course people are generally living and working longer. And work is changing too: Technology enables more and more, and flexible working is on the rise as well, which is the top workplace solution that over-50s say they want. The Chancellor's recent Budget rightly focused on how to re-engage older people in work. All this points to pensionable age generally continuing to rise.

However, life expectancy data appears to have dipped, which has driven the government to caution. There are concerns in parliament about patterns in excess deaths, and deep anxiety about the lasting toll on the health service from Covid-19.

The government should certainly address those concerns, using the Covid enquiry process, as well as closely monitoring and explaining data now. Our constituents desperately need the NHS back on its feet so it's right that should be a top priority in itself for the Prime Minister.

However, pensions policy must be shielded from individual controversies. Pensioners, taxpayers, employers and society need a clear and predictable path ahead. Denmark, Finland, Portugal and more have tried an automatic mechanism linking pension age to longevity predictions or other characteristics, removing political intervention.

The major trend of longer, healthier lives and the need for fairness between generations means that we in Britain cannot avoid scrutinising and securing our system. We should use the next few years to debate pensions properly.

To get the safety net right without short-termism or the violence seen in France, the government should do two things.

First, it should continue to respect a process like that set out in the Pensions Act 2014, requiring the state pension age to be reviewed regularly. Better alignment with census data would be a good idea. Parliamentary and public debate should follow on a similar rhythm, although (as France reminds us) if you decide to change then successful legislation may take time. A resilient process like this guards against waiting unduly for any particular trend or pausing for a preferred moment.

Second, ministers should avoid the debate becoming party political. Of course, this is a terrible tightrope to tread: Act without fear or favour to older voters or anyone else, seek consensus without inciting controversy, yet in the second half of any parliament an election looms. So, there should be debate, profound debate, but the tone must reflect the national interest.

A policy for which taxpayers pay billions of pounds a year must be rooted in support. A democratic mandate to act is desirable and important. This can be achieved from a national debate, in which people, Parliamentarians like me and *Pensions Age* readers like you all have an important role.

Baroness Neville-Rolfe was right to probe fairness between those who are working and paying and those retiring, asking what share of national earnings could be spent on retirement. I believe she was right to consider the experiences of people who've spent their lives in very physical work or for a very long stint; I'm struck that the French reforms include special provision for people who began to work before they were 20.

We have an opportunity and a duty now to debate the fundamental questions of fairness between generations in a time of great change.

Written by Norwich North MP, and former Secretary of State for Work and Pensions, Chloe Smith

A guide for combatting scams

Matthew Swynnerton explains PSIG's newly published Interim Practitioner Guide

On 20 March, the Pension Scams Industry Group (PSIG), the voluntary, multi-disciplinary industry group dedicated to combatting pension scams, launched its Interim Practitioner Guide. As a member of PSIG and a legal adviser to its technical committee, I am absolutely delighted to have been involved in drafting the guide, alongside my PSIG colleagues, and to have had the opportunity to contribute to an asset that will both help protect members' benefits from scammers and assist the pensions industry in navigating some complex issues with the potential to delay or block transfers that pose no scam risk.

The Occupational and Personal Pension Scheme (Conditions for Transfers) Regulations 2021 were introduced to address the problematic position trustees and providers were put in under the previous regime: Where a member had a statutory right to transfer, they were obliged to carry out the transfer even if they had concerns in relation to pension scams. The regulations gave trustees and providers greater powers to stop transfers where serious scam concerns (red flags) were identified and to direct members to guidance from MoneyHelper when scam warning signs (amber flags) were identified. Overall, the regulations were an extremely positive development in protecting savers from scams. However, over a year since the regulations were passed, there remain questions over their interpretation. Moreover, there have been concerns that parts of the regulations do not reflect their policy-intent. This has led to an inconsistent approach to transfers across the industry with some legitimate transfers having been delayed or blocked altogether.

The new guide seeks to address some of the key issues vexing the industry, including: The use of clean lists; discretionary transfers; overseas investments; and incentives. It seeks to help trustees, administrators, and managers steer a pragmatic course between protecting their members by complying with the regulations and delaying or blocking transfers that pose no scam risk.

The guide is divided into three parts. Part A covers statutory transfers, which are subject to the regulations. The level of due diligence required depends on the nature of the receiving scheme. Unless the transfer is to a scheme that poses a low scam risk, such as a master trust, public sector or CDC scheme, checks are needed for the presence of red and amber flags and, in respect of transfers to occupational pension schemes and QROPS, an employment or overseas residency link respectively. The guide includes commentary and examples in relation to how the red and amber flags should be interpreted, and the risks of different approaches, including in relation to the currently problematic flags relating to overseas investments and incentives. It also covers the risks of using, or not using, clean lists.

Part B concerns discretionary transfers. The guide notes that, even though the regulations do not apply to discretionary transfers, where scheme rules permit them, trustees and providers must still apply robust due diligence to the transfer. The guide notes some of the risks associated with processing transfers on a discretionary basis, including that transferring trustees will not receive the statutory discharge from liability (which

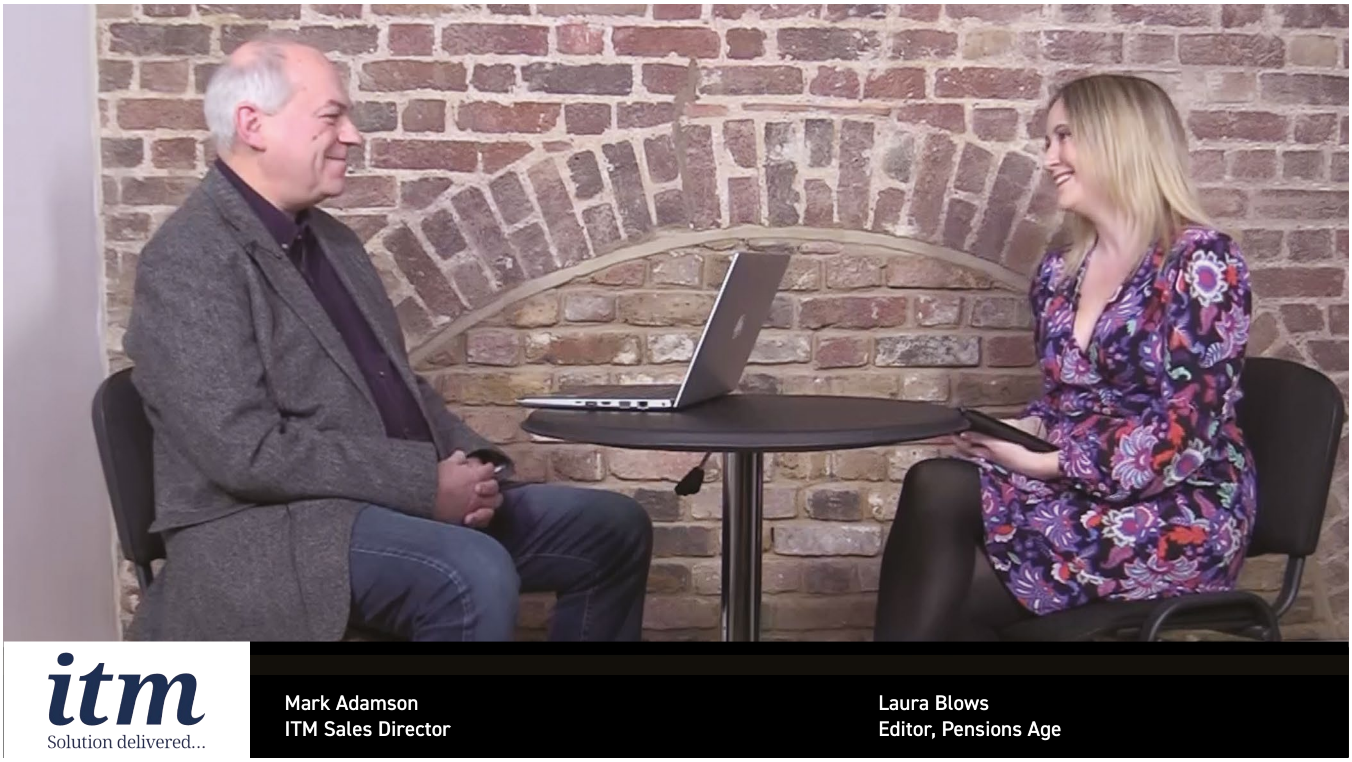
they would receive if the transfer was processed on a statutory basis).

Part C includes further guidance on how to provide a good service to members seeking a transfer, including good governance, effective and timely communication, and liaison with scheme administrators to ensure they are complying with the regulations. Finally, when finalising a decision on a transfer, the guide recommends trustees and providers use various resources and bodies to check for suspicious parties or activity, including industry forums, HMRC, and law enforcement reports.

In summary, the guide provides helpful advice and clarification for trustees and providers. Ultimately, it emphasises that, where the risk of a scam is low, the preference is to make the transfer "as quick and easy as possible." However, elements of the regulations still need to be clarified or amended. The DWP is currently understood to be undertaking a review of the regulations that could result in changes being made to them. PSIG has made it clear that, if this happens, it will update the guide.

Written by DLA Piper pensions partner, Matthew Swynnerton

In association with DLA PIPER



Understanding data

Laura Blows discusses the importance of understanding data for trustee administration projects with ITM sales director, Mark Adamson

So Mark, I'm sure you've seen a lot of changes to pensions administration, systems and data over the years – how would you say it is faring today?
We are moving in the right direction. Over the past couple of decades, we have made big strides. Trustees and scheme sponsors are much more aware now of the importance of membership data. And that's as a result of things they've had to do, actions that they have had to make happen with the pension scheme, such as GMP activity and dashboards now.

Around 15 years ago, The Pensions Regulator (TPR) introduced the concept of common data – of testing data and reporting on that data. So we can thank TPR for bringing this to the fore, but there is a bit more to do.

Anybody who wants to learn more about pensions data should go to the Pensions Administration Standards Association's website, which has some good information about data.

I know you – rightly – see the pension scheme member as being at the heart of pensions, but would you say that's always the same for trustees and scheme administrators? Are they always doing all they can to improve the lot of the member?
More can be done, definitely. If you think about how the average member of the public interacts with their money, there is a lot of financial stuff that people can do online in real time. However, that doesn't really yet work for the pensions industry generally.

If we want members to engage properly, what we in the industry need to do is make the online experience enjoyable. That means giving them a website they can get to, to see what's going on, and deliver information there that they can understand. We do not have this yet and dashboards aren't the only way of achieving this.

There are ongoing projects, such as dashboards, GMPs and de-risking, with an awful lot of commonalities between them with regards to what the data needs to do. So I suggest trustees and their administrators look at their data from every possible angle and get a sense of what all the data is really about. If we don't have the right data we can't pay the right people the right pension at the right time. It's as simple as that.

What about efforts to increase support to members? For instance, despite the recent reset, the pensions dashboards are expected to make a big difference to member engagement once they launch. What are your thoughts on how ready the industry is for this?
The truth is we are not ready yet. The reset is a blessing in disguise for many schemes. And whatever that reset is, however long it lasts, we should be treating that as contingency. This is extra time; it doesn't mean delay what you were doing, it means to use this time wisely.

Many of the 2023 dashboards onboarding group have already made their choice of ISP provider, and many of them have gone on to think much more about the data. What they need is to have data that enables them to comply with what the Pensions Dashboards Programme is requesting.

We work with schemes of all sizes to work out just how ready their data is. We find that there are two issues. One is the identity data, which is what's needed to enable a member of the public to hook up. The other is the values data, the data that is played back to the member to help them understand what their benefits are.

We have found addresses to be the main problem with the clients we have been working with. Addresses are core to the 'find' process in dashboards and whilst there are lots of identity data issues, addresses are really the key and validating them supports the validation of other data such as surnames and dates of birth.

For deferred members in particular, linking the data that they would use to look for their scheme with the data the pension scheme administrator holds is the main issue.

From a pensions values point of view, DC is not too bad but DB is the big challenge because so many administrators and providers do not hold DB updated values in their system. They calculate them as and when needed. But with the dashboards they need to show a benefits amount. A lot of DB schemes are not ready for this and need solutions.

Those schemes that are 2024 stagers need to look and learn from 2023 stagers as there is a lot of experience there.

Dashboards aren't the only thing occupying the minds of trustees and administrators right now, of course. For instance, there's the need to sort out GMPs, which has been around for a while – what tactics do you suggest trustees apply to complete equalisation?
GMPs have been around for 40-plus years and trustees need to get to the end of the rectification and equalisation process. Those that wish to implement a buyout will get there quicker as they will need those GMPs to be sorted. Others will just want to tick it off their list.

They need to tackle it as there may have been people that they have been paying the wrong pension to for 30-plus years. So, I would recommend trustees take as early a view as they can of what their data challenges are.

Data for GMPs breaks down into two sections: Core data and historic data.

Core data is relatively simple things such as dates of birth and gender. Historic data, which you would hope would be complete and accurate on the pensions administration system but that is not always the case, may include salary history and service history for example. It will probably be held by the scheme somewhere, but it may be on paper and not in the system. This is a great opportunity to digitalise that data that isn't in the pensions administration system. There are clever ways to pull out the data from these scanned images and to bring the data together.

In parallel with that, trustees can then start to understand what the challenges are in terms of the population and how many of those may need to have their pension changed.

We have typically thought of GMP equalisation as a 1,2,3,4 step process, but actually, a lot of what is required can be sorted in parallel, so my advice would be to get the data audited and understand what the challenges are, prioritise what issues you need to cleanse as not all the data has to be done all at once. GMPs, along with de-risking projects, allow you to be a bit more pragmatic with your data. The data needs to be very good, but it doesn't have to be perfect.

Looking at the endgame, there's been many reports that suggest this could be a record year for buyouts. What tactics should trustees apply to get themselves ready for buyouts, from a data point of view?
De-risking isn't just about buyouts – there are also pension increase exchanges, longevity swaps and buy-ins, for example. But all of these things need their data to be sorted, up to a point.

Buyout is the big one. Getting key items of the data as near to perfect as you can make it is really important for trustees and sponsors as there are rewards for this. Getting your data right will enable the insurers quoting on the buyout to do an accurate quote and not have to make sweeping assumptions, which is always going to go financially against the trustees. Therefore, many millions of pounds could be saved. So, the return on investment for getting your data right is potentially enormous.

This is an edited write up of the ITM video interview. To view in full, please visit pensionsage.com

Written by Laura Blows

AGM season 2023: what's on the agenda?

Climate change, fair and equal pay, diversity and health are just some of the key issues on the agenda for investors this AGM season. *Pensions Age* asked two key bodies, ShareAction and the Investment Association, for their thoughts

ShareAction»

ShareAction head of financial sector research, Claudia Gray

Every season brings new hope. For gardeners it's the hope of flowers blooming. For football fans it's the hope of success and glory. For ShareAction, the start of the AGM season brings the hope that we can influence the policies of companies and change how their decisions impact on people and planet.

This year's AGM season will be no different. In 2023, ShareAction will be engaged in over 100 AGMs. We will put forward a resolution, ask questions and deliver shareholder letters. This year the scope of our interventions is broader than in any previous year. From questions on the living wage at Tesco and M&S, to a climate motion at Glencore, to demands about health for fast food giants like Pizza Hut and McDonalds.

In one of our newly established areas of work on public health, ShareAction will be addressing the global crisis of diabetes and obesity. After a year of dialogue with some of the world's largest food manufacturers we'll be heading to the AGMs of Nestle, Unilever and Danone where we hope to maintain the pressure on them to be more transparent in their healthy eating disclosures and to get them to improve on the healthiness of their products.

When it comes to fair and equal pay, this year we'll be following up our interventions at the AGMs of Aviva and Barclays by asking them to publish the pay gap of their employees by ethnicity.

We'll also be supporting minority workers in the low-pay sector who are attending the AGMs of Dominos and Wagamama's. They will ask about ethnicity pay disparity disclosure as a step toward developing solutions for racial inequality in the workplace.

For ShareAction, the AGM season is not the start of our engagement with companies but the culmination of months and often years of conversation and negotiations. Rarely will we attend an AGM without first having tried to open channels of communication. Our campaign approach has always been about engagement first; only if that fails or is rejected will we go down the route of AGM resolutions. Our philosophy has, and will always be, less heat and more light.

This approach has delivered real and tangible results. Last year, after two years of engagement with Sainsbury's, the supermarket chain agreed to pay its direct employees in London the living wage. That means today an estimated 19,000 employees have seen their wages rise at the time of one of the worst cost-of-living crises in nearly 100 years.

In 2022, Harvard University research found that one in five deaths globally were the result of fossil-fuel pollution. The dirtiest and deadliest of those fuels is coal. In 2021 after a period of negotiation with HSBC, the bank agreed to phase out its coal investment. For the millions of people whose lives are blighted by coal pollution, this will be a palpable and lasting improvement in the quality of their lives.

Every year 10s of millions of people in the UK, either directly or indirectly, hand over responsibility for their financial wellbeing to banks, pension providers and asset managers. All of them place their trust in their providers to increase the value of their investments. Increasingly these investors are asking for something else. More and more are demanding a moral and ethical purpose to their investments. People are no longer willing to accept that a good return comes at a cost to our society and our planet.

At ShareAction we seek to demystify the often opaque and complicated nature of finance showing how the power of investment, harnessed for the good of people and planet, can make a profound difference. Our role is to help build a financial system that serves both people and planet.

THE
INVESTMENT
ASSOCIATION

Investment Association director for stewardship, risk and tax, Andrew Ninian

With the AGM season poised to launch, investors are considering the performance and strategy of the companies they invest in to provide the best long-term returns for their institutional clients. The AGM season is one of the most visible outcomes of investment managers' year-round stewardship activities, and the culmination of long-standing engagement between investors, pension funds and investee companies. With investment managers owning one-third of FTSE-listed companies on behalf of their clients, these are relationships which have spanned many years, with engagement taking place across the year.

The AGM season does, however, bring the priorities into sharper focus. Climate change is the most pressing global issue affecting the future of the planet and this will be an important topic of discussion between investors, on behalf of pension funds, and companies. With investment managers looking to provide for the financial futures not only of today's pensioners, but those who'll be looking to retire in 30 or 40 years' time, companies need to demonstrate how they've considered and factored in climate change risk. Investors want to see companies reporting against the four pillars of Task Force on Climate-related Financial Disclosures (TCFD) and articulating how they'll achieve the transition to net zero by 2050. These climate pledges need to be operationalised through robust plans on how companies will transition towards a low-carbon economy. Transition plans play a key role in enabling investors to assess the actions companies will take to become net zero, which in turn will inform more sustainable capital allocation decisions.

Similarly, diversity remains key. Investors believe companies should draw their leadership from a variety of backgrounds and ethnicities, as well as achieving strong female representation in the boardroom and senior leadership teams. Different voices bring different perspectives and that's crucial if a business is to stay innovative and forward-thinking over the long term. It is great to see that FTSE 350 companies have met the 40 per cent target for women on boards ahead of the 2025 deadline, yet more needs to be done to ensure that this is met by all companies. Investors will also be looking to see how companies are progressing to meet the FTSE Women Leaders target of 40 per cent female representation in leadership roles by 2025, and the Parker Review targets on ethnic diversity, especially for FTSE 250 companies, which need to appoint at least one minority ethnic director by 2024.

During the AGM season, investors also have the opportunity to scrutinise executive remuneration and audit, with pay resolutions one of the most frequently attracting shareholder dissent. With the cost-of-living crisis continuing to hit UK households, companies need to consider how they pay their top leadership while reflecting the experience of their lowest paid employees, vulnerable customers, suppliers and shareholders. Audit quality has also been a long-standing issue, where investors want to see that auditors have challenged management, where necessary, to provide a robust and accurate report of a company's financial situation.

In addition to setting out shareholders' expectations, the Investment Association has played an important role in keeping track of resolutions that have received a high vote against, through its online Public Register, which launched in 2017, and noting how these companies have responded to shareholders' concerns. On average, around 150 companies per year have appeared on the register, demonstrating that although a sizable minority of companies may need to do more, the majority of companies and shareholders are aligned on their priorities. So, as we enter the AGM season, with ballot papers ready, investors, on behalf of pension scheme clients, will be watching companies' progress closely.

Sustainable Investment Summit 2023 review: Making an impact

Pensions Age looks back on its recent Sustainable Investment Summit, which featured lively discussions about impact investing, the methods in which to invest sustainably, the transition to a sustainable future, and more

Having gathered at the beautiful Waldorf Hilton hotel in London, the Sustainable Investment Summit chair, Richard Howitt, a strategic adviser on corporate responsibility and sustainability, business and human rights, kick-started the day with some lively audience participation debating the challenges and trends currently dominating sustainable investing.

With the audience energised, the first presentation began with TCW's ESG research – securitised and structured products, Malea Figgins, speaking. She explored the growing ESG opportunities in the securitised market, explaining that ESG factors and ESG risk are an important and inherent aspect of bottom-up credit analysis, and that the collateral-based nature of securitised products allows investors to target the underlying green, social and sustainable qualities of the physical assets and loans.

Figgins highlighted three different ways investors can source these opportunities.

One way is via ESG-labelled (i.e. green, social, sustainable) bonds, which only make up $200 billion of the overall securitised market, which is under 2 per cent, "so there is still a lot of room to grow", Figgins stated.

"Not all labelled bonds are created equal," she added. "Not all ESG bonds are created equal. So, we are starting to build that spectrum of higher-quality and lower-quality labelled bonds. So for something like our ESG securitised mutual, we are only looking for that high quality; we do not want to buy any labelled bonds that could be seen as greenwashing."

Figgins moved on to describe unlabelled green bonds, where TCW has identified green collateral across different securitised sectors that do not have a label but where the majority of the collateral reflect green assets. She highlighted that there are no frameworks or second-party opinions for these funds, but that they "still have credentials". These may include older bonds before ESG accreditation occurred, she suggested.

The third bucket of bonds are those that match TCW criteria for traditional mortgage-backed security pools with strong social and sustainable characteristics, in order to focus on the most affordable pools of assets within the broader US Government Sponsored Enterprises-lending landscape.

Figgins also discussed the critical engagement opportunities in securitised assets, which range from helping the market expand and evolve by working with issuers to promote best practice standards, to actively engaging with key stakeholders and industry groups, and pushing for better quality and access to data.

"We want to set the bar high but not so high that it can't be reached, Figgins said. "It's a collaboration – keeping securitised assets within the conversation."

Next up and exploring the challenge of transitioning to a sustainable future, was Pictet Asset Management senior client portfolio manager, Adam Johnson.

He highlighted in his speech how a successful transition to a sustainable world is not just about climate, but requires a holistic approach, balancing economic, societal and environmental concerns. Looking holistically across Sustainable Development Goals (SDGs) are the best framework for this, he suggested.

"A lot of investors like to place things into 'good' or 'bad' but the reality is much more complex than that," Johnson stated.

He gave the example of Neste, an oil provider that is now the biggest provider of biodiesel – "the company's earnings have grown increasingly due to their exposure to renewables and in fact, its exposure to oil has reduced".

To drive change to a sustainable future, "we believe engagement is needed", Johnson said, continuing: "We look for companies that are on a positive journey; companies that are improvers, which we get the most excited about, and then also the opportunity companies. These are quality companies that are medium or lowly aligned to SDGs but we think are well-placed to transition.

"Does the company have the potential and willingness to change and will it make money? Any company can change so you have to look into it more than that – the transition has to make sense for all stakeholders."

Taking a fresh look was also the theme for World Gold Council (WGC) director, market relations and climate change lead, John Mulligan, who addressed many of the perceptions and misconceptions regarding gold's credentials as a responsible and sustainable asset.

For instance, while gold is a mined product, the host countries often say that the mining process also provides them with value. Mulligan highlighted WGC's research over 20 years, which saw that, of the money spent by gold miners in the host countries, 60-80 per cent of the value stayed in the host country, "which can be crucial for these countries' economies". Ninety-five per cent of the employees for gold mining are from the host countries, he added, creating high-income jobs across the board.

While gold itself is carbon-neutral, mining it is energy intensive. However, "the story is one of electricity", Mulligan

said. "Often, there is no energy system where gold mining occurs, so if its energy sources for powering its operations change, that can have a great impact on the energy of the local communities."

Gold may not be as critical a mineral as, say, copper or nickel in the transition to a sustainable economy, but "we need something to make renewable energy economically viable in these countries, which gold does, so gold may not be as critical as an object but it is critical in driving change for these countries", Mulligan explained.

A case study was then showcased to the audience, as the National Trust investment committee member, stewardship lead, Alice Bordini Staden, revealed its approach to sustainability in the endowment.

Staden explained how the trust is working towards its 2030 decarbonisation ambition, which is "not an easy target for the land we have", which includes farms featuring methane-producing livestock and old, stately homes, "that are hard to decarbonise". However, "engagement is the cornerstone" of facing this challenge, she said.

Continuing the focus on action was WHEB Asset Management managing partner, George Latham, who described impact investing as a strategic, active decision.

"Our starting point as investors is that we are looking to align our clients' capital with companies that are actively enabling that transition *[to a zero carbon and sustainable economy]* to happen and therefore are benefiting from that transition as it comes through," Latham explained.

Taking this approach requires a "long-term macro view of what we think will be coming in the economy over the next 60 years", Latham said.

"We are investors rather than traders, so it is a long, labour-intensive process. Our average turnover is five to seven years. You cannot take advantage of long-term trends while being a short-term trader," he added.

According to Latham, WHEB invests in companies that provide solutions to sustainability challenges. This results in it investing in 15 per cent of the global market, "but via a range of end markets and themes that have diversifying characteristics within our investments".

ESG has a role in finding these companies. However, "ESG is normally about how a business is operating, not what the business does. ESG is useful for helping us find well-run businesses. It's a means to an end for us rather than the end itself," Latham said.

Settling down for a fireside chat with the chair was BlackRock managing director, head of sustainable client solutions, Ewa Jackson.

In the discussion, Jackson highlighted two key future themes: Reporting and transparency, and investing in outcomes-based orientated solutions.

TCFD will also continue to be an area of focus, she predicted, with efforts to increase the coverage of TCFD reporting data in public and private markets.

Discussing BlackRock's role as a fiduciary for its clients, Jackson explained that, in Europe, the vast majority of its clients have sustainability objectives that may vary across clients, but that decarbonisation is a common theme amongst them and the shift to real-world outcomes from their investments – however what this looks like varies across

Sponsored by:

the sectors and product types.

She gave the example of BlackRock's work with a UK retirement provider that wanted to incorporate its corporate social responsibility into its investment proposition, which included BlackRock helping the provider decarbonise.

Voting on behalf of its clients was also discussed by Jackson, who noted that "they want to take their own choice with regards to voting, so have tools to help them do that".

"Expanding that choice for our clients and eligible assets is a key area of focus for us," she added. "Expanding the tool kit we have via improving data, analytics and tools to create robust processes is important to us."

First up after the lunch break was Impact Investing Institute, policy and strategy director and joint interim chief executive, Bella Landymore.

She outlined how impact investing fits into the sustainable investment landscape, its relevance and what it can look like in practice.

Landymore stressed the importance of intentionality, establishing what the change is that you want to see occur. "Impact intentionality needs to be the goal that you are measuring against and accountable for," she stated.

Carbon recording can be difficult but not impossible, Landymore said, adding that it's fine to use qualitative and quantitative data. "It can feel hard at the time, but if you break it down and measure, you are on the right track."

Landymore also busted the myths that impact investing does not make a financial return and that this type of investing can only be achieved in the private markets.

She also highlighted the importance of a 'just transition', where a "focus on carbon emissions is not enough; you have to think about the people, and the social and community factors of this change".

"There are societal and regulatory tailwinds behind us," Landymore concluded. "ESG does not have a definition or accountability but impact investing does. It brings a rigour to your ESG approach."

Following Landymore was Glennmont Partners partner, Scott Lawrence, who explored how green energy credit can help finance the European energy transition.

Lawrence highlighted the 'energy trilemma' – the three issues of energy affordability, its scarcity and increasing sustainability.

As the energy market is much more volatile following Covid-19 and the Ukraine War, and prices much higher, Lawrence noted that the renewable energy rate is also much higher than in the past.

He stated that growth in energy supply to 2030 will be dominated by renewables, and that there will be circa 10x more renewables to be built globally than fossil fuels by 2030.

However, "most people do not realise that *[renewables]* are cheaper than other energy sources; there's only the issue of energy supply and storage", he said.

This lends itself to credit investors as, for example, infrastructure loans debt has exhibited lower default rates, lower ratings volatility, and higher recovery rates than non-financial corporate debt, Lawrence explained, adding that the infrastructure need in Europe going forward is €5 trillion.

The final session of the day came from ShareAction director of corporate engagement and deputy CEO, Simon Rawson. He gave an overview from ShareAction's 2023 assessment of the policies and practices of 77 of the world's largest asset managers across a range of environmental and social themes.

Not one achieved AAA status, he revealed, "but European asset managers achieved higher grades compared to their North American and Asia Pacific peers". Just four asset managers received an AA or A grade for their approach to responsible investment, while 35 per cent of assessed managers received a D or E grade, "which account for half of assets". However, five managers had improved by more than 30 places.

When considering stewardship tools, Rawson noted that "managers tend to shy away from tactics that bring the most attention, such as open letters. We feel they can be underused".

However, he highlighted that three times as many managers now have board-level reporting for responsible investing policies, and 80 per cent now have voting in place for climate and social issues, but not many have so for biodiversity issues.

Ending with words of advice, Rawson warned that "labels do not mean your managers are doing enough with responsible investing".

"We would ask you to do your due diligence, such as comparing ShareAction rankings. You also need regular reporting. You need qualitative and quantitative assessments and for these to be embedded into mandates," he added.

With that call to action, and plenty to think about from throughout the day, the 2023 Sustainable Investment Summit ended with much more to discuss.

Written by Laura Blows

To the rescue?

Summary
- The focus on social considerations has broadened in recent years, with growing scrutiny on corporate social responsibility as a result of the pandemic and cost-of-living crisis.
- Certain investments present an opportunity to support the government's growth agenda, as well as create a positive social impact, such as social housing and health. Yet barriers remain.
- Progress is underway, with a Taskforce on Social Factors recently launched to create guidance for pension scheme trustees and managers, alongside a number of emerging new investment vehicles.

Sophie Smith takes a closer look at industry efforts to manage social investment factors, and how this could tie in with recent calls for pension schemes to invest more in the UK economy

Social considerations have seemingly suffered from middle syndrome child within the realm of environmental, social and governance (ESG) factors. Yet, Van Lanschot Kempen head of client advice, Arif Saad, says that sustainability and ESG has taken a wider lens in recent years, revealing that the firm has seen an increase from clients on questions and concerns on social factors, a trend that is expected to continue.

And it is not only the ESG lens that has widened, as Pensions and Lifetime Savings Association (PLSA) deputy director of policy, Joe Dabrowski, says the way that pension schemes have thought about social factors themselves has also evolved.

"The primary focus used to be on general business conduct," he says. "That has evolved over time, and while it still includes lots of those supply chain issues and modern slavery issues, it also includes the wider systemic risks, so things around product development, water supply issues, housing supply issues, and other things."

But this has also prompted increased concern for pension schemes, as the Department for Work and Pensions' (DWP) 2021 call for evidence revealed that institutional investors are concerned about the potential material risks posed by modern slavery in particular.

Progress is being made though, as, following the 2021 consultation on social considerations, a Taskforce on Social Factors has been established, with support from the DWP.

Aegon head of responsible investment, and member of the taskforce, Hilkka Komulainen, says that the taskforce will help to "demystify" the 'S' and highlight the materiality of considering risks and impacts related to people in pensions investments.

"Despite the relevance of social issues and particularly responsible business conduct to long-term business success, there has been less focus on social factors compared to environment and climate change, and we still have low levels of awareness of the materiality of social factors in investment performance," she says.

Two birds, one stone?

The growing focus on social considerations has not been the only recent investment trend, as mentions of social impact have increasingly appeared alongside calls for UK pension money to better support the UK economy.

Former Pensions Minister, Ros Altmann, for instance, recently called on the government to require pension schemes in the UK to support various areas of UK growth, including infrastructure and social housing, to deliver "better outcomes for pensions and the economy", with similar calls to 'unlock' UK pension assets to drive economic growth also made by the Capital Markets Industry Taskforce (CMIT).

Recent research from Alpha Real Capital also found that 98 per cent of UK Local Government Pension Scheme (LGPS) fund professionals believe that an allocation to social infrastructure supports levelling up.

However, Hymans Robertson senior investment consultant, Iain Campbell, warns that whilst the aim of investing in a manner that supports the UK economy is intended to be beneficial to society, as with all investments, there are risks.

"Here the risk isn't simply financial for the investor but also for wider society; for example if the investment had significant social purpose such as an important piece of social infrastructure," he says. "A prime example are investments in social housing projects that are not properly run. Here, pension schemes need to be very careful to partner with reputable and knowledgeable investment managers who understand and manage these risks on your behalf."

Adding to this, Franklin Templeton head of UK institutional, Dean Heaney, says that, in evaluating social risks associated with the fund investments, schemes also specifically need to consider how the beneficiaries are impacted.

"This may vary case by case, but some will be consistent such as employee welfare and human capital management topics, for instance, employee protection and freedom of association," he says. "Managers have the ability through the use of the scheme's ownership rights to influence corporate behaviour, hence can maintain loyalty to their beneficiaries by recognising their ability to act on these risks and provide opportunity through addressing them."

"Despite the relevance of social issues and particularly responsible business conduct to long-term business success… we still have low levels of awareness of the materiality of social factors in investment performance"

Despite the risks, Campbell agrees that there are also plenty of opportunities that pension schemes can take advantage of to bring positive social impact with their investments, with social housing again a prime example.

"Similarly, we are seeing growth in demand for social infrastructure projects," he says. "These aim to address social issues such as decarbonisation, health and education, digital inclusion and waste solutions; filling gaps previously addressed by government spending."

And whilst Campbell notes that tilting capital allocation towards investments that support the UK economy can lead to potential issues, such as a lack of diversification opportunities and limiting investment opportunities to a smaller subset, this does not necessarily have to be the case.

"There are plenty of examples of investments of this type made by pension schemes already, particularly LGPS funds, that have been extremely successful from both a risk/return perspective but also the positive impact it has had on the UK economy and society," he says. "Careful thought is required when investing in this manner, however, if done correctly, there are opportunities out there that help to meet both fiduciary duty and any requirements for supporting the UK economy."

Keeping it local

And LGPS fund professionals do expect an increased focus in this area, as Alpha Real Capital's research found that 87 per cent believe the funds they help to manage will increase their focus on generating a positive social impact from their investments.

However, Alpha Real Capital's survey also identified a number of barriers around investing in social infrastructure, with knowledge of the investment and impact characteristics as the biggest barrier, followed by availability of market opportunities, and restricted illiquidity budget.

And whilst the government has announced plans to "lead by example" by pursuing accelerated transfer of the £364 billion LGPS assets into pools to support increased investment in innovative companies and other productive assets, some industry experts are not convinced about the impact it may have.

In particular, the government announced that it is looking to consult on proposed requirements for LGPS funds to transfer all listed assets into their pools by March 2025, with a further consultation expected on requiring LGPS funds to consider investment opportunities in illiquid assets, such as venture and growth capital.

Doing well or doing good?

However, Dabrowski says that there is already a lot of inward investment within the LGPS, suggesting that the requirements "may not result in much change".

Furthermore, Campbell clarifies that the potential required pooling of listed assets by 2025 does not necessarily have a huge impact on social investment, as most social investments are made through illiquid assets.

Broader changes could be down the line, however, as the Chancellor hinted at plans to announce further DC measures in the Autumn Budget.

And behind-the-scenes discussions are underway, as HM Treasury also recently confirmed that the Chancellor held a roundtable with representatives of the UK pensions industry to discuss the scope for "greater industry-led investment into cutting-edge companies across the United Kingdom".

Yet while industry experts are keen for the government to further address the barriers facing investment in some social opportunities, many remain wary of any compulsion.

Hymans Robertson, head of DC investment, Callum Stewart, for instance, says that to maximise the potential for competition,which can drive improvements in outcomes, it will be necessary to support a diverse and well-functioning market.

Given this, he cautions against over-regulation to require specific investments, warning that this could constrain market thinking and lead to unintended consequences, such as a compromise on quality.

"We absolutely would not agree with any form of mandating," agrees Dabrowski, also raising broader concerns around the division between investing in the UK and investing for social impact.

Indeed, Dabrowski points out that while many of the recent opportunities talked about for future growth, such as the Treasury's proposals for a Long-term Investment For Technology and Science initiative, may have a "tangential social element", it isn't necessarily investing in a social way.

"I think *[investing in the UK economy and growth]* are not necessarily the same things as trying to invest for impact or investing with a social focus. Those things cross over, but it gets difficult blurring them all together, so it's important for schemes to distinguish between these and be really clear about what outcome they are trying to be achieved and how that fits with their investments," he says.

The work of the taskforce could help provide clarification in this area, however, with efforts to identify reliable data sources particularly expected to help trustees and wider industry manage the social risks and opportunities that may arise when investing in the UK economy.

"While there is data already available across a spectrum of social issues, the metrics used are not standardised, and there are challenges with quantifying and modelling systemic risks that are economy wide," Komulainen says. "The taskforce seeks to support and empower trustees and pension schemes to ensure material social factors are identified, assessed and managed in pension portfolios, contributing to better pensions stewardship on topics related to people."

Increasing transparency will also be key to social investing efforts more broadly, as Heaney argues that investors need to ensure that the underlying manager has the trust and ability to implement an effective fund management strategy that meets the beneficiaries' goals.

Written by Sophie Smith

Long-Term Asset Funds

The emergence of Long-Term Asset Funds (LTAF) could potentially play a role in addressing both the investing for UK growth, and investing for social good, trends, with the Financial Conduct Authority recently granting Schroders permission to launch the first LTAF.

People's Partnership director of policy, Phil Brown, highlights the approval of the first LTAF as demonstration that the government's policy to encourage greater investment in illiquid assets is "already delivering and should be given time to work".

Schroders has since announced the launch of an LTAF designed to help UK pension scheme investors support the net-zero transition. Despite the initial focus on net zero, one of the four key themes for the strategy is around social vulnerabilities.

LTAFs could play a key role in taking advantage of social opportunities more broadly, as Franklin Templeton head of UK institutional, Dean Heaney, says that LTAF's are a "powerful product that can support greater democracy in the capital markets in a number of ways".

"These long-term investment vehicles allow the savings of plan participants to access new types of investments (for example social infrastructure investments, such as affordable housing), and for their capital to be deployed into areas that may have significant impact on addressing societal challenges, given the role private assets can play in moving quickly and directly to effect change," he continues. "The diversity of investment this offers allows participants to maximise their financial wellbeing and access opportunities previously only available to large institutions."

However, Heaney stresses the need for the end investor to be aware of the different linkages and role private markets play in the wider capital markets system.

"Primary and secondary capital markets operate and effect change on social issues in fundamentally different ways," he explains. "Investors should be made aware how these investment types operate differently, so that they have the right information to assess whether social considerations are being met. Secondary market investments will be exposed to social risks differently to primary market, and there will be different effective routes to address these risks as a result."

Doing our duty

Following recent calls for the government to require UK pension funds to support UK growth, the Budget announcement to support DC investment into "innovative UK companies" and to encourage LGPS funds to consider investments in illiquid assets, and the FCA granting regulatory approval for the UK's first Long-Term Asset Fund, *Pensions Age* asks: What 'moral or ethical duty' should UK pensions funds have to support UK growth?

Some trustees of UK pension funds (or charity trustees) may personally feel a moral duty to support the UK (good!), and there are very good investment reasons for trustees to invest in the UK. However, the phrase 'moral/ethical duty' in this case is used as justification to force or guilt-trip trustees to invest in a certain way according to someone else's morals and/or vested interests.

If we want more investment in the UK then we should make it attractive to do so – hopefully this is what the UK government is planning for DC. Mandating certain types of investment is a massive red flag to all investors and it will ultimately backfire as investors flow like water to where they are treated better and have more control.

If trustees do feel a moral duty then it should be supported by a strong investment case to ensure that the trustee is acting in line with their primary fiduciary duty to pay members benefits when they are due. Although, it's worth noting that morals can be used as a shortcut to help to guide trustees instinctively to what is a good investment for further financial investigation, and charities should consider how their assets support or detract from their wider mission.

Mandating a certain type of investment will create an entire industry to determine which assets qualify and who is licensed to provide the badges. This new industry will destroy net value in the UK by drawing skilled workers away from more productive uses and enabling top-down resource misallocation by government.

This extra UK investment will provide a temporary boost to the economy. This will be paraded as evidence for the policy working, whilst carefully ignoring the adverse side-effects which will gradually overwhelm and overtake the short-term sugar high. But, by that time, the policy advocates will have moved on, leaving the wider UK population to pick up the tab through poorer living standards, as usual.

We should all take responsibility for our own morals, not have them foisted on us by power-hungry bureaucrats.

Cartwright director of investment consulting, Sam Roberts

I don't think it is a moral or ethical duty for pension funds to be required to invest in the UK, but it does feel like many funds have swung too far to investing on a very globalised basis, with tiny allocations to UK assets. This means they are missing out on some of the great opportunities available to them closer to home, such as the reliable and long-term returns available from investing in building what the country needs to create a better, fairer, greener society – the care homes, retirement communities, affordable housing schemes, and sustainable infrastructure.

Similarly, it means they are missing out on the exciting returns available from backing the UK's entrepreneurs, who have created some of the most forward-thinking businesses with high-growth potential. Currently, when these companies are looking for capital to scale up, they have to look to overseas investors, who then get to reap the benefits from the success of our burgeoning entrepreneurial community.

We would like to see more UK pension funds investing a small part of their capital into these kinds of opportunities, especially in the case of DC schemes, which are typically managing money for relatively young people, who have time horizons measured in the decades before they will need to draw down their pension.

Often, too, the beneficiaries of these pension schemes want their money to be put to work in the UK, to do some good for the UK economy while also generating financial returns that will build up their pension pot. They might be shocked to find out just how little of it is invested domestically at present.

Octopus Group co-founder, Chris Hulatt

The notion of a moral or ethical 'duty' on UK pension schemes to support UK growth makes me distinctly queasy. These schemes must, by law, invest to achieve the best outcomes – looking at the broadest range of opportunities, without fear or favour. This does not exclude UK opportunities, but it does mean assessing their merits against global options and for DC schemes in particular, answering the question 'which investment strategy will deliver to our savers the best risk-adjusted return over the long term'.

We are delighted to see more vehicles opening up for investment in innovation, and in asset classes that have traditionally been tricky for some schemes to access – but introducing a moral or ethical duty is a bridge that should remain uncrossed, to pardon the infrastructure pun.

Mercer UK wealth strategy leader, Tess Page

People need to be fairly clear about what it means to 'support the UK economy'.

You can make UK pensioners better off by investing globally to achieve higher overall returns. A few of those pensioners might move to Spain but most will spend the extra income on UK products and services, supporting the UK economy. It's just a delayed effect and that isn't always politically very popular.

There are examples of explicit policies bearing fruit quickly through jobs as well as supply chain benefits. But these need to be carefully targeted and managed. The Chinese have been very good at it in key industries like electric vehicles.

More broadly, compulsory local investment can be a mixed bag. With easier access to finance, good innovation will be encouraged but many more 'chancers' and unworkable businesses will line up for handouts, which ultimately does nothing for the economy. There are many examples of this around the world. South Africa is a useful case study. It had a form of 'compulsory investment' for pension funds, requiring them to hold South African government bonds. However, there is little evidence that this boosted either domestic innovation or infrastructure spend, in fact the state of infrastructure is worsening not improving.

So those calling for UK pensions to focus on UK investment, might want to be careful to spell out what they are really looking for.

RisCura investment consultant, Lars Hagenah

It's long been the ambition of the government to utilise the vast assets of UK pension schemes to stimulate economic growth. Indeed, in 2011 the biggest defined benefit schemes were targeted to fund major domestic infrastructure projects, while in 2015 the rationale for creating today's LGPS pools was in part similarly motivated. Neither initiative took off, not least given a reluctance to assume the construction risk inherent in greenfield projects.

While today the idea of smoothing the path to enable DC funds to capture illiquidity premia over their long time horizons is to be welcomed (ditto the suggestion that LGPS funds increase their allocation to local levelling up initiatives), then as now there are three main barriers to fulfilling this vision.

The first is fiduciary duty. When investing pension scheme assets, pension fiduciaries must act in the best financial interests of their scheme's beneficiaries, setting aside their own moral and ethical principles. That is, the investment must stand up on its own merits in financial and increasingly in sustainability terms. After all, these assets must ultimately pay pensions.

The second is governance. That is, whether pension fiduciaries have the time and expertise to apply the requisite due diligence and oversight demanded by more complex investments. Some do but most don't. Given this, investment in venture capital, for example, is a no, no for most pension schemes.

Closely linked to this is ensuring the provision of appropriate investment vehicles that facilitate investment in complex assets, while keeping value for money front of mind. While LTAFs are a step forward, they're no panacea. So, if government is to successfully secure pension fund investment to stimulate growth, it must be mindful of all three pre-requisites before setting out its plans.

Columbia Threadneedle Investments head of pensions and investment education, Chris Wagstaff

Providing the right infrastructure

Sandra Haurant looks at the opportunities for pension funds to invest in infrastructure

Summary
• Infrastructure as an asset class encompasses a wide number of sectors, from transport links to renewable energy.
• Pensions schemes are frequently well-suited to infrastructure, which tends to involve long-term investment.
• The past few years have had an impact on the asset class, but some crises can only be solved through infrastructure changes – creating, by necessity, new opportunities.
• Some projects – notably in the field of renewables – are being brought forward as a result of the need to create self-sufficient energy sources (and avoid the need for Russian gas).
• While some schemes are well-placed to invest in these long-term, and urgent, projects, this depends on the life stage of the scheme; those closer to buyout may be keener on assets offering greater liquidity.

"The UK needs investment in infrastructure, particularly in projects that have a direct impact on how we live and work," said Legal & General Group chief executive, Nigel Wilson, in the firms' 2020 report, *The Power of Pensions*. "These investments are key to the long-term competitiveness of the UK economy." Indeed, L&G's predictions suggested that a £1 trillion infrastructure funding gap would open up in the UK between 2020 and 2030; a gap which, Wilson argued, pensions could well help to fill.

The world of infrastructure is a wide one – in effect, the term encompasses all those areas that provide and make up the essential framework that keeps a country working. According to L&G, the UK's own infrastructure priorities, for example, include retrofitting "over 20 million old homes to deliver significant reductions in energy consumption", building three million new energy-efficient homes, transforming public and private transport to become electric and green, with "vastly reduced diesel and petrol-powered cars and buses," while affordable housing, renewable energy, improved regional transport networks, and digital infrastructure all also require urgent attention and, most importantly, funding.

Broad appeal

That infrastructure needs proper funding is a certainty. But to put it bluntly, when it comes to investing, what's in it for pensions? According to BlackRock head of UK LGPS and BlackRock Alternatives Specialists UK, Alexander Orr, a number of elements make the fit a good one.

"The long-term investment horizon of pension funds, and other institutional investors, makes them well-suited to make investments in less liquid, long-term assets such as infrastructure," Orr says.

"Whilst the specific anticipated benefits of investing into infrastructure will vary depending on the approach taken – greenfield vs. brownfield, local vs. global, diversified vs. sector specific – the most common reasons we see pension funds allocating to infrastructure are for portfolio diversification, inflation linkage, long-term stable cash flows, return enhancement and explicit ESG impact."

Indeed, adds Schroders Greencoat managing partner, Richard Nourse, today's shifting economic environment provides more reasons for an interest in infrastructure. "Pension funds have long-term liabilities linked to inflation. Many of them now increasingly mature," says Nourse: "Infrastructure – especially renewables – provides secure income, often with direct inflation linkage, at a significant premium to investment grade bonds."

And the "explicit ESG impact" Orr refers to holds significant potential. "The right projects deliver tangible environmental and social impact, often at a locally specific level, which is a priority for many asset owners," Nourse says.

Access all areas

Ways into infrastructure investment vary according to the size and scope of a scheme, says PiRho Investment Consulting director, Phil Irvine, who says that schemes are generally: "Either accessing in a bespoke illiquid structure (with long lock-ups) or via a closed-ended, investment trust route."

"Historically, pension schemes – indeed most institutional investors – gained exposure to infrastructure via listed markets (both active and passive strategies) and fixed income investments," Orr adds. "Whilst this remains a popular way to access the asset class, in the past few decades, investors have increasingly favoured investment in private infrastructure, with many investors having a standalone allocation to this type of investment, typically between 5 – 15 per cent."

This comes with its own issues, though, says Orr. "Whilst some of the largest and most sophisticated private infrastructure investors may seek to build a team to directly source, own and operate direct infrastructure investments, this approach does present some challenges."

One of those challenges, he says, is a lack of diversification – brought about simply by the fact that there is a very large single asset size involved. Another is finding the necessary resources for a management task such as this, which requires a sophisticated, specialised, team.

As a result, many pension schemes opt instead for unlisted commingled infrastructure funds. "An investment manager (general partner) aggregates commitments from multiple institutional investors (limited partners). These aggregated commitments are then invested across multiple assets, ensuring the pension schemes gain access to a diversified portfolio of infrastructure assets," explains Orr. "Specifically, the Long-Term Asset Fund *[a new FCA-regulated fund designed specifically to help investment in assets including venture capital, private equity, private debt, real estate and infrastructure]* will provide easier access for UK DC schemes to enter this space, offering attractive long-term net returns and providing better outcomes for members."

Selecting the right managers is essential, says Nourse, and particularly in areas that require an real in-depth understanding of a given sector, such as renewables. "There is no shortage of managers that can price a wind farm or solar project, but much more valuable to investors is market coverage and a finger on the pulse of changing market price indications," he says. "I would advise investors to choose managers that are real specialists and have a deep technological understanding of the assets they are pricing, and how that could change. You want to see a complete dedication to the market, given it is the fastest-growing component of the broader infrastructure sector."

Performance problems?

Few are the sectors that have avoided the turbulence of the past few years, and while underlying core assets have continued to deliver for pensions, says Irvine: "The fact that many of these assets are illiquid has caused issues for schemes during periods of liquidity crisis during the gilts chaos of September/October 2022."

However, argues Nourse, there has been a marked push to speed up certain environmental projects. "The tide has gone out as a result of Covid and increasing energy costs, and some types of infrastructure investments have suffered from this," he says. "In the renewables sector, the invasion of Ukraine led to a new focus on energy security and affordability – both secured by societal investment in renewables. Combined with net-zero plans being rolled out at a national level around the world, we are seeing national timelines for renewables deployment being brought forward substantially – meaning there are a lot of investment opportunities."

On both sides of the Atlantic, says Nourse, renewables are seen as a way of decreasing dependence on Russian gas – clearly a pressing need. "As a result, much of what would have otherwise happened in the mid 2030s is being brought forward to the late 2020s," he says. "That is in addition to significant investment in hydrogen, EV charging networks and other forms of sustainable infrastructure. Already a multi-trillion dollar industry, renewables' contribution to the generation mix is expected to grow by more than $100 billion annually for the next 10 years due to rapid buildout."

Liquidity and life cycles

While infrastructure and pension schemes enjoy a certain symbiosis, the question of pension schemes' own internal structures could arguably prevent certain funds from pouring resources into this asset class. "The good news is that there are still many areas that need substantial investment in infrastructure (electrification of transportation, green energy, etc)," says Irvine. "The bad news is that many pension schemes have moved far closer to buyout over recent years, and insurers wish to take liquid assets such as gilts and cash, rather than private, illiquid assets."

Still, Nourse remains positive about the future of infrastructure for pensions, particularly in light of the ongoing green energy revolution: "Globally speaking, renewable generation is already a multi-trillion-dollar investment opportunity and is predicted to grow by more than $100 billion annually in the next decade," he says. "The US and Europe seem to have begun competing for green investment, which is a brilliant catalyst for the sector. We're hugely optimistic about the future and believe that renewable energy generation represents one of the fastest growing and most exciting aspects of both the infrastructure universe and the sustainability transition."

But even if opportunities abound, different schemes are at different life stages, and as such this is an area that will, by necessity, not have an across the board appeal. Illiquidity may suit the long-term investor, but it's not for everyone – and looking to the future, says Irvine: "The underlying assets will probably do as expected in terms of income generation, but there may be a number of pension schemes looking to exit these investments as they prepare for buyout."

Written by Sandra Haurant, a freelance journalist

Smooth sailing

Jack Gray sits down with MNOPF trustee chair, Rory Murphy, to discuss the scheme's history, the process in deciding to move to a defined contribution master trust, and the recent switch from Ensign to Smart Pension

As the pensions world moves towards the defined contribution (DC) model, many defined benefit (DB) schemes are closing and moving members over to defined contribution sections or master trusts. The Merchant Navy Officers Pension Fund (MNOPF) is no different, and after it closed to defined benefit accrual in March 2016, former active defined benefit members joined the Ensign Retirement Plan. The MNOPF Money Purchase section closed in March 2018 and transferred to Ensign.

Ensign was acquired by Smart Pension in October 2022 and the scheme was closed to future contributions at the end of March 2023, with members moving to the Smart Pension Master Trust. MNOPF trustee chair, Rory Murphy, speaks to *Pensions Age* about the process and decisions made along the way to Smart.

Can you please give a brief history of the MNOPF up to the closure of the money purchase section in 2018?
The MNOPF was launched in 1938 to provide generous DB pensions for ships' officers and their families. Since then, the fund has made a number of changes and improvements, including changes to accrual rates and the implementation of discretionary increases.

The fund was also a pioneer of innovative solutions to minimise risk, maximise investment returns and secure members' long-term benefits. The MNOPF has received numerous industry awards (including three *Pensions Age* awards!) in recognition of our achievements in these fields.

In 2016, with a significant proportion of the scheme's liabilities already de-risked to secure member benefits, the MNOPF closed to future DB accrual, and actively contributing members were automatically enrolled in a money purchase scheme, which sat within the MNOPF but was separate from the defined benefit section.

Active members of the fund were then transferred to Ensign. How was the decision to switch to DC made and why did the fund choose Ensign?
In 2018, these members' benefits were transferred to the Ensign Retirement Plan, a modern DC plan that we designed specifically for the maritime industry. In keeping with our pioneering approach, Ensign was among the first DC master trusts to acquire regulatory approval.

We saw Ensign as offering a number of advantages, both to members and to employers. Not least among these is its governance structure. The trustee board is made up of people with a significant track record in both the pensions and maritime industries. It was also set up as a not-for-profit scheme so, with no shareholders to pay, any profits could be fed back into the scheme.

This also meant we could offer among the lowest management charges of any master trust, whilst minimising red tape for employers. To date, some 60 employers in the maritime industry have signed up.

Thanks in part to its cost efficiency and strong governance, Ensign was also able to offer members flexibility in how they receive their retirement benefits, and a range of easy-to-use tools through an online portal, enabling them to keep up to date with their contribution levels and investment returns, view plan information and documents and use tools to help prepare for retirement.

Ensign was then acquired by Smart Pension. What are the differences between Smart and Ensign for members, and what will remain relatively the same?
For over three years, Ensign has delivered a high-quality, low-cost, flexible pension, with the interests of its members and employers as its key priority. It is rooted in the maritime industry and is run by and for its members and employers.

Throughout those three years, we have looked at ways of enhancing what we can offer to our members – for example, through access to user-friendly online tools, advice at retirement and a support helpline.

At the same time, we were determined to ensure employers could

"In partnering with them *[Smart]*, we've been able not only to retain all the benefits and advantages of the Ensign plan, but to enhance them by reducing costs even further, and providing greater digital efficiency"

rest assured that they were offering a top-quality pension to their employees, but which also successfully manages cost and minimises red tape.

In looking to improve our services, we explored potential partnerships with a range of other organisations, all with a view to going the extra (nautical) mile for our members and employers.

But we were equally committed to retaining a governance structure that maintains the pension's unique grounding in the maritime industry.

Smart Pension stood out for us. They have over a million members and are leaders in the application of technology. That means that, in partnering with them, we've been able not only to retain all the benefits and advantages of the Ensign plan, but to enhance them by reducing costs even further, and providing greater digital efficiency.

Equally importantly, we have been able to retain a strong and accountable governance structure, so that our members and employers continue to decide how best to run their own pension arrangements.

What role did the trade union Nautilus play in the process, from the closure of the fund to DB future accrual to the switch to Smart?
Throughout this process we have engaged closely, both with employers and Nautilus International, and each has played an active and supportive role.

With representatives on the trustee board of MNOPF, Nautilus have been involved at every stage – from inception, through design and exploring options, to implementation and transition.

Active former MNOPF members formally transfer to Smart on 1 April. How has the process been? Have there been any challenges or things that were easier than might be expected?
Perhaps the only surprise was that there were no surprises!

The board was well prepared from the outset, and in our discussions with Smart we were therefore able to go into great detail and ensure we had addressed every aspect.

The importance of this level of preparation, along with Smart's deep experience of on-boarding, meant the transition was seamless, with no surprises and no issues raised – either by employers, members or the regulator.

Written by Jack Gray

LCP powering possibility

Mary Spencer
Partner
Mary.Spencer@lcp.uk.com
+44 (0)20 7432 7749

Norbert Fullerton
Partner
Norbert.Fullerton@lcp.uk.com
+44 (0)20 3824 7450

David Wrigley
Partner
David.Wrigley@lcp.uk.com
+44 (0)1962 873358

Steve Hodder
Partner
Steve.Hodder@lcp.uk.com
+44 (0)1962 672929

Times change, good advice is constant

High inflation, a volatile economy and the gilt crisis have had a seismic effect on pension schemes. Some find themselves closer to their end game, but others have been less fortunate. More than ever, trustees need clear, responsive and nimble advice to navigate their pension scheme journey through these uncertain times.

We use cutting-edge tools, a wide breadth of research and constructive collaboration with investment managers to keep our fingers on the pulse of this ever-changing landscape, providing the advice you need to make sure your scheme is better positioned to weather future storms.

How we can help

With us you will:

- Have confidence you are getting truly independent advice because we have no asset management products
- Feel in control because we explain things clearly in a human way and provide you with real-time analytical insight and data
- Have clarity on what you are trying to achieve and how to get there because we always start by focusing on objectives and strategy

Search... **LCP Investment**

PENSIONSAge

LDI unveiled: *Zuhair Mohammed separates the fact from the fiction following the recent gilt crisis and considers what's next for the future of LDI* **p56**

Taking control: *Although no one has claimed culpability for last year's LDI liquidity crisis, the expectation of tighter regulation in a number of areas is doing its own job of dishing out indirect criticism* **p58**

LDI focus:

Finding its place

LCP partner and head of investment, Zuhair Mohammed

LDI unveiled

Zuhair Mohammed separates the fact from the fiction following the recent gilt crisis and considers what's next for the future of LDI

In the wake of last year's 'mini-budget' in the UK, the gilt market was thrown into a frenzy that lasted for weeks. The Bank of England's intervention to restore stability to markets has prompted a wave of scrutiny and speculation about the role of liability-driven Investments (LDI).

Many defined benefit (DB) pension scheme trustees and investors were left wondering whether LDI was still a viable strategy for reducing interest rate and inflation risks. During a time that bears more than a passing resemblance to the opening of the last century with a pandemic, war and recession and a potential banking crisis looming, market volatility and turbulence seem to be the new normal.

But who should be blamed for the upheaval – LDI fund managers, pension scheme trustees adopting risky strategies, investment consultants or others? As blame is assigned for the upheaval, it's clear that in the eye of the storm, all parties did what they could to protect pension members and corporate sponsors from harm. And, ultimately, most schemes are now better funded. So, what lessons can we learn from the recent market turmoil?

The history of DB liabilities and LDI

For over two decades, DB pension scheme liabilities have been largely priced as government bonds, acting as the reserve currency for those liabilities. Whether that's the right approach, is something that merits its own (lengthy) article. In summary, it centres on the timeframe over which the scheme's health is assessed and what the trustees consider success.

Irrespective of the timeframe over which the pension scheme's health is assessed, if trustees and sponsors ideally want to transfer the liabilities to an insurer, then gilt-based funding is an objective measure. It can be traded with insurers and protects against unscrupulous sponsors walking away from pension scheme obligations. If, alternatively, you want to maximise the chance of all pensions being paid over the long term, on a measure that has a low dependency on the sponsor, then a diverse portfolio of low-risk corporate bonds and hybrid assets with return-seeking and liability hedging characteristics play a much more important role.

Accounting rules and financial economic theories argued that pension liabilities are like bonds. This pushed pension scheme regulation away from expected investment returns towards a bond-based valuation approach for liabilities. Consequently, we should consider risk from the perspective of the gilt-based reserve currency.

LDI takes that gilt-based approach one step further because most pension schemes cannot afford to invest only in government bonds. They minimised their risk, to the gilt-based reserve currency, by adopting leverage in their LDI portfolio and investing the rest of their portfolio in return-seeking assets, such as equities, corporate bonds, property and private market assets. LDI performed well through other periods of market turmoil and volatility, such as the 2008 Global Financial Crisis (GFC), Brexit and Covid.

In the aftermath of the GFC, the low interest rate environment prompted some schemes to gear LDI portfolios and invest in multiple complex illiquid strategies, all in pursuit of the elusive 'illiquidity premium'. This complex approach was marketed as cutting-edge thinking and appealed to some trustees. But, it was financial over-engineering, just in a different way. As an advisory firm that builds transparent portfolios

and generally avoids complexity for the sake of it, these were challenging times as we'd often get feedback from potential clients that other portfolios looked more 'sophisticated'.

Sadly, it's the pension schemes that went into 2022 with highly leveraged portfolios and sometimes with over 30 per cent invested in assets that could not be readily sold. We often caution our pension scheme clients against having high allocations to illiquid assets because, in similar times to the gilt crisis, it reduces the opportunities available to them when they need to act quickly.

LDI 2.0

At the time of writing, we are waiting for further joint guidance from various regulators. This will determine minimum levels of collateral "headroom" that needs to sit inside pooled funds for them to operate robustly.

One of the challenges with the gilt crisis was the size and speed of yield movements. Early indications imply that we should expect a minimum of 300bps of yield headroom (i.e. how much gilt yields can rise before the funds run out of money), with some managers already insisting on something closer to 400bps. This reduces the leverage and increases the portion of assets that pension schemes need to allocate to LDI to achieve a specified hedge ratio. While we strive to mitigate the last market stress, we should be mindful of the potential unintended consequences that could lead to new risks.

If the collateral buffers in pooled LDI funds or bespoke mandates are set too high, they will effectively force some pension schemes to choose between reducing interest rate and inflation protection or reducing their return targets. This places more costs on the sponsor or forces trustees to adopt a more bar-belled asset strategy: Lots of money in the LDI portfolio, coupled with a smaller but riskier growth portfolio.

What are we advising trustees and schemes to do?

Clients frequently ask us what the key takeaways should be from last year's gilt crisis. Fundamentally the market wasn't built for movements so swift and big as what we experienced.

The one in 20 risk keeps happening more often than the one in 20! Thoughtfully prepared risk models simply cannot identify every source of risk. Take the latest banking 'crises' – who would have thought we could be faced with a second liquidity squeeze within six months, but it's possible.

If you conclude, as we do, that it's not always possible to identify sources of risk, then structure the portfolio to be transparent and avoid over-engineering as it makes the portfolio incredibly vulnerable when similar events occur. To be clear, we use leverage and derivatives in the portfolios we advise, but only to the extent that it is necessary, to achieve the sometimes-competing demands. Given the uncertainties and volatile market conditions that still persist, it's really important that portfolios are resilient and ready for the next surprise around the corner.

We are reminded of the KISS (keep it simple, stupid) saying. By doing exactly that, only very few of our pension clients got forced out of liability hedges. That compares to some other portfolios that we've seen, where clients have suffered a loss of hedge protection.

In the wake of the gilt crisis, The Pensions Regulator recommended ten practical steps for DB scheme trustees and their advisers to follow to ensure that they keep their LDI portfolios resilient. From ensuring governance is robust to requesting an assessment of the liquidity of the assets that the schemes intend to use to make cash requests, these questions are all common-sense and we would encourage trustees to ensure they get the answers.

Where next?

After the gilt crises, most DB pension schemes are better funded. The exception being those that were over-engineered. The well-funded schemes have many more options and are grappling with:

- Surplus management – whether to secure liabilities to an insurer or as some sponsors wish, to use it to fund their DC contributions, where they have a joint DB-DC trust.
- The mortality outlook – consider whether the members' mortality assumptions is appropriately allowed for in insurer pricing. That will determine the best time to transact with an insurer but also affects whether you need to hedge 100 per cent of liability cashflows that were based on previous mortality assumptions.
- Keep an open-mind on end-game options – there are some sponsors who do not like the idea of passing over 'profits' to insurers and would prefer low risk portfolios while they run off their pension schemes over the long term. Under the draft new funding code, there's greater scrutiny on the strength of sponsors' covenants, therefore this has become more important.

Conclusion

LDI may have been mis-used and misunderstood by some but it has its place in helping UK DB pension schemes to be resilient. Many schemes have benefited from improved funding levels, bringing them closer to their end-game scenarios. Debates about how to manage risk better have begun and all market participants continue to play a key role in keeping their eyes on the prize; that is maximising the chances that DB pension members can retire well with the benefits that they have been promised, without making sponsors go bust.

Written by LCP partner and head of investment, Zuhair Mohammed

In association with LCP powering possibility

Summary
• LDI will remain central to how pension schemes manage their portfolios, but extra regulatory oversight seems inevitable.
• All stakeholders could be affected, with trustees having to better scrutinise their third-party providers and vice versa.
• Any major legal fallout seems unlikely at this stage, but claims could still materialise in due course.

Taking control

Although no one has claimed culpability for last year's LDI liquidity crisis, the expectation of tighter regulation in a number of areas is doing its own job of dishing out indirect criticism

Save for a few lone voices, the pensions industry was quick to close ranks following last September's liability-driven investment (LDI) liquidity crisis.

Leading the defence by mid-October was The Pensions Regulator (TPR), with its then-chief executive, Charles Counsell, defending not only his organisation's oversight of LDI, but the very concept itself. At the time he criticised "overblown" media coverage of the crisis, denying that schemes were at risk of collapse due to the change in gilt values. Others, such as prominent LDI player LGIM, were quick to turn the heat back on Liz Truss's ill-fated administration.

Nevertheless, when steps were taken to avoid a swift repeat, most of the industry welcomed them, pulling together in an attempt to reassure scheme members and government ministers.

The initial measures called for higher collateral headroom and were led by the Central Bank of Ireland and the Commission de Surveillance du Secteur Financier in Luxembourg, where LDI pooled funds are domiciled. By the end of November, yield buffers for pooled funds had built up to between 300 and 400 basis points. In the UK, TPR extended the ruling to segregated mandates.

As LCP partner, Dan Mikulskis, stresses, the increased buffers addressed the crux of the matter. "You've got to hold higher buffers against these derivatives," he says, referring to the synthetic leverage that was dubbed 'hidden leverage' by some critics.

To date, the new limits have done their job. "We've been operating in the framework for quite a while now," says Mikulskis. "There has been a lot of rate volatility this year and things have been fine."

Braced for new regulation

The question now is what happens next.

"LDI has worked for pension schemes for over 20 years and has served them – and their members – well," says BlackRock global head of indexed fixed income and LDI, Alex Claringbull. "So while we don't suspect it will be business as usual, and nor should it be, it is our firm belief that LDI will remain central to how pension schemes manage their portfolios."

XPS chief investment officer, Simeon Willis, agrees, saying that the TPR's funding consultation included a very clear requirement for schemes to cashflow match. "That means they need to use some degree of LDI, however you want to define it," he says.

The Bank of England's Financial Policy Committee (FPC) recently recommended TPR specify the minimum levels of resilience for LDI funds, suggesting the size of the yield shock to which LDI funds should be resilient should be, at a minimum, around 250 basis points. In response, TPR confirmed it plans to issue updated guidance on LDI in April.

Towards the end of March, Pensions Minister Laura, Trott, hinted that tighter rules were in the making as there were a number of "deficiencies" in LDI funds.

"The introduction of new regulation in this area is a real possibility," says Norton Rose Fulbright partner, Shane O'Reilly. How that will materialise, however, is unclear. O'Reilly suggests the wide variety of opinions fielded by the Work and Pensions Committee (WPC) on how to proceed could be pose a headache for policymakers. In addition, The House of Lords' Industry and Regulation Committee has advocated for a wholesale regulatory overhaul, while the Government Actuary Department has cautioned against potential over-regulation.

Trustee requirements

It is now expected that any new layers of supervision will take into account the nuances found between pooled and segregated funds, therefore avoiding the danger of creating a sledgehammer to crack a nut.

As Mikulskis explains, although schemes with segregated arrangements were highly levered, they were not the real problem in the crisis. Most held liquid assets that they knew they could sell quickly if the need arose. The pooled mandates run by managers however, had to operate in a straightjacket created by their own restrictive, but necessary, rules.

"The pooled group of funds *[represented]* a small amount of the total volume of hedging, but a big part of the issues," says Mikulskis.

Pooled or segregated, an evolution in manager reporting is likely to emerge. TPR has made it clear that trustees are the first line of defence against LDI leverage risks. But for trustees to be effective in this role, they need access to the right information, at the right time.

"Looking at information that's three months out of date, four times a year, is not good enough," says Mikulskis. "So there has to be an improvement from managers in providing much more frequent, timely, information."

More robust reporting will also help improve education of trustees on all LDI-related matters. "Trustees are expected to cast a much more critical eye on their LDI portfolios," says O'Reilly.

Should trustees end up having to closer scrutinise their managers and advisers, then this will certainly require a ramping up of scheme behaviour inspection. This could involve a requirement to state a scheme's LDI policy and a need to demonstrate how that policy has been adhered to. "So they give pension schemes freedom to choose their approach, and then they hold them accountable to whatever approach they've chosen," says Willis.

Digging deeper

Advisers may not escape further regulation either, suggests Willis. He would not be surprised if consultants begin being regulated in relation to capital allocation advice. "Some sort of coverage of investment strategy, how you advise on the liquidity of a portfolio – it's pretty likely that these areas will be regulated."

Willis also believes that LDI managers may find themselves having to grapple with raised Know Your Client standards from the FCA. This may involve having to discover what type of assets a scheme has access to beyond those invested in an LDI fund," says Willis. "As a minimum you may need to demonstrate that you've taken adequate steps to check that there is scope for them to top up if needed."

More integration

In Claringbull's view, the long-term response to the crisis will translate into higher collateral buffers, greater pooling of assets and further clarity in governance plans.

"These all contribute towards boosting resilience," he says. "For some this might start raising questions about their investment strategies around LDI. We need learn from our experiences over the past six months to evolve and improve LDI, including a move towards more integrated LDI. This was a trend we were already seeing, but we believe it will accelerate as a result of the autumn market volatility."

These integrated solutions can combine liability hedging with liquidity management and investment in diversified asset classes, which, on paper at least, could deliver new sources of return. "We're currently developing products and solutions that we believe will meet changing client needs for both segregated and pooled clients," reveals Claringbull.

A legal fallout?

Aside from extra supervision, there has been speculation that cases could be brought against investment managers who recommended LDI to clients.

"I am sceptical about this," says Shoosmiths employment partner, Paul Carney. "The problem for those considering bringing a claim is that doing so would need demonstrably to be in the best interests of the beneficiaries of the scheme in question and it appears to me that there would likely be too many defences to such a claim."

"From a broad, basic perspective, it could be demonstrated that the crisis was exacerbated if not actually caused by the government's September 2022 budget therefore; it would be harsh indeed to blame the consequences on an investment manager. In addition, investment managers would be able to point to their advice, in effect, being endorsed by guidance issued by regulatory authorities which actually favoured LDI strategies as a sensible way of managing pension scheme liabilities."

According to Norton Rose Fulbright senior associate, Suzie Kemp, there is some support for potential legal action — whether from trustees against managers and consultants or even aggrieved scheme members and employers against trustees. But lawyers are yet to see concrete evidence of who is accountable for any losses or damage caused by the actions taken as a result of last September's events.

"Claims, if any, will depend on the circumstances of each scheme and be very fact-specific," says Kemp. "They might depend on the contracts in place, investment delegations and instructions, if mandates were followed, and the information available to the advisers at the time. While there may be real obstacles to successful claims, it is certainly possible that the circumstances affecting some schemes might involve criticism of how LDI strategies were implemented.

"As yet, we have not seen significant legal fallout, but this is certainly an area that is being actively observed."

Marek Handzel, a freelance journalist

Summary

- A recent survey found 48 per cent of its respondents using FM felt their investment governance model absolutely provided the necessary support during the LDI liquidity crisis, 52 per cent felt there was room for improvement.
- FMs are currently facing fee pressures, reduced AUM and adapting to pension schemes' changing ESG requirements.
- An increase in FM tenders is expected over the next year.
- Large DB schemes utilising FM services is set to continue, while FMs may also expand their offerings to the sub £100 million market.

One industry, different journeys

Laura Blows looks back on the contrasting experiences within the fiduciary management industry following the 2022 LDI crisis

It was all running along so smoothly for the fiduciary management (FM) market in 2022. Although the more risk-focused FM managers were already assessing their portfolios' liquidity positions as rates started to move up, Secor head of UK distribution, Jason Allan, notes, the market was broadly operating as one.

But then, the mini-Budget and resultant LDI crisis.

"After the crisis, the market diverged, separating out those who could communicate and effect portfolio changes quickly, that is, FMs who have in-house technical expertise and a high staff to client ratio," Allan explains.

The gilts crisis saw a variation in the experience both in how providers implement their strategy and ensure effective communication, Schroders Solutions head of UK client solutions, Ajeet Manjrekar, agrees.

"It demonstrated that with trustees delegating investment decision making, timely and complete communication is crucial to keeping all stakeholders informed," he adds.

Manjrekar highlights how the results of Schroders and PMI's recent survey, *Navigating the key issues facing schemes 2023,* reflect this tale of two halves.

Whilst 48 per cent of the survey's respondents using FM felt their investment governance model absolutely provided the necessary support during the LDI liquidity crisis, 52 per cent felt there was room for improvement.

It is little wonder then that the dust settling from last year's LDI crisis is landing upon a challenging landscape for the fiduciary managers themselves.

Challenges

According to Isio's annual survey, *Latest trends in Fiduciary Management,* published in November 2022, the total number of FM mandates grew 7 per cent compared to 2021.

However, Isio suggested that growth may have peaked as the growth rate remains below pre-2020 levels, while the industry's total assets under management (AUM) fell for the first time since pre-2008 – total AUM decreased 5 per cent to £218 billion in 2022.

"AUM is down for all FMs after last year simply as a result of the impact of hedging strategies and other market movements. That could put some under pressure in terms of profitability but will be a major opportunity for those that can demonstrate their processes and investment styles fared well during the extreme stress test of 2022," Charles Stanley Fiduciary Management senior portfolio manager, Bob Campion, states.

This reduction in AUM may generate potential conflicts of interest, Allan warns.

"The LDI crisis has exposed the

disjointed and fragile operating models of some FM providers. The challenge now will be to appropriately resource risk management, client engagement, and operational capability," he says.

"This is against a backdrop of reduced AUM and many pension schemes now likely one to three years closer to their endgame than before the LDI crisis, albeit with significantly mis-aligned asset allocations and limited portfolio liquidity. Trustees will need to consider how committed their FM provider is to helping them achieve their objectives and reassess potential conflicts of interest."

While the next crisis will no doubt be different to the previous LDI one, ensuring the operational resilience of the FM portfolio will be important, Manjrekar says. Within the pension industry, there is a significant focus on 'true' liquidity at a total portfolio level, particularly where there is a reliance on third-party managers who themselves will demand higher levels of assets to support hedging strategies, he explains.

However, it is not just the LDI crisis creating challenges for the FM market.

For instance, Manjrekar also highlights the importance of FMs adapting to the new regulatory environment, "as clients shift from a focus on return generation to lower returns for longer and meeting pension cashflows", along with integrating ESG and climate risk. "As investors move from a focus on reporting and governance to setting clearer targets, FMs will need to evolve their investment portfolio to better align with their ESG and climate goals of trustees and sponsors," he explains.

According to XPS' report, *Progression of the UK Fiduciary Management Market's Approach to ESG Integration*, published July last year, 83 per cent of FMs now explicitly reference ESG policies in investment policy documents or exclude underlying managers who are assigned the FM's lowest ESG rating.

However, 33 per cent of FMs do not exclude the lowest ESG-rated funds, and 10 per cent of FMs do not have the capability to report their carbon footprint, despite having made commitments as part of the Net Zero Asset Managers Initiative.

A further 17 per cent are also not yet able to provide reporting at a strategy level to support investors specifically with the upcoming Taskforce on Climate-related Financial Disclosures (TCFD) reporting requirements.

Another issue for FMs are fees, which have been compressed over recent years due to factors such as increased competition and the Competition and Markets Authority's (CMA) investment consultancy and fiduciary management market order *[which requires pension trustees to run a tender when selecting a fiduciary manager for more than 20 per cent of their assets]*, Zedra client director, Dan Walsh, notes.

Reviews

As the CMA requires pension schemes to conduct regular reviews of their FMs, and also to do so if there has been a significant change in investment policy, there may be an upcoming surge in FM retenders.

"Post the initial spike tender activity due to the CMA, we expect there to be a much greater level of FM tender activity over the next 12 months as trustees review their governance models," Manjrekar says.

Indeed, the PMI and Schroders' survey results showed that one in 10 respondents will be reviewing their fiduciary manager this year, Manjrekar notes.

Therefore, "we expect a significant uptick in tender activity in the second half of the year", he says, with "the gilts crisis leading to a greater increase in in-depth FM reviews versus general oversight than in recent years".

The PMI/Schroders survey found 28 per cent of respondents were using a third-party evaluator in some way, along with an increase in the number who see value in using a third-party evaluator to oversee a fiduciary manager rising from 27 per cent of respondents in 2022 to 42 per cent in 2023.

"The Schroders/PMI survey results suggested that over 270 UK pension schemes could move from traditional

Fiduciary management and DC schemes

According to Isio's FM survey last year, around 89 per cent of all FM mandates are for DB pension schemes, but as fiduciary managers have diversified their offering in recent years to include defined contribution (DC) schemes, it saw an increase in their presence in this market.

As the DB FM market continues to mature, Goldman Sachs Asset Management managing director of UK fiduciary management business, Ed Francis, is beginning to see the benefits of FM being leveraged in areas beyond DB schemes, including the defined contribution market.

"This is also a phenomenon that is playing out in Dutch pension reform, a four-year complex transition to DC that is leading to pension funds relying on their service providers more," he explains.

According to Schroders Solutions head of UK client solutions, Ajeet Manjrekar, the DC FM market is significantly smaller and whilst the trends are similar [to the DB FM market], there are two key distinctions.

"The shift to DC master trust, particularly from a cost efficiency perspective, has been dominant in recent years and has therefore seen a decrease in trust-based arrangements, whether advisory or fiduciary," he says.

"Where governance of DB schemes and the use of FM continues to be driven by the trustees, the direction of travel for DC is often driven from the corporate perspective coupled with a regulatory focus for consolidation of smaller schemes."

advisory to fiduciary management in 2023," Manjrekar adds.

Campion expects "an increase in FM reviews given the disappointing performance of some managers last year, irrespective of CMA requirements".

Yet on the professional trustee side, Walsh does not expect the number of FM reviews this year to increase compared to 2022.

Clients

One consequence of the reviews, however many there are, could be a different type of pension scheme clientele for FM's services, as changing attitudes are being seen across DB schemes of all sizes.

According to Campion, "very large schemes with in-house teams are reviewing the effectiveness of that approach and considering moves towards an OCIO approach. Smaller schemes are moving towards FM as a result of governance challenges. Mid-sized are caught between the two models but most should be considering either improving their own governance standards or moving towards an FM approach."

In particular, Dalriada Trustees professional trustee, David Fogarty, is seeing more larger schemes outsourcing to fiduciary managers.

"A combination of the increasing competitiveness of the fiduciary management market, the advantage of dealing with a single firm for advice, all of implementation *[being taken care of]* and high-quality reporting are all driving this move. We believe that in order for trustee boards to get the best from fiduciary managers they need significant investment capability and that if that capability is in place, then fiduciary management solutions have the potential to provide better outcomes for schemes at a lower cost point than traditional models," he adds.

Focusing on the large schemes experience, Goldman Sachs Asset Management managing director of UK fiduciary management business, Ed Francis, notes that over the past two years, "we've experienced a once in a generation change in how large pensions schemes are governed. As a result, we are seeing some of the very biggest pension schemes move towards an outsourcing model".

"The LDI crisis has exposed the disjointed and fragile operating models of some FM providers"

He adds that in-house pension investment teams face a number of challenges as the business is structured for the future, including team retention as growth portfolios migrate to liability matching, the day-to-day management and monitoring of the scheme as it moves to being low risk and income focused and the operational risks increase, and the cost of investment in technology for adequate investment and risk analysis.

Walsh gives the examples of Centrica, British Airways and Royal Mail being some of the large schemes that have moved to an OCIO model in recent years and "I would expect that to continue".

However, Isio's report revealed that 18 per cent of all UK DB schemes use some form of FM, and while the number of £1 billion+ pension schemes using FMs has increased, the percentage of the market they represent stayed level.

Most pension schemes are sub £100 million, Walsh notes, *[62 per cent of all mandates by number, versus 54 per cent in 2021, according to Isio's survey],* if not more so now with recent fall in AUM. Therefore, "a number of FMs are looking to develop or enhance their offerings to this market segment that may have been previously overlooked", he adds.

Trustees at larger schemes tended to have better experiences with their FMs during the LDI crisis, Allan says, although there are "some elements of uneasiness stemming from poor communication and challenges driven by underlying LDI mandates".

According to Allan, trustees are asking questions about the resilience of their governance structure and level of operational due diligence undertaken on their behalf. "It is bringing into sharp focus the difference between a volume/platform-based FM and a tailored solution (generally provided by boutique fiduciaries) where there is greater alignment of interest and a genuine partnership between the trustees and FM," he adds.

Future

Looking ahead, Walsh sees a "few areas that could be interesting" for the FM market over the next 12 months and beyond.

For instance, due to the downward pressures on fees, "will FMs look to change their operating model from a basis point model to a fixed fee, or a combination of both", he queries.

Walsh also questions whether there could be further consolidation in the FM market, "or even some firms exiting the market, noting the competitive and fee constrained environment".

Campion does expect to see "more consolidation and more concentration among the better-performing *[FM]* managers".

Francis is also seeing a continued trend in the consolidation of providers, intermediaries and asset owners.

As he says: "In this environment, scale is king, meaning global firms with true scale are likely to be around for the long term."

Written by Laura Blows

Taking the leap in delivering value

Jack Gray discusses the DWP's proposed value for money framework and the key role employers will play in driving VFM for members

Summary

- The DWP and regulators are seeking to drive consolidation and value for money in DC pensions with their new VFM framework.
- There is disagreement in the industry as to whether the proposals in the framework go far enough.
- Concerns about legacy schemes and data points have been raised, with some warning it may be overly complex.
- Employers seem set to play an important role in driving VFM for their workers.

As more people reitre with a solely DC workplace pension, the importance of providing members with value for money (VFM) continues to grow. The Department for Work and Pensions' (DWP) consultation on a VFM framework, which was developed in partnership with The Pensions Regulator (TPR) and Financial Conduct Authority, has proposed key metrics, standards and data disclosures for DC schemes, as well as proposals for the use of this data in comparisons and assessments of VFM. Its aim is to give providers, schemes and employers an extra nudge to take the leap in delivering better value for members.

It will provide a standardised understanding of value through metrics, allowing transparent comparisons between pension schemes and potentially driving competition.

In turn, the government and regulators expect this to increase consolidation in the marketplace, improve DC outcomes and increase employer engagement with pension provider selection. One of the key messages within the proposal is to deliver a more holistic VFM assessment, rather than focusing on cost alone, as

TPT Retirement Solutions DC director, Philip Smith, explains: "At the moment, the assessment process for a lot of employers is quite crude and there is a

bit of a race to the bottom on fees in the market.

"Judgements can be made on a matter of basis points, which may not necessarily be the best decision in the long term. A more holistic approach is to be welcomed."

The framework is expected to be enacted in two stages. Its initial focus will be on defaults in workplace and legacy pension schemes, before extending to self-select options, non-workplace pensions and DC pension in decumulation. "Retail products are out of scope as normally the client is more engaged," notes Vidett director of business development and client director, Kevin Clark.

Meeting expectations

The proposals for the framework have been broadly welcomed by the industry, with a seemingly universal agreement that VFM is an important measure in ensuring that those retiring with a DC pension get good outcomes in retirement. However, there has been some disagreements as to whether the proposals go far enough.

"Our view is that this is thorough enough," states Pensions Management Institute director of policy and external affairs, Tim Middleton. "It doesn't need to go into much more detail than it is. It's got quite a detailed framework. The disclosure procedures are very comprehensive, and we think that it goes far enough. We also agree with the idea that it doesn't make a lot of sense for it to go into some of the more specialist DC schemes."

Clark agrees, commenting that the proposals go far enough and the question now is how they can be implemented in a cost-effective manner, as trustees will then be able to quantify the outcomes of their good governance because they will become more measurable.

However, Standard Life head of workplace proposition, Neil Hugh, argues that the proposals need adjusting in respect of investment performance and costs and charges to make sure they are more meaningful and comparable. "We would also like to see more specifics around how measurement of service metrics will be standardised – currently, different providers measure the time taken over tasks in different ways," he adds.

Working through the details

While the proposed framework has broadly been welcomed, the devil will be in the detail, warns Smith. He notes that there are challenges in the consultation that the industry will have to deal with. One of the key issues raised is the large number of data points that schemes will have to consider: "There are potentially 3,000 data points that schemes might have to wrestle with, which is a lot," he says. "Working through all of that will take some time. Given the level of detail, I think it will be a challenge to get it through before the election."

Hugh echoes this concern, stating that the proposals currently generate too many data points due to the different age cohorts, defaults and employers, and warns that this will result in VFM being harder to analyse and compare across the industry.

> **"We need to think about how we engage employers in this process, because they are likely to be the people who use these VFM assessments"**

"On quality of service, the proposals are aimed at a basic level of service and need to go much further by bringing in engagement activity and digital tools," he continues. "We would also like to see more specifics around how measurement of service metrics will be standardised – currently, different providers measure the time taken over tasks in different ways."

One of the notable absences from the DWP's consultation was integrating ESG and responsible investment practices into the VFM framework. While this is an initial consultation and changes could be made before the implementation of the framework, several industry figures noted that trustees have to abide by responsible investment requirements and it will be interesting to see how this is balanced with the requirements set out in the VFM consultation.

"There had been discussions relating to the defined benefit (DB) sector about pressure for DB schemes to invest in the UK economy in order to help it grow," says Middleton.

"I wonder if that principle may

filter into DC saving at some point. If it does, it is going to be interesting to see how that can be aligned with existing commitments regarding ESG, for example, as well as the more general common-law principle about trustees investing in assets that will best serve their members."

Hugh states that Standard Life would welcome the introduction of ESG and financial wellbeing metrics, as the relationship between responsible investing and good outcomes is becoming more obvious, as is people's ability to determine what they want to achieve with their pensions.

"A forward-looking element will focus on investment design encompassing ESG/Task Force on Climate-related Financial Disclosures," adds Clark.

"Communication services will need further enhancing to provide more access to information as well as access to retirement solutions."

Impact on trustees

One of the commonly occurring topics for discussion whenever a new consultation or policy is unveiled is the potential burden it will place on pension trustees. Trustees have seen swathes of new regulations over the past few years, and any new requirements usually add to their already heavy workload.

"This is something that *[trustees]* will do some initial work on to get the whole thing set up," notes Middleton. "They'll be working closely with their advisers and is one of those things that will be subject to periodic review."

He adds that the new framework calls into question whether the Chair's Statement is needed, if there is a formal commitment for a board to review VFM on a regular basis. If VFM is properly disclosed, and members understand what they are looking at, it will help improve public confidence in the DC sector, according to Middleton.

"If you think about the newer master trusts, a lot of this material will have been done, driven by commercial factors as much as anything else, when the master trusts were established," he continues. "So, there is probably not quite so much work that they have to do."

While the proposals may add some work to trustees' schedules, especially for smaller schemes, Hugh states that trustees and independent governance committees will be empowered to have more challenging conversations about VFM, which will ultimately lead to better outcomes.

Furthermore, if the data provided through VFM assessments identifies poor performers, enhances competition and assists advisers in achieving improved outcomes, trustees and employers will be able to provide bespoke solutions for each client and not herd to one preferred option, according to Clark.

The role of employers

Speaking to *Pensions Age* in last month's magazine, then-TPR CEO, Charles Counsell, expressed the regulator's hope that employers, especially larger ones, would look at the VFM framework and help drive value for their workers' pensions.

Smith argues that the main benefits for members are going to come via the employer.

"One of the things that seems to be missing from the consultation is the role of the employer," he says. "We need to think about how we engage employers in this process, because they are likely to be the people who use these VFM assessments by comparing providers and potentially changing providers if they feel their workplace pension is not providing VFM."

While there are cohorts of employers that spend a lot of time and effort managing their workplace pensions, and have layers of governance over and above the trustee board, there are also employers at the other end of the spectrum who are not interested or do not have the resources, Smith adds.

Hughes agrees on the importance of employers in driving VFM, noting that, in the first phase, the audience will be pension professionals and employers: "The extent to which schemes can demonstrate VFM against the framework will help employers decide on who runs their workplace scheme," he continues. "If their existing provider is not competitive, the employer will have better tools to assess them against and they could choose to move their scheme."

Written by Jack Gray

PENSIONS ASPECTS LIVE

For more information, visit our webpage:
pensions-pmi.org.uk/events

Venue: IET London, Savoy Place

21 June 2023
08:30 - 18:00

Pensions Management Institute
Events

Stephen Timms

Pushing for progress

Sophie Smith chats to Work and Pensions Committee (WPC) chair, Stephen Timms, about the committee's recent inquiries into saving for later life and its new focus on DB savings

The WPC published its report on saving for later life last year – the final of its three-part inquiry on 'protecting pension saving: Five years on from the pension freedoms.' How have you found the government response to the recommendations made by the WPC so far, and what reforms would you still like to see brought forward?

Our report on saving for later life welcomed the success of auto-enrolment (AE) in reversing the decline in workplace pension saving, with participation by eligible workers in the private sector rising by 44 percentage points to 86 per cent between 2012 and 2021. However, we found that there were clear challenges: Many people contributing at the auto-enrolment minimum are not saving enough for an adequate income in retirement and there are too many people not within the scope of AE who would benefit from saving in a pension.

Groups at particular risk of inadequate retirement incomes include women and people who are self-employed. In addition, there is a particular challenge relating to people now in their 50s without access to DB pensions, who have had limited time to build up pension savings through auto-enrolment.

The government has responded positively to some of our recommendations. We welcome the statement by Pensions Minister, Laura Trott MBE MP, saying that she wants to define the gender pensions gap and then monitor and report regularly on the issue. This will, of course, need to be followed by action, but it is an important first step. In other areas – such as self-employed pension saving – we will need to continue to push for progress.

The Department for Work and Pensions (DWP) recently backed a Private Member's Bill looking to extend AE to lower earners and younger workers. The 2017 AE reforms were also highlighted as a key recommendation by the WPC, with concerns around the government's ability to meet the mid 2020's deadline for this previously raised. Given this, do you expect this bill to be a faster approach to delivering on AE reforms, and do you think broader reforms, such as to minimum contributions, are still needed?

The committee found that there was near universal support for implementing the recommendations of the 2017 review of auto-enrolment: To reduce the minimum age from 22 to 18 and ensure contributions are paid from the first pound.

It was therefore disappointing that, despite repeated government statements supporting introducing these changes from the mid-2020s, it had produced no plan to do so. We therefore welcome DWP's recent decision to back a Private Members' Bill that would give the Secretary of State power to make these changes. The Pensions Minister said she wanted to consult on implementation and timing in the autumn *[further details on page 14]*. This is welcome progress, although we still don't know when the changes will be introduced.

Our report was clear that the government must go further to address the challenge of undersaving. New DWP analysis found that 38 per cent of working age people (equivalent to 12.5 million) are under-saving when measured against the Pensions Commission's measure of adequacy (an increase compared to the 12 million DWP estimated in 2017).

Many witnesses argued contributions needed to increase but that the midst of a cost-of-living crisis was not the right time. We heard that there was a good case for starting with employer contributions, which would reduce the risk of employees opting out. As we also said, there is a lot of work to do to make the case for this. Awareness of the extent of under-saving is low among employers and the wider public.

The government also announced a package of DC measures earlier this year that touched on a number of areas previously highlighted by the committee. Are you able to share any thoughts on the impact of these specific measures?

The committee has focused, in particular, on the need to ensure people get the information and guidance they need to navigate their options at retirement, which the Financial Conduct Authority (FCA) told us many consumers describe as a 'minefield'. We were disappointed that the DWP rejected our recommendation for a trial of automatic appointments of Pension Wise. We remain sceptical that the 'stronger nudge' will be effective in making take up of guidance 'the norm'. We will continue to press the DWP and the FCA on what it is doing to evaluate the stronger nudge and its plans to go further if, as we expect, this is needed.

We have also said that pensions dashboards have an important part to play in helping people engage with their pensions. The Pensions Minister recently announced that she had decided to reset the timetable and develop a new plan for delivery. It is clearly important to get this right but also to maintain momentum, so that dashboards can play their part in helping people save for an adequate income in retirement. I look forward to hearing more before the summer recess, as promised.

The committee has recently shifted focus away from DC with the launch of a new inquiry into DB pension schemes. What in particular is the committee hoping to look at within this, and will this be a single part inquiry, or can the industry expect further focus areas, as seen during the saving for later life inquiry?

We have just announced an inquiry on the future of DB pension schemes. We will be looking at whether the right regulatory framework is in place to enable open DB schemes to thrive. We also want to explore opportunities and challenges posed by increased scheme funding levels. What does that mean for the future of DB schemes? Does it provide opportunities to improve outcomes for pension savers, or members of compensation schemes, such as the Pension Protection Fund and the Financial Assistance Scheme?

Another theme will be governance standards and what can be done to improve them, particularly among smaller schemes, which are more likely to face challenges. In evidence to our current inquiry on DB pensions with liability-driven investments (LDI), for example, The Pensions Regulator said it wanted to see more opportunities for pension funds to consolidate, reducing the number of small schemes, but this had to be into safe vehicles. We will look at what framework is needed for this, and also at how to improve standards of trustee boards, where this is needed.

In particular, how will the recent LDI and DB pension scheme inquiry inform the new DB inquiry, and are you able to share any early insights from the LDI inquiry?

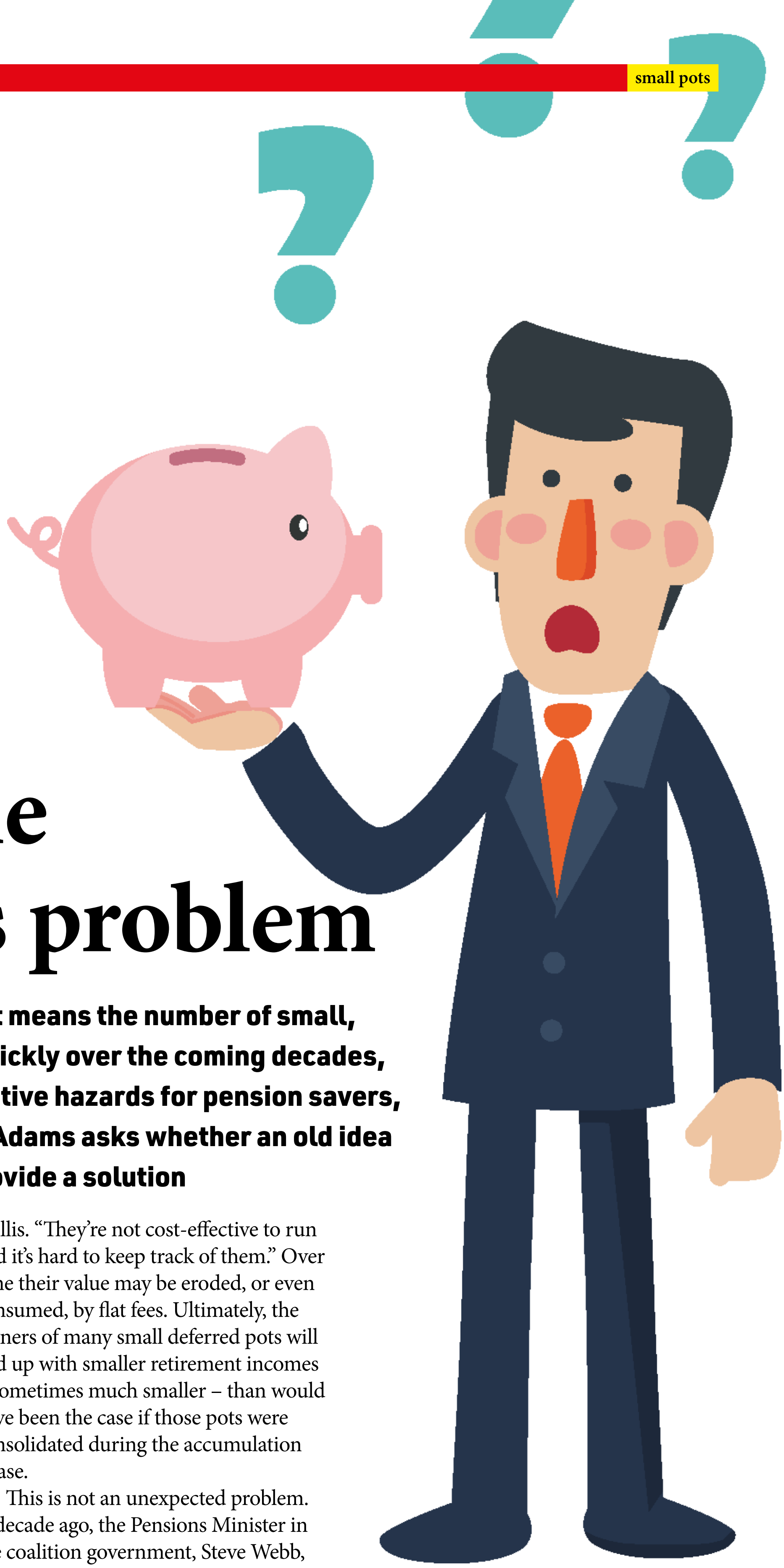
As discussed above, some of the themes for this new inquiry arose out of the evidence the committee has taken on LDI. We had the last evidence session on this inquiry on 22 March, hearing from the Minister for Pensions and the Economic Secretary to the Treasury. We have taken evidence on a range of issues, including how pension schemes manage their investment strategies and the challenges schemes with LDI faced during the September 2022 'gilts crisis'.

We have not yet agreed our report, but areas of interest include the role of pension scheme trustees as the 'first line of defence', and of the regulators and the Bank of England in identifying and managing systemic risks.

The committee has also examined the impact of accounting standards and the regulation of scheme funding and the implications for pension schemes and investment in the wider economy.

The issues arising out of this report, and our further inquiry on the future of DB schemes, will no doubt inform what the committee looks at next, but this has yet to be decided.

Written by Sophie Smith



Summary

- The number of small, deferred DC pots has been increasing rapidly since the introduction of auto-enrolment, creating administrative problems and costs for members, providers and employers.
- Pot follows member is once again under discussion, but alternatives and/or complementary elements of a solution could include a default consolidator system and member exchange.
- There are mixed views within the pensions industry about the pros and cons of these systems.
- Further consultation and data gathering will be needed to determine the design of a small pots consolidation regime. With new legislation also likely to be necessary it is likely that it will be some years before the phased roll out of a consolidation solution for small, deferred pots.

Solving the small pots problem

The success of auto-enrolment means the number of small, deferred DC pots will multiply quickly over the coming decades, creating financial and administrative hazards for pension savers, providers and employers. David Adams asks whether an old idea – pot follows member – might provide a solution

Small is not beautiful when it comes to deferred DC pension pots. About three million deferred pots contain £100 or less and 10.5 million hold less than £1,000, according to the Pensions Policy Institute (PPI). The number of small deferred pots grew rapidly during the past decade, as auto-enrolment led to more people creating then abandoning pots when changing jobs.

"Small pots don't help anyone," says Barnett Waddingham partner, Martin Willis. "They're not cost-effective to run and it's hard to keep track of them." Over time their value may be eroded, or even consumed, by flat fees. Ultimately, the owners of many small deferred pots will end up with smaller retirement incomes – sometimes much smaller – than would have been the case if those pots were consolidated during the accumulation phase.

This is not an unexpected problem. A decade ago, the Pensions Minister in the coalition government, Steve Webb,

was among those advocating for the use of pot follows member (PFM), a system in which deferred pension pots would move with people as they moved to a new employer and pension. PFM transfers would have to be into pension arrangements that offered equivalent or better benefits; and individuals would have the right to opt of the transfer if they wished.

In 2018, one of Webb's successors, Guy Opperman, ruled out using PFM. But today the idea is once again being evaluated by the Department for Work and Pensions (DWP). Between January and March 2023, it ran a call for evidence consultation on possible solutions to the small, deferred pots problem, including PFM and/or some form of default consolidator system, in which small, deferred pots would be transferred automatically into multiple or possibly a single vehicle. It is also considering use of a member exchange system, in which the provider of a new active pot would look for deferred pots held for its new member by other providers, with a view to consolidation.

The call for evidence builds on the work of the Small Pots Cross Industry Coordination Group, led by the Association of British Insurers (ABI) and the Pensions and Lifetime Savings Association (PLSA). The group's June 2022 report recommended that the government consider each of these options.

"All have pros and cons," says PLSA deputy director, Joe Dabrowski. "We think a combination may be needed."

Webb, now a partner at LCP, believes the case for consolidation "is stronger now than it was 10 years ago", in part because a system would be able to use some of the infrastructure that will run pensions dashboards.

Possible drawbacks

But there are other questions that would need to be answered. One would be how to define a small pot. The DWP call for evidence sought feedback on four possible limits: Under £1,000, £2,500, £5,000 or £10,000. It also asked whether the smallest pots, containing less than £100, should be excluded from the system and refunded to the deferred members instead.

PFM would also be complicated by factors including people working in multiple jobs at the same time, or those who build up more than one pot at the same provider with different employers at different times. Regarding the latter, DWP research using data from 11 auto-enrolment providers suggests that consolidating multiple pots held by the same provider for the same person could consolidate over a million small, deferred pots.

But every transfer of a deferred pot through PFM would also cause what Willis calls "value seepage", when assets are converted into cash so are not taking on any risk. Pensions Policy Institute head of policy research, Daniela Silcock, highlights the cost of each transfer to members. "There's an assumption that employees bear most of the cost, for transfer and administration fees," she says. "We need to invest in infrastructure

that will make transfers cheap."

There is also the risk that a transfer takes a pot into a lower quality scheme. "It's a good idea where individuals are moving between well-regulated, well-run products, but I get more nervous where people are moving to products that perhaps aren't as well managed, or where people are currently in a good pension with guarantees," says Hymans Robertson partner, Chris Noon.

For Broadstone head of policy David Brooks, the problem with PFM is the cost to employers. "Given their existing responsibilities contributing to members' pensions and implementing auto-enrolment we do not believe enforcing pot follows member would be the optimal use of their time or money," he says. "PFM might be an effective method for current savers and their most recent fund, but we believe there are logistical challenges around legacy pots."

Another potential problem is that PFM might undermine the ability of master trusts and large pension funds to invest in long-term, illiquid assets such as infrastructure projects.

"In a PFM environment you need to keep a degree of liquidity in your fund, so you can produce transfer payments as employees move," explains People's Partnership group director of policy and external affairs, Philip Brown. "That could have a detrimental impact on your ability to put a proportion of your assets into long-term illiquid assets."

Other options

People's Partnership favours a default consolidator model, under which deferred small pots would be transferred automatically into an approved consolidator. If there were multiple consolidators members would be able to choose which to use, with those who do not make an active choice having their pot moved into one of them by default.

"The case for consolidation is stronger now than it was 10 years ago"

Such a scheme could offer similar simplicity and efficiency to individuals, providers and employers; and enable investment in illiquid assets. Potential drawbacks include a need for providers and employers to identify and work with an individual's previously nominated consolidator pot; and the incentive for providers to market their services, possibly affecting fees for members.

But Brown sees a multiple consolidator model as a much better option than one based on a single default consolidator model, which would have "market distorting" implications.

"If all your money is going to end up inside the same scheme then why wouldn't you just choose to put all your money into *[that scheme]* anyway – and then eventually you've consolidated the entire market into one scheme," he explains.

There are other options. In March 2023, Anthony Browne MP introduced a Ten Minute Rule bill in parliament making the case for another option: a Lifetime Provider model, in which individuals choose a single provider into which all their own and each of their employers' pension contributions could be consolidated.

Some industry figures welcomed the bill (which will not become law), but Dabrowski was less impressed.

"It alters the philosophy behind auto-enrolment and *[loses]* the benefits of inertia," he says. "We would also be worried by breaking the link with the employer, which helps employers provide better pensions. It would also be difficult to administer if people were moving around a lot: Often pensions are wrapped up with a lot of other benefits."

Willis warns that of the various models under consideration the lifetime provider idea may be "least easy to implement"; and that it could put people at risk of choosing arrangements that did not meet value for money criteria.

Whichever system is used, it would need to be phased in slowly. Webb suggests starting with new deferred pots, then extending the system to other auto-enrolment pots, then to other deferred pots, where appropriate. But he expects development and implementation to take a long time, in part because new primary legislation would almost certainly be needed. "There would be further consultation on the details, then you'd need a few years to set it all up," he says. "If we get going before 2030 we'll be doing well."

He puts in one last word in favour of PFM, pointing out that consumer research undertaken so far suggests that ordinary savers may be better able to understand and use PFM than a default consolidator system – but he thinks the latter would be useful too: "As long as we do either of them I'd be pleased."

Written by David Adams, a freelance journalist

The breadth of undersaving

Pensions Age examines the many recent reports of pensions undersaving across various segments of society

Recent reports about the levels of pensions undersaving make for grim reading.

Included in this are stats from the top, as data from the Department for Work and Pensions (DWP) in early March revealed that 38 per cent of working age people, around 12.5 million savers, are undersaving for retirement.

This was measured against a target replacement rate (TRR) before housing costs (BHC), and was based on converting the full value of an individual's defined contribution (DC) pension into an annuity.

In particular, the research found that higher earners are more likely to be undersaving relative to TRRs, as around 14 per cent of those in the lowest earnings band, with less than £14,500 gross pre-retirement earnings per year, were undersaving, compared with 55 per cent in the top earnings band, with more than £61,500 per year.

It also found that 12 per cent of working age people, around 4.1 million savers, are undersaving for retirement when measured against Pensions and Lifetime Savings Association's (PLSA) minimum Retirement Living Standard (RLS).

However, this increased to 51 per cent (17.7 million) and 88 per cent (30.4 million) when comparing against the PLSA moderate and comfortable RLS, respectively.

In contrast to the findings around TRR, the data suggested that lower earners are more likely to be undersaving when measuring against the PLSA RLS, as around 34 per cent of people in the lowest earnings band are projected to not meet the PLSA Minimum RLS, compared with 3 per cent in the top earnings band.

However, assistance is also coming from the top down, as efforts are being made to address some of underlying factors that contribute to so many factions undersaving for retirement.

For instance, MP Jonathan Gullis' Private Member's Bill seeks two extensions to auto-enrolment (AE) – abolishing the lower earnings limit for contributions and reducing the age for being automatically enrolled to 18.

It had a third reading on 24 March, with a consultation on the implementation approach and timetable expected to be launched in the autumn.

The recent Budget announcements may also be of some assistance for undersavers.

In it, Chancellor, Jeremy Hunt, announced plans to give 30 free hours of childcare per week for eligible working parents of children aged nine months to three years, with the plan to be rolled out in phases from April 2024.

This is expected to help mothers to stay in work, which is turn should help reduce the gender pension gap.

Hunt also confirmed that the DWP will expand access to its in-person midlife MOT offer, providing financial planning and awareness sessions for 50+ Universal Credit claimants, aiming to reach up to 40,000 individuals a year.

"Planning for later life can be difficult, and some may leave the workforce early without a full understanding of their long-term financial resilience," it stated.

"A midlife MOT is a review to help individuals take stock of their finances and wellbeing to prepare for a more secure retirement."

Gender pension gap

Aviva research, revealed in March and based on the workplace pension data for over five million pension schemes, discovered that the gap between women's and men's pension contributions for 35-39-year-olds was 21 per cent in January 2023, compared to 18 per cent in January 2022.

Aviva's research also discovered that this disparity began to "significantly" widen from the age of 35, increasing from a gap of 17 per cent for the age group 30-34 by 4 per cent for 35-39-year-olds and by an additional 3 per cent for ages 40-44.

The gap was additionally discovered to have widened since last year, increasing by 2 per cent from 2022 to 2023 for 30-34-year-olds and by 1 per cent for 40-44 year-olds.

Aviva cautioned that this disparity in pension contributions could lead to an imbalance persisting into retirement, reporting that women aged 60-65-years-old had pension pots which are, on average, just 57 per cent the size of men's pots at the same age.

Aviva's research did not just discover widenings of the gap, however, as it also reported that the gap in contributions narrowed from age 45 upwards.

The research also discovered that this narrowing continued for all savers up to the age group of 65 and over, where the gap was 39 per cent, 10 per cent less than the figure recorded in 2022 and the biggest fall for any age group in Aviva's research.

However, in March, Penfold data found that the value of the average pension pot for men is 22 per cent more than for women and that women have smaller pension pot sizes in every age category, something that gets "dramatically" worse the closer they get to retirement.

Meanwhile, research from Now: Pensions and the Pensions Policy Institute in March suggested that working single mothers have missed out on over £852 million in pension savings since the introduction of AE in 2012, revealing that "only a fraction" of the 1.59 million single mothers in the UK are saving into a workplace pension.

Their statistics found that single mothers may have to work an additional 28 years, until age 93, to retire with the same amount of money as a man, whereas single fathers would only need to work an additional three years to age 68.

Generational divides

Generation X are facing a "huge pension black hole" as 66 per cent will have inadequate savings at retirement, Interactive Investor's analysis of data from the DWP revealed in March.

Meanwhile, Money.co.uk's February survey discovered that 69.7 per cent of 25–34-year-olds were saving for retirement, the highest percentage of any age group.

This was ahead of the 35–44-year-olds, as 67.5 per cent of respondents in this age group stated they were saving for retirement, and higher than 45–54-year-olds, of which 62.1 per cent were saving.

This was also the case for 55-64-year-old, as only 64.2 per cent of these were saving for retirement, and just 54.1 per cent of over-65s.

The group that had the lowest number of people saving for retirement was found to be 18–24-year-olds, at just 48.9 per cent.

However, Money.co.uk pointed out that the 18-24 age group (Gen Z) was three times more likely to save for retirement before the age of 20 compared to Millennials aged 25-34, as 18.6 per cent of Gen Z started saving for their retirement in their teenage years compared to 6.5 per cent of 25–34-year-olds.

Ethnicity pensions gap

In February, research from the Social Market Foundation (SMF) found that just 25 per cent of people from ethnic minorities have a workplace pension, compared to a national rate of 38 per cent.

According to the analysis, just 16 per cent ethnic minority consumers whose household earned under £30,000 a year contribute to a pension, compared to 26 per cent of the general population.

Furthermore, among ethnic minority workers with household earnings between £30,000 and £60,000 a year, only 22 per cent have private pensions, less than half the 48 per cent rate for the whole population with similar earnings.

The findings also revealed that 13 per cent of ethnic minorities without a pension stated that they are not interested in having one, compared to 9 per cent of the general population.

Meanwhile, 21 per cent of black women are ineligible for AE pension schemes as they do not meet the earning criteria, compared to 17 per cent of South Asian women and 4 per cent of white women, the Scottish Widows *Women and Retirement Report* revealed in March.

The report found that 54 per cent of black women have little or nothing saved for retirement, compared to 35 per cent of white women, while 68 per cent are concerned that they will run out of money during their retirement years, falling to 58 per cent among white women.

Coupled-up versus single

Over half (51 per cent) of households where partners take decisions together are on track for a moderate retirement income, compared to 42 per cent of savers who said they did it on their own, February research from Hargreaves Lansdown revealed.

The firm pointed out that this figure is also higher than the average for those households where key decisions are left to one person, with 45.5 per cent of those who said their partner made the decision on track for a moderate retirement.

Hargreaves Lansdown's Savings and Resilience Barometer also showed that almost one in five (18 per cent) households who take decisions together were on track for a better retirement and were classed as 'comfortable', compared to 15 per cent households overall.

This matched March research from Broadstone, which found that single people are more than twice as likely to not achieve a minimum retirement living standard than couples, with 19 per cent unlikely to achieve the PLSA's minimum standard, compared to 8 per cent of couples.

Self-employed

Self-employed workers saving into a pension rarely change the contribution amounts they make, March research from the Institute for Fiscal Studies (IFS) found, with half (49 per cent) of those saving in two consecutive years are saving the same amount a year later.

The report also found that, among those who are still saving in a pension nine years later, close to a quarter (23 per cent) saved the same amount in cash terms.

In addition to this, the IFS found that while self-employed people earning between £10,000 and £20,000 per year have average pension contributions similar to those of employees with defined contribution schemes, for those earning above £20,000 per year, the self-employed who save in a pension contributed substantially less than similarly paid employees.

Renters versus homeowners

Renters are three times more likely than homeowners to fail to reach a minimum standard of living in retirement, research from Broadstone revealed in March.

The research found that 25 per cent of renters are unlikely to achieve even the PLSA definition of a minimum income standard of £12,800 per annum, compared to 8 per cent of homeowners.

The gap was even wider when looking to reach a moderate retirement income standard of £23,300, with 71 per cent of renters unlikely to reach this level compared to 45 per cent of homeowners.

In sickness and in health

Research from Phoenix Insights in March found that over-50s that have left work due to ill health have just 5 per cent of the wealth of those who have retired early by choice.

The analysis showed that the median average wealth – as estimated according to the total of pension, property, financial, physical assets – for 50- to 64-year-olds who choose to retire is around £1.24 million.

This compares to people who are out of work due to ill health or disability, where average wealth is just £57,000, less than 5 per cent the wealth of those who have chosen to retire. The average wealth of those who are out of work to look after family is £137,000.

Written by *Pensions Age* team

Summary
- Offering financial incentives to transfer a pension or open a new plan are still relatively rare.
- Higher fees in retail schemes could outweigh the benefits of a short-term incentive.
- Trustees will need to do due diligence on any potential 'red flags'.
- Pot consolidation in future could open up more incentivisation.

Cash for pensions?

Maggie Williams explores the emerging trend of financial incentives being offered to transfer a pension to a retail offering and what this may mean for the industry

In the time it takes you to read this article, you could make over £300. My briefest of Google searches revealed a major high street bank willing to pay £175 for a transferred current account and an ISA provider offering a £150 gift card for a savings transfer. If you were to cast your search wider and explore financial incentives for moving your insurances, mobile, broadband and more, that figure would mount up significantly.

But what about pensions? Could offering financial incentives to open or transfer pots help engage people with saving for retirement, or encourage them to consolidate and streamline their pension arrangements over time? Alternatively, could it mean higher fees, scam risks and a potential worsening of the current small pots issues?

Workplace vs retail pensions

Offering incentives to move between retail financial products, such as bank accounts, is now an everyday practice – but moving funds from an occupational pension to a retail vehicle introduces more risks and complexities, says Scottish Widows senior corporate pensions specialist, Robert Cochran.

"Incentive offers often work in a retail environment where products are easily transferred and offerings roughly comparable. But exchanging a workplace pension scheme for a retail product is more challenging. Savers risk losing the protections they get within occupational pensions, such as the charge cap," he says. In some instances, there may be charges associated with making a transfer, which will further erode the attraction of the incentive.

He adds: "It's hard to check whether people are making a proper value judgement when they choose to transfer for a financial incentive. Moving a fund for a cash boost today could cost someone a lot of money in the future."

Cochran adds that much also depends on whether the incentive is being offered as a payment into a pension pot, or as cash in hand. "Putting incentive money into a pension pot could help to encourage saving and to engage someone with a pension. But if you are just being given cash-in-hand, that is harder to justify."

Pension provider and consolidator PensionBee operates a £100-per-time refer-a-friend scheme which, says PensionBee chief marketing officer, Jasper Martens, accounts for around 5 per cent of the provider's new business. "Friends joining PensionBee consolidate their previous pension savings into a PensionBee plan or can set up a completely new pension with us, if self-employed," he explains.

Each new member earns the referrer £100, which is added to their pension pot. "We believe that helps customers build up their savings over time," says Martens.

Incentives within workplace schemes

If incentives could entice savers away from workplace schemes, what can those schemes do in turn to keep them?

Arguably, the biggest incentives in a workplace scheme are contributions from the employer, says Cochran, and those can't be replicated in a retail environment. "When it comes to helping people to retire comfortably, offering matching structures or opting-up pension contributions are much better for employees."

One recent example is Jaguar Land Rover, which has introduced auto-escalation into its DC scheme. It moved employees in the company's 12 per cent lowest contribution tier (4 per cent from the employee and 8 per cent from the employer) into its 14 per cent mid-tier option (5 per cent from the employee and 9 per cent from the employer). When the new structure was introduced in March 2022, coinciding with the intensifying cost-of-living crisis, only around 50 employees of the 9,500 who were auto-escalated returned to the lower tier. This will provide a significant boost to employees' savings over time, far outstripping short-term incentives.

Administration frustration

While moving money between retail products might be relatively straightforward, the process of transferring a pension from a workplace scheme into a retail offering is potentially far more complex and time-consuming. "Transfer times can be lengthy, depending on the provider," says Cochran. "For schemes signed up to Origo's transfer service, for example, it should be fairly quick. But outside that, times can vary." Given that some financial incentives are time-limited, that could jeopardise the rewards on offer for savers.

Since November 2021, The Pensions Regulator has required trustees and scheme managers to carry out due diligence checks as part of any transfer request.

"From an administrative perspective, some transfer offers could be identified as a red flag scam risk," says KGC Associates director and Pensions Administration Standards Association chair, Kim Gubler. "Depending on the offer involved, trustees may want to get legal advice if the incentive seems excessive." She adds that if trustees are having to regularly explore offers and incentives, "this becomes expensive for the scheme and takes up a lot of time."

The current size and volume of incentives on offer is relatively small, but if offering incentives to savers to move from workplace schemes to retail arrangements became more commonplace, Gubler believes, "the legal profession might step in and The Pensions Regulator as well as the FCA may have a view. But at present, it's not that commonplace."

Another risk is the potential to confuse a legitimate financial incentive with a scam, especially as workplace pension savers are likely to be less familiar with retail offerings. "Offering an incentive could be an easy way to encourage people to fall for a scam," concedes Cochran. "But a lot of financial services products use incentives legitimately, so it's important to help people to remain aware."

"We are always reacting to yesterday's scams," says Gubler. "Criminals are always one step ahead and will bury very unclear information about charges and or terms and conditions deep within their website that is difficult to find. If someone is requesting a transfer from an occupational pension scheme to a suspect scheme, you would hope the flag regime would pick this up and that trustees would explore in more detail."

"But there are many newcomers into the pensions market, and some of them will be outside the UK, which means regulation and monitoring is much more difficult. That is why as an industry we sometimes have to be quite heavy-handed."

"Putting incentive money into a pension pot could help to encourage saving and to engage someone with a pension. But if you are just being given cash-in-hand, that is harder to justify"

Martens says that PensionBee has been careful to make sure that refer-a-friend meets its objectives and make the process as safe as possible. "We use very clear language in all our communications and each customer has a custom link to share when referring friends to PensionBee." He adds that there is also a limit to the number of people each customer can refer for the incentive.

A boon for small pots?

One potential benefit of offering a financial incentive to transfer could be to encourage savers to consolidate small pots and better engage with their retirement savings. A credible consolidator offering good value for money could help make pensions more manageable both for individual employees and eventually for schemes by reducing their volume of deferred pots.

Consolidation and transfers between workplace schemes are likely to become more significant in future as the DWP continues to explore the challenge of small pots, along with increased focus on value for money for savers. Potentially, that could drive more schemes to offer incentives in a bid to become the workplace pensions consolidator of choice for employees – within the boundaries of what TPR or the FCA consider to be acceptable.

At least one major workplace pension provider is already beginning to explore this territory. Standard Life is offering e-gift cards of up to £250 as an incentive to encourage savers to consolidate old pensions into a new plan.

Gubler believes the pensions industry could see wider use of incentives in future. "We could look further afield and see how incentives works outside our own industry, such as in bank account transfers – even if the conclusion is that pensions need a different approach. That's important both from a regulatory perspective and to identify where there are risks," says Gubler. "We need to look at how we can give people a good experience, keep them safe and encourage them to pay attention to their pensions in a way they feel comfortable with."

Small, short-term financial incentives might feel at odds with the large sums and long-term nature of pension savings. But as more DC savers approach retirement, the attraction of consolidating different pensions into one, easily manageable scheme could provide lucrative potential business for providers. Offering the types of incentives that we currently associate with banks or consumer savings accounts could become a more common way of inviting new business – but savers, trustees, regulators and schemes will all need to make sure the benefits continue to outweigh the risks.

Written by Maggie Williams, a freelance journalist

Next steps in the fight against scams

Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, discusses the launch of the group's Interim Practitioner Guide and the next steps in the fight to combat pension scams

After a rather hectic weekend updating our Pension Scams Industry Group (PSIG) website ready to launch our Interim Practitioner Guide, I had a couple of life lesson reminders.

Firstly, my web design skills are sadly lacking and what took me several hours could have been done by a subject matter expert in minutes.

Secondly, a launch day should be chosen carefully, juggling the launch of our guide alongside a Monday morning board meeting was completely crazy, and I know I won't do that again – until the next time of course.

Importantly however, we're over the line. Our Interim Practitioners Guide was launched and our brilliant technical group, who put so many hours into writing the guide (all credited at the back of the document) should take a bow.

So what's next for PSIG?

As usual, as an overall picture, we try to focus on things that will make things clearer for the industry, safer for scheme members and of benefit to society.

But there are a few other things we need to get done too:

PSIG is an important strategic partner of the multi-agency Pension Scams Action Group, led by The Pensions Regulator (TPR). We are responsible for non-legislative solutions to pension scamming, of which our code and guidance is a key part and we plan to keep doing our part, but we propose to do more.

For example, we are part of a group looking at support for pension scam victims. I often hear from victims and it is impossible to listen to their stories without wanting to help. Support needs are different for different people, but trying to identify what and where help is available, or not, is a challenge.

For some time, PSIG has aspired to providing a scams intelligence database, by the industry, for the industry. It is not an easy thing to do and there are many downsides, but having a secure database that member organisations can update and search for names of concern could save a lot of time on transfer checking.

Our Pension Scams Industry Forum is a people-based intelligence database and does a great job sharing information, but we want to broaden access across the industry and using technology is the most efficient way to do this.

We believe that this year is the time to stop talking about it and either create it ourselves, or have a commitment from a central source to build it instead. We've had a couple of expressions of interest in helping with this, which is encouraging.

Over the years, we've heard the industry keep asking for examples of how different scams operate. Practitioners are clear about the general types of scam, but what is needed is a compendia of scam stories to bring it all to life.

We will explore whether we can source anonymised examples from various organisations and pull them together into one volume. We don't think it will risk becoming a scammer's training manual – as they will be examples already in scammers' playbook.

I will be upping my own campaign to persuade government to stop levying unauthorised tax charges on scams victims.

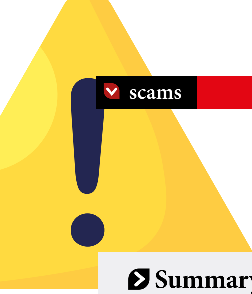
A few weeks ago I heard of the suicide of yet another victim who was hounded for tax on top of losing his pension. This cannot happen. The wheels of justice turn very slowly, but without pushing for change, too many people will suffer through no fault of their own. As industry experts we need to fight on their behalf.

Finally, and I'll make no bones about this, we will be looking for some financial support from the industry to continue and expand the work we hope you are using and finding valuable.

We are very fortunate to have so many experts willing to give their time for free, but some work and tangibles need to be paid for, so we need to ensure our coffers start to fill.

I don't usually do drama, as you will all know, but we cannot live in a world where people are not only being scammed into parting with their hard-earned pension leaving them unable to live a life they are entitled to, but worse still, when it happens, to be hounded to such a point that life no longer holds any appeal is not a world I'm sure any of us aspire to. So please, if you can... help us help them.

Written by PSIG chair, Margaret Snowdon



Summary
• Warning messages are provided through benefit information and online channels.
• Distributing information across many routes during various stages of a member's life is the most effective method.
• Members are more aware of the warning signs of a scam, because of increased communications.
• The pension industry must unify and build relationships with members to improve communications.

Combatting scams with communication

Pension scheme providers are employing new methods of communications to educate their members of scamming risks, but further improvements are required to better protect retirement savings, finds Niamh Smith in our latest *Pensions Age* scams focus

Pension scams have become an increasingly common form of financial fraud in recent years. And the Covid-19 pandemic period saw the problem worsen with criminals becoming ever-more brazen.

Data published by Action Fraud shows the average loss due to scamming activity doubled between 2020 and 2021, from £23,689 to £50,949. Of those at risk, nearly two-thirds of savers felt tactics had become more sophisticated and harder to spot during this time. In response, regulators and pension schemes are now placing greater emphasis on communications to ensure members are more aware of the risks and able to spot the warning signs.

Communicating the risks

Scheme providers already have communication responsibilities in place. For example, they are encouraged to use ScamSmart as a resource – a service that allows members to check if firms are authorised and provides a warning list of suspected scamming firms. The Pensions Regulator (TPR) recommends all scheme providers include warning messages, details of the ScamSmart website, and provide a ScamSmart leaflet in members' annual pension statements. So, scam warnings and educational resources have become increasingly prevalent features throughout providers' entire communication functions.

"We try to raise awareness across the board, describing what methods we will use to get in touch with members and sharing educational pieces," says Zedra client director, Dan Richards, noting that these are included in collateral such as benefit statements, pre-retirement letters, transfer packs, retirement valuations, and drawdown statements.

However, it is unclear how effective such traditional communication methods are with members. This is why more scheme providers are turning to digital comms. Yes, scam warnings have gone online too.

"As the industry moves more to an online presence, any member websites or apps that are available should also have clear warnings or potentially videos as well," explains LCP consultant, Matthew Court, who advocates the use of video as an effective tool. He adds that using videos to communicate the risks of scams can have a greater impact as customers retain more information by watching a real person talking instead of reading lots of text.

The format of these communications isn't the only important consideration for providers. It is also important for scam warnings, whether distributed through traditional or digital means, to contain clear, jargon-free language to ensure members understand the risks, according to AJ Bell head of retirement policy, Tom Selby.

"Making sure comms are simple, memorable and useful to members is the key to getting these messages out there," says Selby. "Technology should also help in this regard, as most people now tend to engage with their finances via iPhones and online."

Scheme providers have numerous communication methods available to flag pension scam risks. Here, combining these formats in a multi-channel approach can be the best approach, according to Untamed Marketing director, Karen Quinn.

"More channels from more providers; this is how to build awareness," explains the pensions marketing and communications specialist. Like all excellent content that sits hidden in a website, these messages need to be amplified through strong distribution to be heard."

Providers must also commit to consistently providing warning messages throughout a member's life to ensure communications are effective. This helps foster trust between member and scheme provider, and allows the latter to stay ahead of scam trends and alter their communications accordingly.

"Ideally, scam warnings will be communicated in simple language and throughout someone's life, rather than at a single point in time," says Selby.

"They need to stay up to date to take account of any significant shifts in scam behaviour and provide people with information they can use to protect themselves from financial fraud."

Determining effectiveness

It can be difficult to quantify the effectiveness of scheme providers' communications, but digital formats are now helping to generate some valuable metrics, according to Court.

"If information has been provided on a member website, or via email, you

can check the web traffic, or if there's cookies involved in it, you can see whether someone's clicked on a link or if someone's accessed something and read it," says Court.

This may help a scheme provider's communication team understand how many members have read a scam warning, but how can they judge its success in preventing fraud? This is harder to quantify, especially as, like with many areas of fraud and financial crime, it is difficult to accurately see the full extent of the problem.

One solution is to monitor the behaviour of members and their understanding of pension scams, according to Richards. "While we try to communicate with members effectively, the proof it is working can often only be observed through a reduction in the incidence of our members being scammed."

Recent surveys reveal that scheme members are becoming more aware of the signs of a pension scam, a likely indicator that communications are working effectively.

Research by AJ Bell reveals that scheme members in the UK blocked £2 million of scams in 2022 by spotting warning signs and reporting them to the regulator. This equated to a 193 per cent surge in activity on the FCA's consumer helpline over the past five years.

"As the industry moves more to an online presence, any member websites or apps that are available should also have clear warnings *[about scams]* or potentially videos as well"

Despite this surge, this may not show the extent of the problem. The FCA had commented on the official statistics: "The true number of victims is likely to be higher as scams often go unreported and those affected may not realise they have been scammed for several years."

This low percentage is evidence that improvements are required to better provide information to members.

Improvements required

The surge in frauds is allowing scheme providers to learn more about scammers' tactics and, in response, adapt and improve their warning messages. Regulators have also used this as an opportunity to educate scheme providers and create campaigns for schemes to distribute to their members. As scheme providers become more aware of scams, it is easier for them to make their members more aware through communications. Encouragingly, this means some progress has been made.

"Compared to where we were several decades ago, the quality of communications has greatly improved," says Richards. "In some cases, this is attributable to work completed by regulators, producing high-quality education pieces that are easy to post to members."

However, scheme providers must continue to develop their communications and there is room for improvement.

Quinn explains that unity in the pension industry is the best answer to keep members' retirement savings safe. "I'd like to see the whole industry uniting with a single, powerful, memorable message – maybe one for the pension attention campaign," she says. "Uniting as an industry with a single voice, and a powerful message, using positive language and the core principles of behavioural science to beat the scammers at their own game."

To improve the delivery of communications, scheme providers can also learn from the behaviour of scammers, who often take the time to build relationships with members. Here criminals can take advantage of a lack of relationship between member and scheme provider, and foster their own false relationship in this place.

To combat this, according to Quinn, communications should be adapted to be more personal and build trust with members: "The most effective method is those timely, personal calls that are reinforced with targeted social media posts and communications that lean heavily on behavioural science to evoke emotive responses – the ones that scammers use *[see March PA for more info]*."

Written by Niamh Smith, a freelance journalist

In association with HSBC

HSBC roundtable

CHAIR

Alison Hatcher, CEO, HSBC Retirement Services

Alison is CEO of HSBC Retirement Services. She was previously global head of pensions in HSBC's client strategy team in London from 2015. Alison is responsible for understanding the needs of corporate clients, how to manage risk on their balance sheet and their pension schemes. Alison joined HSBC in 2011 and has been working in the industry since 2005. Alison holds a BA Hons in Law & Business from Warwick University and a distinction in her MSc in Banking and International Finance from Cass Business School. Alison is one of the Founders of Women in Pensions.

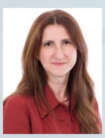
PANEL

Andy Cheseldine, Professional Trustee, Capital Cranfield

Andy joined Capital Cranfield in 2017 after a career as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pension arrangements and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He has served on the PLSA DC council since 2013 and regularly chairs *Pensions Age* events.

Andrew Clare, Professor of Asset Management, Bayes Business School

Andrew is the professor of asset management at Bayes Business School. He is the co-author of *The Trustee Guide to Investment*. Andrew is a trustee and chairman of the investment committee of the £3 billion Magnox Electric Group pension scheme and is also an independent member of Quilter Plc's investment oversight committee. Andrew was previously a senior research manager in the monetary analysis wing of the Bank of England which supported the work of the Monetary Policy Committee, and a financial economist for LGIM.



Anna Eagles, Trustee Director, Law Debenture

Anna is an experienced member of the professional trustee team, representing LawDeb on a number of boards and committees, including the Smart Pension master trust board where she chairs the operations sub-committee. She also represents LawDeb as the governance committee and benefits allocation committee chair for a £10 billion hybrid scheme and is an integral part of LawDeb's sole corporate trustee team. In September 2020, Anna was appointed to the Vanguard independent governance committee responsible for overseeing the investment pathways for the Vanguard Personal Pension.

Jerry Gandhi, Trustee Director, Vidett

Jerry is a pension and benefits professional with over 40 years' experience. He has operated within small and large pension operations in many diverse environments covering projects, hands-on management and delivering to both trustees and company. He is a leader in the field of trustee governance and operational excellence for both DB and DC schemes. He fully appreciates, and has extensive experience in, managing the conflicts between company/commercial economic impact versus trustees member/fiduciary responsibilities. Jerry also has significant expertise in understanding employer covenant.

Nic Jones, Head of Sales, HSBC Retirement Services

Nic is head of sales at HSBC Retirement Services. He has over 15 years working with the pensions industry, with the unique experience working on both investment and administration, having spent many years of his extensive investment banking career structuring hedging and execution strategies with global pension funds. A background in pension administration, he understands the challenges providers face and works with industry bodies including the Pensions Administration Standards Association (PASA) and the Pensions and Lifetime Savings Association (PLSA).

Chris Noon, Partner, Hymans Robertson

Chris is a partner at Hymans Robertson specialising in workplace DC, supporting large own trust and master trust clients. Chris also works directly with master trusts to support proposition development and market strategy.
Until 2017, Chris led Hymans' workplace saving business where he led the development of the Hymans Robertson digital guidance solution (Guided Outcomes®). Chris is a regular commentator on all aspects of government savings, retirement policy and pensions. He recently provided evidence in person at a government Work and Pensions Committee.

Jonathan Parker, Head of DC & Financial Wellbeing, Redington

Jonathan joined Redington in 2018. He leads consulting work for a number of £1 billion+ DC schemes and provides advice to clients on all aspects of workplace pensions and savings, including scheme design, provider selection, investment strategy, transition management, value for money and governance. Jonathan has over 20 years' experience, having held a senior investment consultant role with Watson Wyatt (now part of WTW) and been head of corporate wealth investment strategy with Zurich Financial Services.

Julie Richards, Group Director of Pensions, Walgreens Boots Alliance

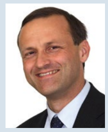
Julie is group director of pensions at Walgreens Boots Alliance, a role she has held for more than 10 years. She previously held the role of group pensions director at both Diageo and Nestle UK. Julie boasts considerable experience of working across a range of organisations and pension scheme structures, as well as having worked closely with trustee boards for many years. Her skills span the DB, DC and CDC markets, and she is a regular commentator on UK pensions in the pensions press. Julie also sits on the PLSA DC Committee.

In association with

HSBC

HSBC roundtable

Stephen Tiley, Manager & Trustee, WHSmith Pensions
Stephen is pension funds manager and a trustee for three WH Smith pension schemes, including a legacy DB scheme which underwent a £1.2 billion buy-in in August 2022 and approximately £120 million in DC within an occupational trust. He has administered or managed pension arrangements for well-known employers including Post Office, Wincanton Plc and House of Fraser and won several awards whilst manager of the Thomson Directories pension fund. Stephen started his career at the Occupational Pensions Board and also worked at the Pensions Schemes Office of HMRC.



Steve Webb, Partner, LCP
Steve was Minister of State for Pensions between 2010 and 2015, when he implemented major reforms to the state pension system, oversaw the successful introduction of automatic enrolment and played a key role in the new pension freedoms implemented in April 2015. He was awarded a knighthood in the New Year's honours in 2017. Following his time in parliament, he worked for Royal London for four years before joining LCP as a partner in 2020, where he has campaigned successfully to secure £1.5 billion in backpayments for over 230,000 people who had been underpaid state pensions.

Sarah White, Head of Reward Europe, Lendlease
Sarah has more than 30 years' employee benefits experience gained as a consultant and working with/in global organisations. Sarah joined Lendlease in 2012 as UK pensions manager and her current role at Lendlease is head of reward Europe. Her remit includes DB and DC pensions, compensation, benefits, health and wellbeing. The Lendlease UK pension scheme won DC Pension Scheme of the Year at the Pension Age Awards in 2019. Sarah is a Fellow of the PMI and holds a CIPD postgraduate certificate in reward management.

Making a difference

Recent research has revealed that pension scheme members' needs are not being sufficiently met at the point of transitioning into retirement. Our panel of experts looks at why this is happening, what this means for individuals' retirement years, and what can be done to help make a real difference to members' later years

Hatcher: Many thanks for joining us to discuss the findings of a recent report commissioned by HSBC Retirement Services, entitled *Converting pension pots into incomes: Are current roads into retirement delivering member value?*

The research, undertaken by Professor Andrew Clare of Bayes Business School, in association with Hymans Robertson, focuses on the subject of transitioning into retirement.

We wanted to look at this topic because it is an area that is currently under-covered and under-served although, since the report was published, the area has seen some increased interest.

The Pensions Regulator (TPR) has shown, through its value for money (VFM) framework consultation and recent corporate plan, that decumulation is a key area of focus for them, so there is hope for the future, but we still don't really know what is going on through the transition period for individuals.

What's interesting is that, by default, many schemes are doing nothing, and the default position therefore is that individuals and members end up going through a retail journey. Yet the research shows how detrimental that retail journey can be for, not all, but some.

From our experience, for individuals who have over £200,000 in a retirement pot, that possibly is the right journey for them. But there are a plethora of individuals not at that level. In fact, latest statistics show that many over 50s have pot sizes at retirement of about £75,000. So it's significant enough that they're not going to just take cash and they'll need help, but the market hasn't caught up with that, and they are being left to figure this out for themselves, even if there is guidance in place.

On top of that, we are very concerned about the friction at the point of retirement. Even if you signpost to somewhere else, to an institutional market instead of making them go through a retail market, there is an awful lot of friction. That comes from the fact that you're going from one environment to another, institutional to retail – so there is a cost differential there – but also from one set of funds to another. You're physically coming out of funds and back in, giving you out-of-market risk and exposure, and those strategies typically are not well aligned either.

To make it worse, most administration services, when you go into retirement, can't allow you to take your money in a feasible way. What they tend to do is have different funds for different slices of your pot of cash – drawdown, later life, etc. That is also inefficient.

The whole combination means that not only is there friction, risk and cost (and one of the key statistics from

In association with

HSBC roundtable

the report shows that, if you're a baby-boomer, you're losing about 70 per cent of one year's income from this frictional point), but you're also exposed. You're exposed to scams and to multiple different risks where you could make a bad choice.

There are also multiple regulatory regimes at this point, which does not help, so this is falling through the gaps, and nobody is picking this up as a problem. We're not actively making decisions on behalf of members, or even really guiding them one way or another. We're leaving them to their own devices. On top of that, we're costing them a lot of money and exposing them to significant risk. That's before we even look at the choices in retirement.

I will now pass over to Andrew *[Clare]* to talk through his methodology.

Report methodology and key findings

Clare: The focus of the research and report was friction at the point of retirement. With Hymans Robertson's help, we defined typical cohorts of people – baby boomers, Gen X, Millennials, and Gen Z individuals – and people with different starting pots, different ages, leading up to retirement and so on.

Then what we did was say, all these people are going to get to retirement and then they will make a choice – or not make a choice. They're either going to find a retail platform that offers an actively managed drawdown income plan; find a retail platform that offers a passively managed drawdown income plan; move to a retail master trust that offers drawdown income plans; or keep their pot in the same place (master trust) because the scheme also offers drawdown income plans.

One of the key things then was to work out what the cost differential would be between those four options – the costs of transitioning.

What we did, over the top of that, was undertake some Monte Carlo analysis based on the asset allocation assumptions leading up to retirement and then afterwards, which we kept straightforward and simple. By doing that, we could then put distributions around the likely outcomes for these individual cohorts, for the four different choices that they might make.

What our results show is that, if you're talking about a small pot of money in particular, focusing on those costs of transition and costs thereafter in terms of drawdown could make a very big difference to your standard of living in retirement. If you look at the difference, for example, between moving to an actively managed drawdown income plan or staying where you are (i.e. moving to a master trust with the same company, where it's friction-free), it can be quite significant.

In the first option, you have an 84 per cent chance of making it to 90 without having to cut your income and running out of money, which seems pretty good. But with the more or less friction-free option, that rises to 96 per cent.

With the help of HSBC's team, we've reported the results in various ways. Overall, the report shows that focusing on fees is really important, and focusing on that decision, or non-decision if you like, is also really important.

The industry needs to start thinking about defined contribution (DC) members, not just before or up to retirement, but thereafter too. If you run out of money with a 96 per cent chance compared to an 84 per cent chance, that's a big difference in societal terms.

Report reactions

Hatcher: How do you feel about the findings of the report. Are you surprised?

Webb: If I think back to pension freedoms, it was all about ideology – this is individuals' money and they should be able to choose what to do with it – combined with appalling annuity rates.

The fact that it brought forward tax revenue may have smoothed the wheels somewhat, but virtually no thought was given at the time to individual member journeys, transitions at retirement, or journey through retirement. All of that was phase two.

In a way, you could get away with that for a little while, because the people who'd been forced to buy an annuity had been forced to buy an annuity, and then you got an inflow of people at 55 or 60 for whom any problems about their positions later in retirement wouldn't crop up for 10 years or so. So you had a bit of time to fix that bit. But now eight years on from pension freedoms, it's getting a bit more pressing.

You mentioned that TPR is now very much more member focused, but the issue I have is that they produce very little data about members. We know an awful lot about the funding position of 5,800 defined benefit (DB) schemes, but we know practically nothing about the *members* of trust-based pension schemes. How can we make informed policy on this when the only people who publish the data are the Financial Conduct Authority (FCA) and other

In association with

HSBC roundtable

people in the retail space?

Hatcher: Data is an industry problem, which we hope that various codes and regulations can fix in the long-term. Another problem we have is with regulatory powers, because there is such a fragmented approach. We know the FCA and TPR are working closer together, which is a good start. But what we also need to look at is the short-, medium- and long-term. This data problem is not going to be fixed in the short-term, but what we need to do here is something in the short term.

I would also point out that decumulation is very much a focus in TPR's corporate plan, but we need to put more emphasis on it. I would also urge everyone to really focus on this in the VFM consultation and offer their thoughts on it. Whilst we look to the regulator, we also need to help it get to grips with this problem.

There is also the question of what the regulator can actually do. I am being very careful with my language today – we are here to discuss transition not decumulation, they are two separate things. We use the word decumulation all the time, but obviously that is not an area for TPR, unless you're in a master trust.

We need to therefore help to understand where those powers can be flexed. Those powers can be flexed by the likes of trustees, for example. Trustees can flex their powers to look at transition, and they can bring this into their decision-making remit when they look at what the scheme is doing, where it is signposting, and so on. Also, if you end up signposting to a master trust, you're pulling that more into the world of TPR, and they can't ignore it.

Noon: In 2015, we saw a lot of excitement in the provider market about freedom and choice, around the ability to sell new products, build solutions and so on. So, initially we were doing lots of work with insurers and providers in terms of how to support this. Pretty quickly, however, it all fell by the wayside, because the regulatory framework didn't allow it. That advice/guidance boundary was so broad and grey that they just gave up, so they stopped building products; they stopped coming up with interesting ideas because it was too difficult.

That is one issue where a regulatory solution might help.

The second thing is that the business case for doing it as a provider is quite limited. Rather than getting £200 million or £300 million or whatever of assets coming across on day one from a trust scheme into a master trust, I am getting ones and twos of retirements every month. The costs associated with building a solution, given that flow, make it quite restrictive. So some sort of last-resort type solution is probably needed.

Nest does a great job and it has forced other providers in some respects to take on books of work they wouldn't have otherwise taken on. We saw that through auto-enrolment (AE). A lot of pension plans ended up in Nest, some in other solutions, because that last-resort type solution was there. Some last resort type solution for decumulation is not a bad idea – I am sure Nest is looking at that.

That's a market view on why we are where we are and why nothing has happened. It has been an incredibly long time since pension freedoms. Eight years is a long time for business cases not to work or for regulation not to change.

If I can give a personal view also, I've worked in pensions a long time, and I'm relatively senior in the pensions community. I am retiring next month and luckily I've saved some money. Getting it out, however, has been a nightmare. I've only managed to get it

out because I know the senior individuals of the providers that are managing my money. My point is that administration complexity and friction is massive. No wonder people go off to the retail market, because someone there is going to take that pain away from them.

Richards: When I read the report, there was nothing in it that surprised me, but at the same time I didn't really recognise ourselves in it. We have a group personal pension (GPP) contract with Legal and General (L&G) who have worked very hard to get us to where we are.

There will be a huge a range of perspectives out there in the market – you could talk to big employers like ourselves and you'll get one perspective; then you'll talk to Joe Bloggs who runs his plumbing firm with 10 or 15 employees, and you'll get a completely different perspective.

One big frustration as an employer, in general, has been that the providers have been so slow to pick up on product development in this area. We need products to bring to market that are valuable and cost-effective for our employees, but the market has been so slow on this.

The other question I would pose is, what is the employer's role in all of this? That's a really tough one to call. If I step back – because I wear many hats being an in house manager – this is about the employer/employee relationship during

In association with

HSBC roundtable

the time that contract for services exists. The difficult debate then is, what happens when that person is no longer contracted for your services? So, the employer's role in all this can be quite challenging and potentially ambiguous.

We're a little bit different to some others of course as we have a GPP, we don't have a trustee, and therefore we take on that fiduciary responsibility. But I appreciate that's not a debate for today.

Hatcher: I would argue it is a topic for conversation today, because in the report we pull out the fact that you could extend AE powers to include the transition into retirement. And even when you have trustees, the role of the employer is very significant here when you think of the framework they're working within today.

So I would say it is very much part of the debate. It's not something we can solve immediately, because legislation is challenging at the moment and probably will be for the next five years, but it's something we can get on the radar.

Tiley: Friction is a problem in DC. One thinks of the dashboard project and I am having to spend tens of thousands of pounds to upload data to the dashboard. For a smaller company, I can't imagine what the impact of this will be if they happen to run their own scheme.

Another observation I would make is in relation to out-of-market risk which, for anybody who transitions money across, is a worry. We are sending money to various providers for members, and it could be a week or two weeks out of the market. We saw what happened in September, and people don't like seeing their money go down. We do see many providers in the market investing in various things to try and not lose money, which is positive and becoming increasingly important.

So the financial services industry is filled with friction and leakage and we need to go back to basics and strip out a lot of the fat.

Hatcher: One observation I would make of the market is we're becoming more and more vertically integrated. Vertical integration, while it might appear to be cost-efficient, actually is not. More importantly, it also brings risk with it because of the fact you've basically got a monopoly.

There is an argument therefore for newer business models that might have more flexibility, which will allow for some of the retirement requirements. We don't have flexibility in a lot of the models, which is an issue.

Where do you see your role as a trustee, Stephen *[Tiley]*, when looking at some of the frictions that you've experienced?

Tiley: My scheme is a trust-based DC scheme with over £120 million invested. In June, we reviewed the investment strategy, and sold off most of our gilts and corporate bonds. We still invest in bonds, but in terms of the default investment strategy, it now targets cash and world index equities.

When we reviewed the strategy, we realised we wanted to diversify, as our previous global equities fund was focused too much on the UK; we wanted more of a world index approach and also to leave people partly invested at retirement. They could then prepare for a drawdown approach with an external provider or buy an annuity if they wished. But we don't have the appetite to create a drawdown facility within the scheme. That would be a step too far for us, so we do need to have a partner and transition money across, or we need to have a root and branch review of how we do things in the future.

Hatcher: I feel that decumulation and decumulation investment models are outside of scope. What we're looking at here is transitioning through into whatever that next stage might be. It's helping individuals/members get through to that next stage, where there can be risks – scams, or out of market risk.

Do you look at that transition, or do you deem the trustee role to look to the point of when somebody makes the decision to take that money, and therefore the actual physical transition is a step too far as well?

Tiley: I am involved in the day-to-day administration with my team as well as being a trustee, so I have the advantage of having a daily view of what's going on. All I can do is make sure that we efficiently process transfer requests. We get, for example, annuity quotes that are guaranteed for maybe 30 days, so as long as we can get the transfer to the annuity provider in the set period, we can guarantee that rate. We want to look at the transfer club that exists to make transfers more efficient.

There is a growing tendency to want to consolidate. All we can do is try and manage the administration process, but we cannot as an occupational scheme go down the road of running a drawdown arrangement. I'm sure there are some out there that can, but it is not a main focus for our business to get involved in running drawdown.

Gandhi: From a pension manager perspective, based on my time at Schneider Electric, they had their own trust. It was reasonably well run. I was there to help with consolidation.

In association with

HSBC roundtable

They acquired a lot of businesses and fragmented pensions. My task was to work to try and bring them all together into a single well run structure.

That's not easy, but once it was all in one place, the challenge was running an own trust, with £150 million of assets, it became more bureaucracy, governance and other things than it was about adding member value. The real focus is, how do you get people into retirement with adequate financial resources?

Back to Julie *[Richards']* point earlier, there is a real focus for employers today to have an interest in helping that process, because if you don't, you are going have the 'geriatric brigade' turning up because they can't retire.

It really is in the interest of employers to make sure that their people can accumulate enough, and when it gets to the time of going into retirement, to consider whether they have been supported effectively to do that.

In relation to the report, nothing surprised me. If you dig into it, however, there's a whole host of areas you could branch out on, particularly if you get engagement from members, especially true if you are an active member and you know what you're doing, this can make a significant difference to the outcome. But it's about knowing what you're doing and finding the right vehicles to do it. That's the bit that we have to challenge ourselves on. Simply having a master trust and enrolling everyone is not enough – this results in 'default, default, default' leading to mediocre outcomes. Solid maybe but mediocre. How do we build the capability to offer support to people to take an active part in the overall process?

Hatcher: Or even, how can we use the bridge that master trusts could offer in order to provide flexibility and choice? There is no solution that fits all. These are individuals. We don't have all the information. We need to help people to get the information to be able to make the decision to consolidate, to then make the right choice for them.

Richards: There was one thing missing from the report. To help people make that transition, they need advice. There is no way on earth the current IFA advisory market can cope with the volumes. Even so-called guidance that is on offer is limited in scope. You can't have a conversation about transition without opening it up to that IFA debate.

Clare: We did some research at the business school (when we were Cass) some time ago, and we talked to IFAs about what would be a typical client you'd like to take on. On average, they weren't interested unless you had a £250,000 pot at least; and we worked out the number of people who go unadvised. It was a large number.

Gandhi: The difficulty with 'advice' and with 'guidance' is: What do they really mean? What do they cost? What are the processes?

Hatcher: Whichever way you look at it, we can all say there is insufficient real support for guidance and advice. There are lots of services out there, but they're all going to really suffer if the real amount of people who need to take guidance or advice suddenly come down on them.

But also, do people actually need advice if they've got a £75,000 pot? What we really need people to do is consolidate their pensions in an efficient way. Once you've consolidated, you can make an active choice.

It also comes back to the point of this grey area between guidance and advice, and whether there is more that could be done here to address that, because we don't need everyone to speak to an individual who is maybe an adviser, but what we do need is people to speak to them to help them with their decision-making.

Noon: You need somebody with the confidence to be able to help people. The problem is, if you do it professionally, you have to be regulated and you have to be qualified. There are plenty of pensions managers and trustees out there who would be prepared to help people, but they are petrified of doing so.

Hatcher: There are different forms of guidance and advice that one can take. But it is complex. An individual coming into this market with no help at all will be asking questions such as: Who do I go to? What do I do? Which is the right route? That's really difficult. It comes back to this transition point but also this risk point that we've been highlighting around how can you manage the transition, reduce the risk, reduce the loss if your first starting point is, where do I go?

White: As an organisation and as a trustee board, we focus a lot on financial education and guidance. As part of our health and wellbeing strategy, we offer financial wellbeing including partnering with an external consultancy and financial adviser to support our people.

At the run-up to retirement, we encourage employees to join a retirement seminar with a one-to-one follow-up, which is guidance, and then there is regulated advice available off the back of that. So, we have done quite a lot to support people through that process and try and engage people – if they're thinking about retirement, we encourage them to go along to a seminar, and so on, and the trustees have bought into that.

In association with

HSBC roundtable

When freedom and choice came in, the trustee board were very aware that they needed to support that transition at retirement. So we do have a pathway to a master trust which, if the member engages through the pension scheme administrator, they will be guided to that master trust as an option.

We offer quite a lot of support, and when we look at it from an individual member point of view, that brings complexity in itself.

We also have deferred members to think about as well from a trustee perspective and, as they may not be employed by Lendlease, they're coming at it from a different angle.

So, we're getting quite a lot of complexity through the guidance/advice route, and what we're seeing is some people are going through that pathway, and that really works. We are also seeing people who maybe have slightly more significant pots, more complex needs, who have their own financial adviser.

Through the transfer regulations that came in last year, where the scheme is having to look at DC transfers in more detail, for example where there's an amber flag because the transfer fees are high, the trustee board recommends or in some cases requires that the member seeks a MoneyHelper appointment before allowing the transfer. In some cases, members aren't picking up on the fact that, through their financial adviser, they're being charged a really large fee for the transaction even though they've gone through all the paperwork.

Noon: Do you offer a panel of advisers to members?

White: We offer a route to a master trust with an at-retirement solution – we just have the one provider. But in the mix of education there is guidance available that members can access through the administrator at retirement around annuity or drawdown options.

The trustees – and myself in my pensions management role – have a watchful eye over the performance and governance of the master trust.

Hatcher: Do you find that more people are using the master trust versus advice? Do you find some people are put off from advice because of the fee, or they don't really understand, as you say?

White: It's a mix. Many people who retire from our business are quite senior, or have been with us a long time. They probably go down the financial advice route as they've got bigger pension savings. But when they've got smaller pots, we have seen that they've really welcomed that pathway to the master trust. That's been quite successful where people have engaged with it. That's tended to be people with smaller pots and maybe less complex financial needs.

We had a DB scheme open to some members until 2012 – and some of our current employees were in this scheme – so we're seeing quite a dichotomy between the people with big pots and big complex needs taking financial advice, and then we've also got this safety net for people maybe who just want to move their pot from one place to another. But, it can be difficult for people to understand. When I talk to people as a pensions manager, even if I have that conversation to steer people towards who they need to talk to, it really is a minefield.

Hatcher: Is having a safety net a good idea? Is engagement at the point of retirement causing a lot of problems?

Parker: Engagement in pensions, whether people are 25, 35 or 55, has always been a challenge. I'm sure collectively we do as much as we can to chip away at it, but it is difficult sometimes to make meaningful in-roads.

We continue to work on improving the way we communicate. We work with clients who've deconstructed every bit of the member journey from midlife MOT through to retirement and offer as much support, guidance, help and sometimes advice as they can. That works in pockets, but there's probably a majority of people, even with all of those good things on offer, who still only choose to engage properly at the point when retirement is staring them in the face.

To your question around safety nets, we do need some sort of better pathways, defaults, that take people from the workplace into retirement. We've built those with clients. You can recreate the same investments that you have in the workplace in a master trust, so you don't have to buy and sell. That works. Some people take advantage of that and some people won't.

I think we need broader, sensible price point solutions that work for people, yes, at that transition point but then take them through to older age as well.

Safety nets, in some people's minds, have connotations with risk and potential legal comeback. Who is on the hook if those safety nets don't quite turn out the way that we hoped they would? As we all know, unless you go with an annuity, there are no guarantees around what's going to happen with investments once you go through to retirement.

So there is a lot of work still to do. I really liked the report. I think the value of financial advice is something that's difficult to quantify, and retirement decisions are very individualised, almost a financial planning issue. We know we can't sit down with every individual and deconstruct their circumstances, but there are some sensible guidance and decision-tree pathways that we need to work on as an industry that will be sufficient for a lot of people.

Retirement on the trustee agenda

Hatcher: Where do you see retirement on the trustee agenda?

Eagles: Where retirement sits on the trustee agenda depends on the profile of a scheme. There are those schemes that are pretty immature in terms of the DC part. Therefore, when you have all sorts of different regulatory priorities coming at you, it is lower on the agenda.

Where you have larger organisations, larger schemes, larger cohorts of membership coming through to retirement, retirement design is gaining traction, and that's where you see the innovation as well, for example: sweeping deferreds into master trusts; the piece that Jonathan *[Parker]* raised around designing defaults that transition nicely into a joined-up, linked master trust at retirement. You see those already.

So it depends. It's definitely challenging, and trustees have a combination of wanting to do the very best for their members but also having an element of fear, of caution, around being perhaps the first mover. Where do you spend your budget if you're not entirely sure if this is the right solution, and if it is going to work?

There have also been different legal views as to whether directing people towards a master trust is essentially advocating that master trust or promoting that retirement offering. Therefore, how do you continue to ensure it is the best for your membership and its profile? Elements of this have been arguably fixed by authorisation and the bar that all master trusts now have to meet and so there's an argument that the additional governance piece doesn't need to be huge. We review all of our other advisers so why can't we review that on a regular basis, as you would expect to?

Alison *[Hatcher]*, you've previously raised the point about it coming under the trustee remit that you need to think sensibly about how you signpost retirement provision in proportionate ways. I don't think there are the excuses anymore not to do that.

I also wasn't surprised by the report conclusions, but something that I felt might be missing was an aspect of member behaviour. This is because you can lead a horse to water, but you can't make it drink.

For example, one of the schemes that I'm involved with is a single employer trust, has very low charges, has defaults that mirror a very good master trust at retirement, sweeps deferreds into that master trust, and where the low charges continue into the retirement piece, yet there are still many people transferring out. And they are doing so in some cases to other companies that advertise, that give nice little sweeteners maybe – but they're giving up something that doesn't have the friction and doesn't have ridiculous charges.

Cheseldine: We talked earlier about the likelihood of getting to age 90 without running out of money. Something I can't see in the report are the assumptions on mortality, because I think by 90, half of the population will have died.

Also, do members know what they want or need to transition to? I'm thinking about partial retirement. That makes it a very complicated question. All of this is about nuance.

What about cross subsidies? Are they good or bad? We talked about people

with large pots going off and doing their own thing, but if they do that, there's less money for all the rest of us.

Thinking about multi-employer schemes, there's quite a dispersion of member circumstances there. The old phrase used to be illusion of adequacy. It's now confusion of averages. We talk about averages, but while there is an average pot, the dispersion is enormous, from the £100 pots to the £1 million pots.

Another worry I have is that most, if not all, master trusts have more deferred members than active members now, and if you look at all the costs involved, many of them are losing money and will struggle to break even in the long run.

I have a worry therefore that the industry has an existential threat with the number of deferred members that are being added. I don't see anyone solving that problem. Pot follows member is really important here, but that's going to take five years, by which time we'll have wasted £1 billion in charges. So we've got to push ahead with the member exchange programme, which a couple of larger providers are doing. I just hope it will work. I agree that we're wasting money in the master trusts and GPP market on certain things that aren't necessary, but I'm really concerned that someone big is going to go bust before we get this sorted.

Short-term solutions

Hatcher: What is it that we can do in the short-term, so in the next five years, to help protect members?

Richards: Push forward on the

In association with

HSBC roundtable

alignment of the FCA and TPR so there is more commonality in terms of regulation. The groundwork is there. The basics are there. We just need to have a sensible conversation as to how you can bring those two together quickly.

Hatcher: We have the consultation on VFM. Do we think that regime could offer a useful tool to looking at the transition point?

Richards: It depends where you're coming from on that assessment of value for money. I find it a tough one, because it's quite individualistic from the member point of view. Our average pot size on an £800 million DC scheme overall is £18,000. You strip out AE, then it's c£60,000.

You can imagine the scale of some of the pots within just the AE section. Therefore, one member's assessment of what is value for money will be different to my FD's or even my store managers' view of value for money.

Hatcher: You make a very good point of personalisation for the mass market – do we understand the cohorts? If we do understand our cohorts, should we be applying these regimes to the cohorts that we're aware of? If you look at the consultation, it's an opportunity to go back to the regulator and say, I have cohorts; I should be looking at value member for those cohorts and I should have the autonomy to do that.

Maybe it's very good timing to have these types of conversations. We know that our regulator is very open to listening right now. When we think about what's going on in parliament also, they have a lot on their table, but they are also open to listening right now.

Webb: Could this just end up being a land grab by the master trusts? We've discovered that inertia is even more powerful than we thought. Fewer people have opted out than we thought. We had a pandemic and people didn't give up on their pensions, because it's too much trouble and too much hassle. It's incredible.

Suppose we move to a world where, because of all the costs and risks that have been highlighted today, master trusts will take over the universe, that virtually everybody will be in a master trust in accumulation, and then the transition, inertia being what it is, will be into the same master trust. Where then is the competition in any of that?

One of my worries about the AE framework is that once an employer has gone through the hassle of choosing an arrangement – they've got the payroll integrated, they've got to know everything – why would they bother changing provider? Is this heading to a really sticky monopolistic situation?

Hatcher: If we look to other markets, for example Australia, there they have engaged individuals who really want to have conversations about their pension savings, and they talk about their funds' performance with their friends. That way, providers need to keep on top of their game, or people will move their money, and that's where you get the competition. In the long term, that's what we want to see here in the UK.

But back to the question of what can we do in the next five years, will the majority of the market be in master trusts in the next five years or not? Also, do the master trusts have sufficient solutions? Are they regulated appropriately?

We have the DC code, but do we have the right framework to look at what is happening at the point of retirement?

Noon: I am also worried about the point Steve *[Webb]* raises. If we get to a point where we have, say, 15 commercial master trusts and a few stragglers, you are going to end up with these mega master trusts. The difference between the UK and Australia predominantly is that the member gets a decision about what master trust they go into. That drives that competition.

What worries me most in the UK is that there isn't enough momentum with employers to review and then move providers, even some of the mega ones that could do that.

There needs perhaps to be regulation that says, you need to review your master trust, and independent consultants and evaluators need to step up and be even more critical of propositions that are being offered by master trusts.

Employers need to be willing to step up and move if they see a better proposition elsewhere. That friction of moving the entire mandate therefore needs to be simple. That's critical.

In terms of what you could fix in the short term, from a regulation perspective, one is this retirement transition journey. It's great to hear that some companies are putting in place retirement pathways for members, but that needs to be more part of the whole employer requirement in terms of choosing a master trust. The retirement transition part of it feels to me like employer accountability, not post. i.e. does your solution cover that, and is it adequate?

The second thing that needs to be fixed is this advice/guidance boundary. We need to make it easier for providers, employers, trustees, pensions managers, to have those conversations without thinking, have I stepped over a line? The default position is: "This is one solution;

HSBC roundtable

this is the other solution; pick one!"

Richards: From my perspective, it's a dangerous assumption to make that employers are not focusing on this topic.

If you take our situation, we went DC in 2010, and we chose L&G. At the time, the only transition available was to an annuity. Pension freedoms came along, and we embraced that. I am of the school of thought that giving members a choice is great, but therefore you have to be prepared to accept some people won't always make the best choices.

We spent a few years living with that post freedoms to see how the market settled. In 2017, we transitioned to L&G's multi-asset fund.

We are now going through the process of assessing where we should be going next. The market has moved, so we're now looking at target-date funds.

My point is we're constantly looking at this. At my employer, we are also lucky in that we have an in-house team, and we can challenge the providers and the consultants. Not everybody has that.

Maybe one of the things the industry should do is look at how they interact with employers that don't have that luxury. As an employer, there's a fiduciary risk for us to do this properly; there is also the reputational risk if something goes wrong with any of the providers we choose to work with.

Concluding thoughts

Hatcher: What is the one thing we should take away from the overarching discussion today?

Noon: The advice/guidance issue needs to be fixed.

Richards: I'd like to look at the safe harbour approach and having the same value for money test in decumulation as we have in accumulation.

Tiley: I'd like to see more compulsory bulk transfers without consent, because they're quite easy to do now. That would get a lot of people out of expensive small schemes and into something better. There are so many older schemes lying around now that are not fit for purpose.

Gandhi: Better and clearer legal parameters which allow us, as pensions practitioners, to be more supportive to members in the retirement process, being able to talk to people, enabling proper conversations to take place without the fear and the worry of regulatory fallback.

White: The financial education piece for me is key, coupled with some sort of support governance for employers and trustees. Otherwise you end up finding your own way, and there's so much complexity out there which could be streamlined.

Parker: I would like serious consideration to be given to extending the charge cap to decumulation. If you're in a master trust, possibly your charge doesn't go up much anyway when you move from workplace to decumulation. However, there will be pockets where it does, and perhaps even extend that somehow to the SIPP market, if you could identify people who are using a SIPP for retirement income purposes.

Clare: I'm going to agree with Chris *[Noon]* on the advice/guidance point. Just a small anecdote on that. I was once commissioned to write a report for an asset manager, because they were launching a new guidance service not long after pension freedoms. I thought I'd start the report with an Oxford English dictionary definition of guidance, to say what it was and what it wasn't, as opposed to advice. But the dictionary itself doesn't even make it clear! So it is a tricky area we need to sort out.

Eagles: Similarly, I agree on the guidance/advice piece but linked to the comms, in terms of how we best directly help the members.

Cheseldine: It's always dangerous to wish for more regulation, but if regulation is introduced to require employers to do more at retirement transition, that in itself will trigger consolidation.

Webb: A passing comment on safe harbour, I recall the lawyers used to run screaming from the room if you said the words 'safe harbour', because your safe harbour is my legal action. It sounds good, but it's actually quite hard to do, because as soon as the safe harbour turns sour, somebody wants to blame somebody and sue somebody. It's quite a challenging area.

In terms of my one takeaway from today, so often you go to pensions events and you go away thinking much what you thought when you came in, but this hasn't been one of them. Something I hadn't really thought about is this competition issue. If you have a prescription, as you do here, of automatic enrolment, it projects a world in five or seven or 10 years' time where everyone gets enrolled in a master trust, everyone defaults and is auto-enrolled into a post-retirement master trust journey. This could lead to average outcomes.

But I wonder whether that isn't more aspirational than it sounds. I always used to think that if most people most of the time got a pretty good outcome, I could sleep at night. Maybe we need to just get there, so we have pretty decent big master trusts doing a pretty good job from start to finish for most people. Actually, maybe that wouldn't be so bad.

A spring clean

Following a recent suggestion that now is the perfect time to undertake a funding 'spring clean' for pension scheme portfolios to become 'insurance-buyout' ready, *Pensions Age* asks: What would such a spring clean entail?

The key areas to cover in the spring CLEAN of your investment strategy to become insurance-buyout ready are:

Care and maintenance
• Consider rebalancing and cashflow policies to avoid re-investing/topping up positions unnecessarily.

Liquidity
• Maximise your transaction ready window. Ensure that the duration of your assets provide the appropriate level of liquidity for your desired timescales to reaching buyout affordability.

Efficiency
• Have a clear understanding of derivative positions and where efficiencies can be achieved by natural maturing of derivatives held, and replacing synthetic exposures with physical exposures, for example. Also, ensure any derivative positions in your segregated portfolios are simplified, and consolidated, where possible to ease the administrative burden further down the line.

Alignment
• Consider existing asset allocations and opportunities to align this with insurer pricing, which most likely will involve building up investment grade credit exposure and reducing allocations to equities, property etc.

Navigate liquidity constraints
• Have a plan for managing your illiquid assets including balancing natural run-off, secondary market sales, and other alternatives including e.g. selling to the scheme sponsor and using the proceeds for meeting the expenses associated with wind-up.

Hymans Robertson co-head of investment DB, Elaine Torry

Pension scheme trustees should 'spring clean' their data and legal documents well ahead of any insurer transaction. Preparation is key and a thorough project plan with buy-in from all parties is a valuable first step.

Data quality is likely to be an initial area of focus for many schemes. This often proves to be a costly and time-consuming obstacle but it must be overcome prior to any transaction. Good data will help the buyout process to run as smoothly as possible and it may also increase insurer appetite, leading to more attractive pricing.

A legal review of the scheme rules should also be a priority. There are numerous examples across the industry of trustees who thought everything was in order, only to discover some historic anomaly in the documentation, which resulted in a sizeable benefit correction exercise. The sooner any such issues can be identified, the sooner they can be resolved and the scheme can move forward with its buyout plan.

Finally, the investment strategy should be reviewed to ensure it is closely matched to insurer pricing, with a clear path set out to fund any remaining deficit over the agreed timeframe.

Quantum Advisory senior consultant and actuary, Chris Mason

There is something cathartic about coming out of winter after being shut in and swinging open the windows to renew and refresh.

A 'spring clean' for pension schemes will make it easier to move forward after their position has been reviewed and the plan for the coming year – which for many will focus on insurance buyout – has been finalised.

Trustees and sponsors should implement a strategy preparing for the insurance market urgently to capitalise on the strong funding positions we are seeing across the sector.

From there, administration and data must be reviewed in detail. A legal review of documentation will also be integral to completing a deal and engaging with insurers in a competitive market.

The testing time for LDI following the autumn statement means that trustees should review their liability-matching assets including levels of leverage, collateral approach resilience and governance protocols.

Some trustees may find they can hedge appropriately with lower, or no, leverage. Others will review their collateral arrangements and the overall impact on strategy.

There should be a clear plan for of dealing with illiquid assets especially if they are needed earlier than previously planned.

Finally, trustees and sponsors should give consideration to a surplus by looking at their powers and how any current actions, like discretionary increases, impact how any surplus might be distributed. Sponsors should review the level of future contributions, payment of expenses and even the use of alternative security measures to ensure funds do not become trapped in the scheme.

Broadstone head of trustee services, Chris Rice

Hardly a day goes by when I'm not asked the actions trustees should take to optimise buyout preparation, with the aim of improving insurer engagement and reducing the buyout premium payable.

As is the case with spring-cleaning, there are typically some 'easy wins' that trustees can start with – for example putting in place agile governance and agreeing objectives with the sponsor, perhaps through a joint working group.

Data cleansing is also important but will take more time and effort.

The key is to be strategic: there's no need to clean the house from top to bottom on day one! Rather trustees should focus on what data will be important to the insurer and/or is financially significant, then tidy up the rest as part of the data cleanse post buy-in. An experienced de-risking adviser can help trustees to prioritise data cleansing activities to ensure an efficient process and speedy move to buy-in.

Finally, I'd recommend spending time understanding the scheme's administration practices. These are crucial to document in the benefit specification, alongside the requirements in the rules, in order to ensure a smooth member experience and no skeletons in the closet.

WTW pensions transactions team managing director, Shelly Beard

There are three key parts to a successful 'spring clean' following the market turmoil last year.

1. Identification

Find out your current funding position and asset allocation ASAP. That will help you to identify and prioritise what's most important. Ask some big questions. Has your buyout position improved (1,000+ schemes are currently in surplus)? What investment risks do you have (check your hedge ratios)? Are your assets liquid enough? Did any funds significantly underperform? Robust, up-to-date information at your fingertips is critical to making good decisions.

2. Speed

Move quickly, but not recklessly. Markets will continue to fluctuate, and with the further potential later this year for bank instability and economic recession caused by central banks increasing interest rates so sharply in 2022, the current investment opportunities could disappear as quickly as they appeared.

In addition, there will be a first mover advantage. As DB schemes adjust their portfolios, that action in itself will move prices against those DB schemes that are slow off the mark. So those schemes that sell equities and buy gilts first will make it more expensive for later schemes to do the same.

3. Flexibility

Planning is important but must be flexible because things change and events happen. Be open to new ideas – economic changes bring new ideas and challenges. Be pragmatic – you won't regret taking a big step in the right direction.

Cartwright director of investment consulting, Sam Robert

Pensions history

Playing pensions politics

On 6 April 2006, a new pensions tax regime came into force introduced by the then Labour government. 'A-Day' created a single framework to replace the eight different regimes which had previously applied. Key features were the new lifetime and annual allowances, set at £1.5 million and £225,000 respectively.

A Conservative government sharply reduced these limits: in the self-proclaimed age of austerity, previous limits were perceived as too generous. The abrupt change played havoc with the pension planning of the self-employed in particular, since higher allowances nearer retirement had long allowed them to make up for years when pensions had to take a back seat to investment in their business.

Amid the political noise surrounding the increased limits announced in the recent Budget, the real lesson is lost. Hospital consultants are not the only public sector employees affected. It is not only the public sector where it matters. All deserve a stable and predictable taxation system so that they can plan their retirement. Moreover, public discourse would be greatly improved if the cost of a comfortable retirement was properly understood and acknowledged.

As George Ross Goobey said in a speech back in 1978: "Whenever I board an aeroplane, I thank God that the pilot is an expert at his job and has not been chosen by a democratic process laid down by a government white paper."

Of course, experts are not always right either…

Pensions Archive Trust director, Jane Marshall

Fun and games

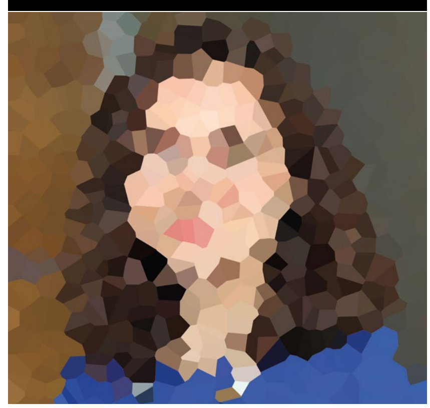
Wordsearch

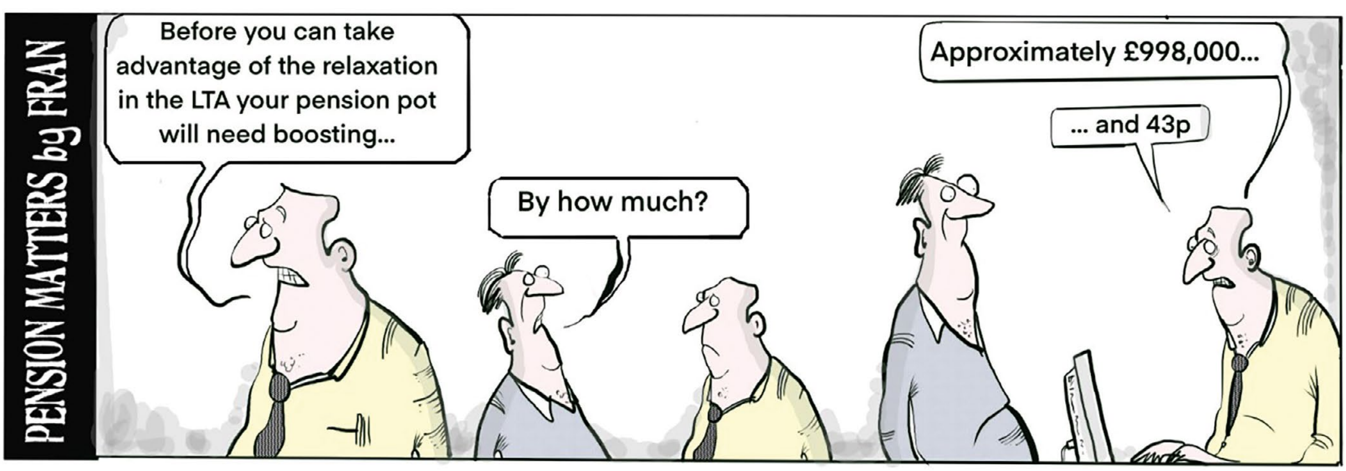
Y	E	N	O	M	R	O	F	E	U	L	A	V	X	G
Z	E	R	U	T	C	U	R	T	S	A	R	F	N	I
S	J	H	S	O	C	S	S	O	M	U	B	I	L	I
G	T	T	O	A	P	I	X	F	I	O	T	W	T	N
E	U	D	D	I	C	L	P	F	J	S	R	O	C	C
T	H	N	A	T	F	T	I	Y	E	O	U	S	E	E
B	S	T	D	S	A	D	I	V	S	A	H	R	E	N
G	R	L	L	E	U	M	N	V	L	U	P	L	R	T
X	I	M	D	C	R	I	I	L	I	C	P	R	A	I
I	O	P	I	U	L	S	L	K	U	S	S	O	I	V
C	N	A	K	A	U	C	A	V	A	S	M	D	R	E
A	R	V	I	Z	J	K	S	V	P	S	S	I	I	S
Y	T	C	T	B	P	O	P	P	I	G	F	O	W	A
U	O	R	O	G	J	T	M	L	G	N	U	D	E	P
S	C	I	E	X	U	U	R	Q	C	O	G	U	I	R

ACTIVISM
FIDUCIARY
INCENTIVES
INFRASTRUCTURE
LDI
PFM
SOCIAL INVESTING
UK PLC
UNDERSAVING
VALUE FOR MONEY

I know that face...

Answer at bottom of page





I know that face... Answer: Mercer UK wealth strategy leader and Association of Consulting Actuaries chair, Tess Page

DC Administration Manager
South/hybrid **£in line with experience**
Play a pivotal role in the delivery of operational services on a growing portfolio of DC schemes. Wide-ranging and stimulating role, flexible/hybrid working. Ref: 1378417 BC

Pensions Operations Team Manager
London/work from home **up to £53,000 per annum**
Use and develop your existing pension management skills to support the head of pensions during this exciting period of transformation for the pensions team. Ref: 1378475 JW

Pension Fund Accountant
Remote **£attractive**
Superb opportunity to take your pensions accounts/audit experience forward in a progressive role with a leading consultancy. Ref: 1377005 SB

Associate Consultant
Office UK Wide/hybrid **to £45,000 per annum**
Are you looking to work with market leaders on wide-ranging projects and clients? This could be the opportunity for you! Ref: 1371579 NMJ

Assistant Trustee Associate
London/hybrid **£excellent**
Superb opportunity to take your pensions career in a new direction with this award-winning professional Trustee company. Ref: 1374565 NMJ

Senior Pensions Administrator
London/hybrid **£competitive**
Exciting opportunity in for a Pensions Administrator with DB and/or DC experience looking to join a Third-Party Administration team.
Ref: 1149401 NMJ

Senior SSAS Administrator
Fully remote **£in line with experience**
Due to expansion an experienced SSAS Administrator is required, chance to develop within this independent consultancy. Ref: 1370318 JM

Pensions Administrator
Wiltshire/hybrid **£in line with experience**
Niche employer is seeking an experienced DB Administrator to join their expanding team. Varied role with wide exposure to Trustee secretarial work and continuous support from Senior team members. Ref: 1370626 NMJ

Pensions Operations Manager
London/hybrid **£six figure package**
Fantastic career-move with this hugely successful derisking specialist for a skilled senior Pensions Operations specialist. Ref: 1370723 SB

Corporate Pensions Manager
Warwickshire/hybrid **£in line with experience**
Exceptional opportunity for a skilled Pensions professional as part of an in-house function managing a £multi-billion Pension scheme.
Ref: 1378245 SB

Pensions Manager
Hertfordshire/hybrid **£excellent**
Superb in-house career-move as part of a collaborative team supporting delivery of the company's various complex DB and DC pension plans.
Ref: 1377682 JW

Project Manager
Offices Countrywide/work from home **to £70,000 per annum**
Looking for a skilled Project Manager with a background in delivering multiple projects simultaneously, to join a market-leading pensions consultancy. Ref: 1378457 BC

Pensions Governance Manager
Warwickshire/hybrid **£in line with experience**
Exceptional opportunity for a skilled Pensions professional with keen focus on governance and stakeholder engagement as you support the setup of a new in-house Pension function. Ref: 1377344 SB

Pensions Risk Settlement Consultant
Locations Countrywide/hybrid **£excellent**
Join a well-renowned RSG team with a diverse client base and an engaging and varied portfolio of work, background in RSG or wider Pensions project areas. Ref: 1378502 BC

Communications Consultant
London/hybrid **£in line with experience**
Excellent opportunity for a market leading pensions consultancy for a passionate communications specialist to deliver engaging content for a portfolio of clients. Ref: 1374510 BC

SIPP Compliance Specialist
West Sussex **£doe**
A fantastic opportunity has arisen for an experienced SIPP Compliance Specialist to work with a leading client within the SIPP space.
Ref: 1378458 JM

sammons
PENSIONS RECRUITMENT
A member of the Sammons Recruitment Group

Leading recruiter for Pensions Professionals
www.sammonspensions.co.uk
pensions@sammons.co.uk
020 7293 7022